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PRESENTATION

Operator

Good morning, and welcome to the Carriage Services First Quarter 2021 Earnings Call. My name is Anera, and I'll be the operator for today's call. (Operator Instructions)

I will now turn the call over to Mr. Steve Metzger, Executive Vice President, Chief Administration Officer and General Counsel. Steve, you may begin.

Steven D. Metzger ***Carriage Services, Inc. - Executive VP, Secretary, Chief Administrative Officer & General Counsel***

Thank you, Anera, and good morning, everyone. Today, we'll be discussing our first quarter results. Our related earnings release was made public yesterday after the market closed. And we've posted the release, including supplemental financial information on the Investors page of our website. This audio conference is being recorded, and an archive will be made available on our website later today.

In addition to myself, on the call this morning from management are Mel Payne, Chairman and Chief Executive Officer; Carlos Quezada, President and Chief Operating Officer; and Ben Brink, Executive Vice President and Chief Financial Officer.

Today's call will begin with formal remarks from Mel, Carlos, Ben and myself and will be followed by a question-and-answer period.

Before we begin, I'd like to remind everyone that during this call, we'll make some forward-looking statements. Any comments made by our management team that state our plans, beliefs, expectations or projections for the future are forward-looking. These forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially from those contemplated in such statements. These risks and uncertainties include, but are not limited to, all factors identified in our earnings release and in our filings with the SEC, both of which are available on our website.

During this call, we'll also discuss certain non-GAAP financial measures. A reconciliation of these non-GAAP measures to the appropriate GAAP measures can also be found in our earnings release as well as on our website.

Thank you all for joining us this morning. And now I'd like to turn the call over to Carlos.

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

Good morning, everyone. We're glad to be here this morning sharing our exciting first quarter performance of 2021. Before we get into it, I would like to express my gratitude to our Carriage family in the field and in our Houston Support Center for their passion and continued pursue of our Being the Best mission and vision.

For today's call, I will start with a summary of our financial performance and will provide an update on operations, sales, marketing and IT. Following my remarks, Steve will give an update on acquisitions. Then Bill will follow with financial updates and Mel will wrap it up for closing remarks.

If you have not read our 2021 shareholder letter and proxy statement, we have encouraged that you do. It covers the entrepreneurial spirit of Carriage high-performance culture framework in excellent detail.

Now the highlights for our record first quarter of 2022. Funeral operating revenue of $70.2 million, an increase of $3.3 million or 4.9%. Funeral field EBITDA of $31.3 million, an increase of $0.96 million or 3.2%. Funeral field EBITDA margin of 44.5%, a decrease of 70 basis points, Cemetery operating revenue of $20.5 million, a decrease of $1 million or 4.9%. Cemetery field EBITDA of $8.6 million, a decrease of $1.2 million or 12.3%. Cemetery field EBITDA margin of 41.8%, a decrease of 360 basis points.

For total revenue, we ended up at $98.2 million, an increase of $1.5 million or 1.6%. Total fuel EBITDA of $45.5 million, a decrease of $0.3 million or 0.07%. And total field EBITDA margin of 46.3%, a decrease of 110 basis points.

We believe this stellar performance when compared to the previous record in the first quarter of 2021, which was due to the spike of the COVID-19 pandemic reflects the nature of the entrepreneurial spirit of Carriage and the commitment and passion of our managing partners and their teams to win the trust of their guest families and provide a solution to all their needs, which by product is increased volumes and market share gains.

To achieve what they have achieved with a significant decrease in COVID-19 in Q1 of this year is nothing short of extraordinary.

On the preneed cemetery sales, while we have experienced a lower sales rate in the first quarter of 2022, we're confident that after my promotion to President and CEO and since the promotion of Shane Pudenz to Vice President of Sales and Marketing on February 12 of this year. Shane has successfully transitioned to his new responsibilities of leading our preneed cemetery sales teams across the portfolio of cemeteries.

We will continue to focus on the top 4 drivers of the high-performance sales plan. Number one, to grow our sales force headcount at both family service and advanced planning by selecting the right partners that can have a seat at the Carriage high-performance culture bus. Number two, develop the skills conceptually through our Knowledge Academy learning platform and hands-on through local sales leadership.

Number three, to generate engagement, which means creating opportunities to have our sales partners engage with new families and share the story of the importance and value of preplanning. And number four, to continue to grow sales to our CRM [self] edge platform. Currently, we're 85% completion rate of implementation and -- is becoming how we do sales moving forward, enabling us to manage, track and close new sales opportunities.

We're also very excited to welcome Elizabeth Perez-Montes, who joined Carriage as Director of Sales Support, and she is now fully integrated with our portfolio of businesses. Elizabeth comes with years of experience in the death care industry, building, developing and growing sales. She will fill in the position left open by Shane's promotion. We welcome Elizabeth to the Carriage team and wish her incredible success.

We are very confident that Shane and his team of Director of Sales Support Elizabeth, Tulio and Greg will continue executing the high-performance sales plan while installing the sale behaviors that will lead to sustainable and consistent cemetery preneed sales over time. Moreover, ramping up our marketing strategy efforts towards generating new leads which have delivered very positive results.

Now moving on to marketing. Alfred White joined Carriage on January 2 of this year. Within 4 months, he has built a complete marketing department that is now collaborating with managing partners as they work on brand positioning, online presence, social media, content creation, advertisement and much more. Due to the decentralized nature, we know that no one knows better than the local managing partner who knows the community and the families they serve.

Alfred's focus will be on creating the tools and making them available on our new content management system so that managing partners can choose which tools will work best for them. And then the organic growth of marketing request offering has received from the field is nothing above we expected. He and his team can definitely support managing partners and do an incredible support on developing marketing campaigns programs that are already delivering increased volume due to customized marketing strategies. We are very excited for our Alfred and all of his team, and we know that this journey is just the beginning for the marketing high performance team.

We're also very excited to share that on April 1, Rob Franch joined Carriage as Chief Information Officer. As a new (inaudible) company, we know that technology is an accelerator of high performance. And Rob is now leading a complete digital transformation that will indeed accelerate a high-performance flywheel. Rob has hit the floor running and is now on a discovery and learning journey. The detail of his digital transformation plan is shown on Page 22 of our 2021 shareholder Letter. We wish Rob fantastic success in his new role at Carriage.

As most of you know, I have a background in hospitality, and I am very passionate about service excellence and experience delivered through high-quality services that lead a lasting memorable impression. With this in mind, the last update that I'd like to share with you this morning is related to the enormous opportunity to capture additional market share through the transformation of our service and guest experience standard, which when combined with the revenue and volume standards, all related to service and guest experience, make up for up to 60% out of 100% of our standards operating model.

With this goal in mind, we had our first-ever CAREdge Forum, where we had our over 150 of our managing partners in Q2 support center influencers learn and experience service excellence through their 5 senses. We designed and curated an experience that would inspire in our teams the ideas of excellence in service and become creative and innovative in a way that will wow the guest families moving forward.

To kick out the forum, we partnered with John "Gucci" Foley, a former solo pilot for the Blue Angels and top-graded keynote speaker. John's message on living a life of gratitude through his Glad To Be Here Attitude presentation capture the attention of everyone. And it has become how every meeting starts in many of our businesses. Additionally, he shared the structure of high-performance model used by the Blue Angels, which inspired the whole audience to create a culture of commitment, dedication, the pursuit of excellence and high trust.

We also collaborated with the Ritz-Carlton Leadership Center to learn about creating a culture of excellence, the art of service, brand creating service and leadership now, all of which align perfectly with Carriage high-performance culture, our Being The Best mission and vision and our unique unbreakable union or belief, which was evident with everyone and in every moment. The forum was in complete alignment with our 2022 theme of high-performance value creation culture. And based on the number of handwritten cards, e-mails and general comments we receive at our CAREdge Forum, it was a tremendous success. Our managing partners went back very inspired, highly motivated and thoroughly engaged in delivering a service and guest experience second to none in each of their businesses.

The CAREdge Forum was not an event but a transformational experience and a pivotal moment towards the vision of the future of funeral and cemetery services of Carriage. Stay tuned as we work with the Standards Council on our follow-through program on service and guest experience that will create memorable moments with all of our guest's families.

These are some of the reasons why we're so excited for the future of Carriage. And there is much more to come for both preneed cemetery and funeral homes. But when you combine Carriage's solid financial profile and our acquisition prospects, it is easy for us to say it is a great time to be at Carriage and the best is yet to come.

Thank you, and I will now pass it on to Steve.

Steven D. Metzger ***Carriage Services, Inc. - Executive VP, Secretary, Chief Administrative Officer & General Counsel***

Thank you, Carlos. So certainly, a lot to be excited about as we look at the consistently strong performance we're now seeing broadly throughout our portfolio, how we're positioned with our capital structure and the numerous opportunities for us to continue to get better in a number of areas.

Among the opportunities that we're most excited about is growth through acquisition. We highlighted a quote in our earnings release from Warren Buffett's longtime partner, Charlie Munger, who is describing Berkshire Hathaway's approach to acquisitions. Charlie pointed out that "2/3 of acquisitions don't work. Ours work because we don't try to do acquisitions. We wait for no-brainers."

Well, we can do a better job of describing Carriage's approach to acquiring businesses and to simply point to Charlie's and Berkshire's philosophy. While there will always be a number of businesses available to be acquired in our industry, we're focused on identifying those no-brainers that represent the best remaining independent funeral homes and cemeteries in the best markets.

And what has us particularly excited right now is the number of those no-brainers that appear to be ready for a succession plan. The current acquisition pipeline is as active as we've seen in the past couple of years, and we expect that trend of activity to continue. We've never been better positioned to grow. And the team here at Carriage is focused and excited about that future growth, particularly as we think about pairing that with the ongoing strong performance already taking place throughout the company.

We're spending a lot of time on the road, sitting down with owners and learning more about their history, their teams and what's important to them as they look at the next chapter for their business. We then have the opportunity to share with these owners what makes Carriage such a unique succession planning option. We talk about our people, our culture, our 30-year history and our owner-operator model, where the team is running the business locally truly get to run the business. And our support center is just that, a team of talented professionals available to support them and make their lives easier by taking more off their plates so they can focus on the families they serve.

Whether we're announcing new acquisitions or silent for a period of time, you can rest assured that we're continuously doing work, meeting with candidates, building relationships and looking for those no-brainers before crafting a customized offer and post-acquisition plan based on what's important to that particular owner. It's an approach and a process that requires patience and discipline and one, which we know pays off. resulting in a selective portfolio of high-performing businesses in growing markets as opposed to one made up of strong businesses subsidizing weaker ones.

We previously indicated we'd be able to share details during the second half of the year surrounding the deals we're currently working on. We continue to feel good about that timing given ongoing conversations and activity. With that said, we were pleased to announce in our earnings release yesterday that we recently signed a letter of intent with a great business in a high-growth area of Florida. And we're working on several other deals in new strategic markets across the country with businesses that possess great history, unique owner vision and exciting upside in the years to come.

We couldn't be more excited about our future growth prospects. And we look forward to sharing more details regarding additions to the Carriage family in the upcoming months.

With that, I'll turn it over to Ben to provide some more color on our first quarter performance.

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

Thank you, Steve, and thank you all for joining us on the call this morning. As we review our first quarter results and a great start to our year, I would encourage all current and prospective shareholders to review both the earnings release from yesterday and our recently released 2021 shareholder letter for a much more comprehensive and in-depth look at the transformation that has occurred over the past 2 years and our vision for the exciting future that we have here at Carriage.

Now on to the results. For the first quarter, total revenue increased 1.6% to $98.2 million. Adjusted consolidated EBITDA decreased $2.2 million or 6.3% to $32.5 million. Adjusted consolidated EBITDA margin declined 280 basis points to 33.1% and adjusted diluted earnings per share increased 13.6% to $0.92. Our reported adjusted diluted earnings per share benefited from a year-over-year reduction in our diluted shares outstanding to approximately 16.4 million and the continued decline of our effective GAAP tax rate to 26.5%.

Our adjusted free cash flow declined $14.7 million in the first quarter compared to last year, primarily due to a $9 million increase in cash, short-term and long-term incentive payments; a $1.5 million increase in maintenance capital expenditures and a $1 million increase in additional cash taxes paid during the quarter. In our third quarter earnings release and our 2021 shareholder letter, Steve provided comprehensive insight into the increase in the paid for high performance incentives that were accrued for in 2021 and paid out in the first quarter of this year. $3 million of this increase was related to our 5-year good to great incentive award that had been accrued for over the last 5 years.

In 2021, we had 34 managing partners achieved this award by growing their businesses consistently over this 5-year period. In the first quarter, they were paid half in cash and half in appreciated Carriage shares. This is certainly the type of high performance that we are happy to continue to pay for. Our total debt to adjusted consolidated EBITDA leverage ratio increased to 4.7x compared to 4.5x at year-end due to lower adjusted consolidated EBITDA in the quarter and higher debt balances as a result of the execution of our share repurchase program. We intend to fund the remaining capital allocation for 2022 primarily strategic acquisitions with internally generated free cash flow, which will allow us to reduce our leverage ratio to approximately 4.5x by year-end.

Additionally, we are working with our banking partners on an amendment to increase the size of our credit facility by $50 million to a total of $250 million, which we will complete within the next 2 weeks. Our discretionary preneed trust funds had a total positive return of 4.3% in the first quarter compared to a total negative return of 4.6% with the S&P 500 and a negative return of 8.9% of the NASDAQ Composite Index. Our outperformance in the quarter was driven by the performance of our equity portfolio that had a total return of 11.2% in the quarter, which is a 1,580 basis point outperformance compared to the S&P 500.

For any of those curious about the current performance of our discretionary trust fund portfolio, I would highly encourage you to read our recently released 2021 Shareholder Letter. It provides a tremendous amount of detail about our investing philosophy, our long-term stewardship of these assets and how we have built the portfolio during and since the depth of the coronavirus market crisis. I would also encourage you to read our earnings press release from yesterday, where we do go and provide more granularity and detail than normal about our current positioning and individual securities that performed well in what has become a very challenging market environment.

Since the successful execution of our trust fund repositioning during the depths of the coronavirus market prices, we have approximately doubled our recurring annual income on the portfolio to $17.7 million while recognizing almost $34 million in long-term capital gains. Over the course of the year, we expect to increase the annual income in the portfolio to over $18 million and realize additional long-term capital gains that will increase the overall total to $40 million. This performance in our trust funds will be incrementally accretive to our reported financial revenue and EBITDA through higher recurring income earned through our cemetery perpetual care trust and higher earnings on our matured preneed funeral and cemetery contracts.

During the quarter, we repurchased 490,000 of Carriage shares at an average purchase price of $53.08 for a total spend of approximately $26 million. Since we restarted our share repurchase program in the second quarter of last year, we repurchased approximately 3.4 million shares for an aggregate investment amount of $162.5 million at an average purchase price of $49.60. The 3.4 million shares we repurchased represent approximately 19% reduction in the shares outstanding since May of last year. And the $49.60 purchase price represents a nearly 30% discount to the low end of our current roughly right range of intrinsic value of Carriage shares of $70.

When we take into account the full impact of the 3.4 million shares we repurchased in less than 12 months, our projected year-end GAAP shares outstanding basic is 14.9 million, and our estimated year-end diluted shares outstanding is 16 million. As we outlined in the updated 3-year roughly right scenarios in our 2021 Shareholder Letter, we intend to focus the majority of our capital allocation towards selective acquisitions and strategic growth markets. As Steve outlined in his comments, we believe we are only just getting started on high-performance execution on our strategic acquisition model.

We also intend to allocate capital towards internal growth capital projects as we continue to find great opportunities to reinvest in our businesses at high returns on invested capital. The majority of our growth capital allocation will focus on building quality and differentiated cemetery inventory, remodels and refreshes of our funeral home and cemetery facilities and investment in our information technology platform. For the full year, we expect capital expenditures to be between $20 million and $24 million, split evenly between maintenance and growth CapEx.

In our earnings press release from yesterday, we included a 3-year roughly right range for operating and financial performance for this year, 2023 and 2024. As a reminder, this is not intended to be a precise forecast of future performance but rather how we view our performance based on 100% allocation of our projected adjusted free cash flow to grow the intrinsic value of Carriage, plus reasonable expectations of continued growth of our current portfolio. The only changes we made to these ranges are a decrease in our expected adjusted free cash flow for this year and a decrease in our projected year-end GAAP diluted shares outstanding to 16 million.

Additionally, we are providing an updated rolling 4-quarter outlook. The intention of this is to provide the current and prospective investors with our best view of our performance over the next 12 months based on our portfolio as it currently stands today, plus any potential acquisitions that we have under letter of intent and we expect to close within the next 90 days. We have, therefore, included projected conservative operating and financial performance of one pending acquisition in the following ranges of our rolling 4-quarter outlook.

Revenue, $380 million to $390 million. Adjusted consolidated EBITDA, $128 million to $134 million; adjusted consolidated EBITDA margin, 33.5% to 34.5%; adjusted diluted earnings per share of $3.57 to $3.67; adjusted free cash flow of $82 million to $86 million; and adjusted free cash flow margin of 21.5% to 22.5%.

Additionally, we are reaffirming our roughly right range of intrinsic value for Carriage shares of $70 to $80 using the following methodology. The midpoint of our rolling 4-quarter outlook of adjusted free cash flow of $84 million is approximately $5.25 per share of free cash flow. If we use the free cash flow equity yield range of 7.4% to 6.4% we've used historically, this would equal a per share range of $71 to $82. And conservatively rounded down, we believe the intrinsic value of Carriage per share is between $70 and $80.

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

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

Thank you, Ben. Thank you, Steve, and thank you, Carlos.

When I got home last night, my son was there. He works in Brooklyn, so does our daughter. He's 35 and she's 28, so I'm an older dad. And in the early years of Carriage -- I started carriage at 48. Our son was 5 years old. We just moved into a new house that I built, turning around companies and stuff like that. And I tell my wife, "Don't get too comfortable in the house. I have to guarantee the debt." I have to learn the business and I've written about all this. But also, "Look, you like raising Preston. I'll see you in about 5 years. I got to go out there and learn the business."

Well, she would tell you today that, that is the biggest lie I've ever told. I was gone 15 or 20 years, and I loved it. And then once you started meeting our people, so did she. Our son has grown up in this building process of Carriage. He's been to many meetings, [on] meetings, he's met all of our people all along the way, even interned here 2 different summers many years ago. And then so is our daughter.

So they know Carriage. And early on, after the crash of '99 and then rebuilding it using a different model and framework, I would give them shares. And they were single-digit shares, probably started below 5% still in high school and in college. And I kept -- him shares, my wife and I.

And so last night, I asked my son, did you read the shareholder letter? He said, "No, I didn't, Dad. It's probably in my mailbox. I got locked out of my mailbox in my apartment building in Brooklyn. I go like, "You got locked out of your mailbox? Okay. How are you going to vote your proxy shares? He said, "I do that online." I thought, "All right. Well, would you like to read the shareholder letter because I have a ton of it here. And if you want, just read the first 2 pages and then read the last 5. And even a better idea would be to start at the back. Start at the back and read those 5 first, start with Kristi AhYou." And he knows Kristi. He knows Tim, Page 41 and then 42 and 43. So he read Christy's e-mail to me first, and he read Tim. And he read the first 2 pages.

And I said, "Preston, what do you think?" He said, "Dad, this should be taught in some advanced school of business and finance." I said, "Preston, that already is happening every day in our home office." And I said, "What would you think if I told you that, that company you've just read about, you own 1% and so does your sister. And your mom and I own 9.9%?" He said, "Dad, that's crazy. That's incredible." To which I said, "That's not the best part. The best is yet to come."

With that, I'd like to open it up for questions.

QUESTIONS AND ANSWERS

Operator

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

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

Congratulations on a record first quarter, particularly against a really tough comp versus peak COVID last year. I have a few questions. I'd like to start with Funeral Services. Revenues were up 4.9% year-over-year. Margins were lower. They were down a bit. And wondering if you can give us a little bit more color why. I'm assuming perhaps increased marketing expenses, some of these digital things that you're doing, but I'll let you answer the question.

Carlos R. Quezada ***Carriage Services, Inc. - President & COO***

Thank you very much, Alex. Thanks for your question. So it's really an amazing thing that they were able to increase all of our managing partners and keep the market gains and the market share like they did.

Now we are investing. As you know, we're investing significantly on talent and marketing and IT platforms. And those investments we believe we're going to not lower margins. We believe it's just a temporary investment as we continue to even grow more than we ever had before, especially after the CareEdge Forum as I mentioned in my remarks and I wrote about on the release yesterday.

So we're not really concerned at all. We believe this is part of what it takes to build a great company that through time, sustainably we'll continue to grow market share gains and volume and average over time as we transform funeral services into the funeral services of the next century.

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

And Alex, this is Mel. When you look at a quarter versus a quarter, you can head-fake yourself. You have to look at the margins as they have trended over the last 10 years. I wrote about that in the '16 Shareholder Letter. We're about 1,200 basis points higher in our funeral portfolio today than we were when this model was invented and rolled out at the beginning of '04.

And so it's very easy for someone to say, "Oh, you were down." But without understanding the business and the different margins in different size businesses and different markets, historically, you reach some kind of judgment about a decline that is actually not spot on.

And you have to -- what's remarkable is the total field EBITDA margins are remaining high above 45%. And I wrote about this in the shareholder letter compared to the '90s and the fact that our margins are just so much incredibly higher than anything anybody was doing in the '90s or set for that matter.

The issue is nobody will show you the transparency we do. And that's good and bad because we can have people reach the wrong kinds of conclusions. The key is to have compounded revenue growth and have the operating leverage over time or for you rather than a guest -- in each business. That's the key.

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

Yes. Mel, I totally agree. And the market share gains, the growth year-over-year in funeral services revenue, particularly given the tough maintaining, expanding market share. And I understand investment in talent, marketing and IT platform to take margins to the next level. So that's a healthy reason for a decline in the interim margin year-over-year.

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

Yes. I mean there's a reason why at the beginning of this earnings release or toward the end of my comments, I said, "Look, I don't remember anything about the first quarter 10 years ago. And I don't remember much of anything about any quarter since then." They were just a quarter. The company's got incredibly better in the last 10 years, just like we'll get incredibly better over the next 5 and 10. Now we're going to have some noise quarter -- there were quarters in the last 10 years that were terrible. November 1 of '18, Greg, what's the quarter. It's what is going on in the company overall, and we've written about this transformation.

And if somebody wants to really understand the company, they need to get out of the covers and read about this and then if you have curiosity about how it all works, call the Standards Council. Call anybody. We're an open book. And the industry knows what's going on. There's the buzz. And if an investor wants to know, they can find out. This is not complex to find out about Carriage, I promise you.

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

I agree. I agree. You give a lot of transparency and I appreciate that.

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

We also have a lot of reputation and a lot of buzz in the industry about who we are and what's going on here versus anytime in the past. This is not a mystery. And if I were an investor, which I am, I'd go kick the tires, I'd visit businesses. I'd call our people, standards -- come to the home office. We invite everybody to come here. We'll pull out the red carpet. We might even take you to dinner.

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

I appreciate that. Having been the beneficiary of that invitation in the past, I can attest to that. Moving on, on cemetery. Carlos, maybe this is a question for you. The margins were lower year-over-year and lower revenues. And you noted in the press release, I just wanted to dig into it a little bit more, a typical group in larger sales as potentially an explanation for that lower revenue.

Question is, were those particularly large a year ago? And then you talk about as you develop cemetery inventory, you should be better positioned to capture these group and larger sales going forward?

Carlos R. Quezada ***Carriage Services, Inc. - President & COO***

Absolutely. So in this case was particularly related to Fairfax Memorial Park. We had tremendous sales, large sales, these are big numbers, above 500,000, things like that. And sometimes it takes a little longer to develop a cemetery inventory job because of permits. And we have all the permits now in place to continue to develop Fairfax. So we have no concern as probably you would know, through the integration of Fairfax. It came into Carriage almost as a virgin cemetery with no product, no differentiation of inventory or different options for families, which we have developed over the last year. Now whereas we're putting more capital allocation to our cemeteries alone and to continue to grow that, I have no doubt that over time, we'll be able to continue these single or larger sales sustainably over time.

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

Got you. And then my final question will involve Ben and Steve as well. Just to get a little bit more information on capital allocation. Share repurchases in the first quarter were $25 million or $26 million. And obviously, huge share repurchases over the last year or so. You said in the press release that the capital allocation is going to now shift focus more towards M&A. Now first of all, it's a little sooner than I expected. I expected those in the second half. So congrats on the LOI that you've already announced here and the other color comments you made on acquisitions. But if you're going to produce $80 million in adjusted free cash flow this year, you're going to put it entirely to share repurchases and M&A. How should we expect share repurchases and M&A to play out over the course of the year in terms of mix or split?

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

Alex, I mean I think pretty clearly right now, acquisition is the highest priority. There's a lot of opportunity, what Steve talked about and to deploy capital in that manner. Put a pause in share repurchases for now, have that leverage come down a little bit, acquire some really great businesses and some growing strategic markets. Really exciting time here at carriage from that perspective. I don't know if Steve has anything more on acquisitions.

Steven D. Metzger ***Carriage Services, Inc. - Executive VP, Secretary, Chief Administrative Officer & General Counsel***

I think Ben covered it well. We're really excited about what we're seeing. And so that's our focus this year.

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

Yes. This is Mel, Alex. It's a -- I'm living the good life now, having promoted Ben, Steve and Carlos. And their teams are just doing an awesome job. So I don't have to worry about day-to-day operations. I can allocate my time to its highest invest use. And right now, number one is mentoring them. I love the way they've begun to use quotes from Charlie Munger, Warren Buffett, Ben and his investment sections. Steve proposed 2 in there. I was just blown away by them. I love them. Carlos -- I mean they're all studying mental models and all kinds of ways of thinking.

This is their development program. They're doing a lot of homework. They meet together. And I get to allocate different things to them that will help them grow. And the other way I allocate my time is, of course, with the trust funds and Ben, that doesn't take a lot and acquisitions. And at almost 80, my left knee probably needs to be replaced at some point, but I'm in great shape. So to get me out looking at an acquisition is not that easy anymore. But I was very excited about one of these and still am. And I'm really excited about what I see and what Steve and Ben and Carlos are doing related to that as well as the kind of activity and buzz going on in the industry.

So I -- look, if Mr. Market, if Rodney Dangerfield is related to carried shares, we still have capacity to buy in shares. And if it gets that cheap, I think it's deep cheap, we'll do it. But we don't want to pass up what we're seeing right now because we'll be able to grow these. These are all in new strategic markets with good growth potential upside over 5 or 10 years. And when you can put your capital to work and grow it over a smaller share count base, I mean it compounds really well. So we're going to be flexible, not stupid.

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

Great. I hear you and I agree with that. This is a natural time to transition to M&A, particularly given that you've already bought 19% of shares. But I do appreciate that extra comment that you will remain opportunistic.

Operator

Our next question comes from Barry Mendel.

Barry Mendel

A question on this marketing performance team that you're creating. What is the goal of that group? What is their focus going to be?

Carlos R. Quezada ***Carriage Services, Inc. - President & COO***

Absolutely, Gary. So we never really had a full formal marketing department at Carriage, the centralized spirit of -- the entrepreneurial spirit of Carriage would allow the many partners to do that on their own. However, we decided to put together a team that will not only accelerate the learning journey of marketing but also put out best practices, tools, ideas, thoughts and content so that they would be able to really launch their opportunity to aggressively pursue market gains and build that brand positioning, if you will, throughout and broadly across our -- all of our businesses, both cemetery and funeral.

And so the idea with this is to really put together a support group that can help those managing partners rebuild websites, do significant work on search engine optimization, develop ideas about content management so they can just grab it and put it on social media and things of that nature. So it will definitely enable and accelerate that learning curve or that type of efforts on marketing. But more specifically, the design and really, really created marketing advertising plans to grow organically and through advertisement, all of our web page.

Barry Mendel

Okay. And it seems that in the quarter, preneed contracts, I know they were down versus a year ago, although up from the previous quarter. What was the reason why preneed contracts were down year-to-year in terms of revenue?

Carlos R. Quezada ***Carriage Services, Inc. - President & COO***

So sometimes, when we have those large cells that I mentioned, sometimes maybe come up in the form and in this case, specifically, we have 2 of those. We have multiple interments in 1 contract. So these are what we call group sales. You may have religious organization or something to that nature to go and buy a package of, let's say, 100 spaces or things like that.

And so that will dramatically decrease our interment count and, of course, decrease our revenue. We believe that with the transition of Shane Pudenz of -- especially on sales and marketing and all the efforts that are being placed right now on the -- what we call the bread and butter, right, the one sale, one at a time, family by family, protecting preneed not only would reduce that risk. But over time, those sales will become nothing but the share ramp-up for preneed sales.

Barry Mendel

Okay. So group sales, call it preneed sales will be all lumpy.

Carlos R. Quezada ***Carriage Services, Inc. - President & COO***

What was that? Can you repeat that? I'm sorry.

Barry Mendel

Group sales cause preneed sales on a quarterly basis to be a little lumpy.

Carlos R. Quezada ***Carriage Services, Inc. - President & COO***

Well, that was related -- just to answer the -- some of the interment count, the number of interments.

Operator

(Operator Instructions) Our next question comes from [JP Wallin].

Unidentified Analyst

Congrats on the record revenue this quarter. The first question I had for you guys was just whether coming out with the CareEdge Forum, did the management partners kind of have any resounding concerns? I know there's perhaps some tightness around the labor markets and there's inflation concerns. Were there any kind of agreed-upon concerns that you guys were hearing?

Carlos R. Quezada ***Carriage Services, Inc. - President & COO***

So we have received that -- this is Carlos. We have received that question through our investors conference a lot regarding the big resignation, if you will. But we at Carriage, we really choose and select carefully those individuals that are the best talent in the industry or sometimes outside of it that will be a right sale for the culture at Carriage. And so we have -- even though there may be a perception out there that that's becoming more difficult, we have not really experienced that ourselves mainly because we've become very picky as to how and who we want to be part of our team.

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

So this is Mel. That's a great question. And what we find at Carriage is -- and again, if you want to find out what it's like, read those 2 e-mails on Page 41 to 43. And you'll get a sense of what a managing partner who is a really high performer -- what they get in Carriage. They get to own their own business. And so one of the things we've -- they have to be hungry. They have to have the (inaudible) of leadership get up every day. One, grow their business regardless of the death, regardless of COVID, regardless of inflation, regardless of this or that. And they got to be very hungry and entrepreneurial to do it.

And one of the things that COVID did, other than give us some temporary lift was it did cause some of our older managing partners to call it a day and say, "Look, you can't take anything for granted in life. I've worked hard in my career. This has been difficult. I think I'll retire." Now there's been quite a few of those. And I don't want to sound cynical, but that allows us to top grade and get a younger, hungrier grower, entrepreneurial talent that is excited. And this is what we saw at the MP Meeting, much younger group of managing partners, much more female than ever in the history of the company. And I'm talking about on fire. We've got no concerns, but most of them are still talking about it. We went on a good to great trip, where -- they had to win that for 5 years to Cabo -- Riviera, I mentioned that. And people there, they -- it was a whole bunch of them. And they were mostly talking about the MP, the forum, the CareEdge Forum and how exciting it was and how they went back and they did this and did that.

And now we're about to go on another trip in early June for the 66 winners of last year's Pinnacle Award. And I know the buzz is still going to be there because I know what Carlos and his team are doing. We have not experienced anything that is negative. We've experienced stuff like I just explained that's positive. And so there's an excitement and a buzz in the younger talent that they can own their own business, and over 1 in 5 years, get treated like kings and queens, if they're high performance, which they are. And that's what we're seeing.

I think the investors really missed the idea and concept of Carriage. I really do. I know the industry is going to have you have certain perceptions. But if you just take the time to study the point of Carriage as a high-performance culture company with unbelievable structure and incentives for high performance, sustained, get under the covers and see what it is, and you will find it's very different than what most people perceive it to be.

Unidentified Analyst

Great. That sounds wonderful and certainly helpful to the team over there.

My second question, a little bit more on the capital allocation side. I think someone mentioned about increasing the credit facility. And I was just curious how you guys are thinking. All signs point to kind of rates continuing to move higher. How are you guys thinking about managing that credit facility with either the outstanding balance or -- I know you intend to use free cash flow for acquisitions. But just curious how you guys are thinking about that.

Steven D. Metzger ***Carriage Services, Inc. - Executive VP, Secretary, Chief Administrative Officer & General Counsel***

Okay. Really, there's a lot of uncertainty out there in credit markets and with rates, right? I think right now, the best thing for us is to increase the credit facility by $50 million to have some of that floating rate, lower rate exposure. We still have 4.25% senior notes there outstanding. And I think what will really kind of depend on how we continue to look at the capital structure, really be driven by quality of acquisitions, the quantity of them and how we see the opportunities kind of play out as we move forward.

Currently as we see it today, what we intend to do will be funded through our internally generated free cash flow, which gives us a tremendous amount of financial flexibility. But certainly, your point about where the capital structure is where rates are, some of the things we keep a pretty close eye on around here.

Operator

Thank you. I'm not showing any further questions at this time. I'd like to turn the call back over to Mr. Mel Payne for closing remarks.

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

Thank you very much. We need to request you the next time. You have a wonderful way about you.

So on Page 2 of my shareholder letter, I write about the similarities between Carriage and Berkshire Hathaway. They have the insurance float and we have the preneed float. It's a great advantage that we have in terms of investing that capital because we don't have any funds flow risk nor do we have any mark-to-market, which Berkshire Hathaway has to do in a down market.

So it's a great competitive advantage, and we have learned how to optimize that advantage for the benefit of value creation within Carriage. But in that second page at the top, I made it clear that there's one similarity that stands to all above all the rest between Carriage and Berkshire Hathaway. And that is what he said and was quoted as saying in his autobiography by Alice Schroeder, The Snowball: Warren Buffett and the Business of Life. He described his job at Berkshire Hathaway as follows.

"I feel like I'm on my back, and there's the Sistine Chapel, and I'm painting away. I like it when people say, "Gee, that's a pretty good-looking painting." But it's my painting, and when somebody says, "Why don't you use more red instead of blue?" Good-bye. And I don't care what they sell it for. They're painting itself will never be finished. That's one of the great things about it.

I have been using this quote for at least 10 years in Carriage, within Carriage. This is the first time I've shared it externally. And my son said last night, "Dad, I've seen you're on your back, painting the chapel for 30 years. Wow, it's an incredible chapel." I said, "Yes, It is, but that's not the best part. The best part is I got all these other painters."

The top 3 of which are sitting here in this room with me today, Carlos, Steve and Ben. I'm honored to have you as my partners. I'm honored to have so many on this call. If investors could see how many of our people listen in to hear about them being talked about, they'd be blown away. I don't know what other company that you got so many Carriage people listening in.

You know why? Because they own it? This is their company. The destiny of the future is in their hands, and they all know it. And that's why I'm comfortable whatever you want to sell it for today, it won't be that way in 5 or 10 years. Just look at what we've done, and we plan on doing it again. Thank you very much.

Operator

Thank you. And thank you, ladies and gentlemen. This concludes your call. Thank you for participating. You may now disconnect.