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Q4 2021 Carriage Services Inc Earnings Call

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CORPORATE PARTICIPANTS

Carl Benjamin Brink *Carriage Services, Inc. - CFO, Principal Financial Officer, Executive VP & Treasurer*
Carlos R. Quezada *Carriage Services, Inc. - Executive VP & COO*
Melvin C. Payne *Carriage Services, Inc. - Founder, Executive Chairman & CEO*
Steve Metzger *Carriage Services, Inc. - Executive VP, Secretary, Chief Administrative Officer & General Counsel*

CONFERENCE CALL PARTICIPANTS

Alexander Peter Paris *Barrington Research Associates, Inc., Research Division - Director of Research and Education & Business Services Analyst*
Christopher Paul McGinnis *Sidoti & Company, LLC - Special Situations Equity Analyst*
George Arthur Kelly *ROTH Capital Partners, LLC, Research Division - MD & Senior Research Analyst*
Liam Dalton Burke *B. Riley Securities, Inc., Research Division - Senior Research Analyst*

PRESENTATION

Operator

Good day, and welcome to the Carriage Services Fourth Quarter and Full Year 2021 Earnings Call and Shareholder Letter. (Operator Instructions) As a reminder, this call is being recorded.

I would now like to turn the call over to Steve Metzger; Executive Vice President, Chief Administrative Officer and General Counsel. You may begin.

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

Thank you, Michelle, and Good morning, everyone.

Today, we'll be discussing our fourth quarter and full year results for 2021. Our related earnings release was made public yesterday after the market closed, and we have 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, both 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 Mel.

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

Thank you, Steve. Thank you everyone who is on this call today, on a day that Russia has invaded Ukraine, and markets worldwide are crashing. This unusual day stands in stark contrast to all the great news about our company, which is on our 2021 shareholder letter. It went out yesterday afternoon, masquerading as our fourth quarter and full year 2021 earnings release.

The shareholder letter was co-written proudly by the other 3 members of our strategic vision and Principles Group. We will present on this call all the great news about our past, present and future performance. And I'd like to congratulate Carlos Quezada, who was promoted to President effective yesterday. And, as Chief Operating Officer, I talked about Carlos in this release and what he's done, and he's going to have a lot to say about what he's done since he's been here, but especially what he's doing now, that will have legs and performance into the future. And Ben Brink, who's been here since '09, does a great write-up about our investment portfolio. I think investors would be very intrigued by Ben's personalization of this section. And then, Steve came as our General Counsel and he's learned so much about the business and about our people, about our incentives, about performance and how it all aligns. And so his sections are written in a way that describes the DNA of our company, probably better than I could.

And so with that introduction of what I call this dream team, I'd like to turn it over to Carlos.

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

Thank you, Mel, and Good morning, everyone. It's an honor and privilege to be here today and represent all of our team of Carriage employees, across our portfolio of businesses and in our Houston Support Center.

I feel humbled by the Carriage family overwhelming support since I joined the company on June 26, 2020. I will correspond in kind with my added responsibilities. Carriage is a unique and exceptional company that has offered me a platform where creativity and innovation are not just embraced, but encouraged. And when paired with a one-of-a-kind mentor in Mel Payne, it lets itself for incredible things to happen. Thank you so much for your support, and I will work very hard every day to earn this fantastic opportunity.

And speaking of fantastic things, I hope you had a chance to read our earnings release as it tells our 2021 success story in a very compelling way. For today's call, I will share a little bit about the past with our 2021 operational highlights, followed by a quick stop into the present with what is currently happening at Carriage, and I will speak much more about our vision of the future and what is yet to come.

Let's start with the tour of the past, where we had a record year in 2021. The following highlights for each segment are the combined results for funeral same-store and acquisition, and separately our combined results for cemetery same-store and acquisition portfolios. Then I will mention our total operating results.

For entire year of 2021 performance compared to 2020, funeral operating revenue of $253.1 million, an increase of $25.8 million or 11.3%; funeral field EBITDA of $109 million, an increase of $15.5 million or 16.6%; and funeral field EBITDA margin of 43.1%, an increase of 200 basis points. On our cemetery operating revenue of $92 million, which reflects an increase of $22.7 million or 32.6%; cemetery field EBITDA of $42.5 million, an increase of $15.9 million or 59.7%; and cemetery field EBITDA margin of 46.2%, an increase of 780 basis points. Our financial revenue of $22.9 million, an increase of $3 million or 15.2%; financial field EBITDA of $21.4 million, an increase of $2.8 million or 15.1%, and financial field EBITDA margin of 93.2%, a decrease of 10 basis points. All of that adds up to a total revenue of $375.9 million, an increase of $46.4 million or 14.1%, total field EBITDA of $174.6 million, an increase of $32.7 million or 23%; and total field EBITDA margin of 46.5%, an increase of 340 basis points.

For cemetery results, our 5-year cemetery same-store trend report on our 2021 earnings release, reflects the inflection point of the high performance transformation, which began with a 5-year plan in 2020, and will continue through 2024. The plan included a new performance-based compensation plan, launched at the beginning of January 2021, at pilot locations, followed by the full integration to our entire Cemetery portfolio throughout 2021.

Below are some of the highlights coming from these cemetery high-performance reformation. For the full year of 2021, our cemetery high performance preneed sales production finished at $52.4 million or 38.5% greater than the entire year of 2020; same-store cemetery preneed property of $35.1 million or 30.9% greater than the year before; total At-need sales of 36.3% or 26.4% over the prior year; total preneed sales of $65 million or $36.4 million over the prior year; and total cemetery sales of $101.3 million or 32.6% over 2020.

Our preneed high-performance sales teams had a spectacular year after an already stellar 2020, and did a fantastic job protecting families to preneed property, with a wide range of options for all families, from traditional lots to high-end private memorials. We thank every sales leader and their teams, the very successful sales counsellors for their hard work and the contributions to our company's success.

The good and great news is that our high-performance cemetery plan is not yet complete, and there is much more to come. This record performance was due to the incredible consistent in every revenue segment of our portfolio businesses, and the commitment and consistency of our managing partners, which deliver an amazing 2021 results.

In our earnings release, Steve covers in detail our Being the Best 1 year and Good to Great 5-year profit sharing program. However, for many years, we have named every Being the Best and Good to Great winners. While the list for this year is so long that it will take a very long time to name them all. We have 68 businesses and 58 managing partners achieve Funeral Home standards, which led to an all-time record of 78.5% standards achievement for all of our funeral portfolio, and 86.2% for cemetery portfolio standards achievement, which is also an all-time record. Moreover, our Good to Great 5-year winners consists of 35 businesses and 33 managing partners, an all-time record as well. We'd like to thank our amazing best-of-the-best managing partners and their teams of employees for this incredible high-performance encouraged milestone.

Okay. Now let's talk a little bit about the present. I'm honored to announce that Shane Pudenz is now our new Vice President of Sales & Marketing. Shane has contributed significantly to our self-success, especially in the growth of cemetery preneed sales, and having leading our CRM across our cemetery portfolio, which we now call SalesEdge. He will focus on building sustainable cemetery preneed sales throughout our portfolio businesses and the Right Who sales leaders, increasing our sales force headcount, deciding cemetery inventory that is appealing to the families that we serve, and developing the skill set of our sales teams. We look forward to seeing Shane's continued success. We have created our first-ever marketing department to support Shane in our entire portfolio of businesses.

Alfred White, who joined Carriage on January 3, is our new Director of Marketing. He will be leading our marketing transformation and help our managing partners position their brands to increase market reach, grow customer loyalty, expand social media presence, gain market share, and deliver higher operating and financial performance than ever before. We welcome Alfred to the Carriage Services family.

Now, by the vision of the future of Carriage, we will have our first annual managing partner meeting since 2019, as we had to postpone 2020 and 2021 due to the COVID-19 pandemic. This annual meeting, which we're calling CAREdge Forum, will focus on transforming service and guest experience. All of our managing partners across all businesses, high-potential leaders, operational and sales Houston Support Center teams and special guests, will need to leave, breathe and be challenged to think differently about service excellence. And while we had a record performance in 2021, we believe that there is a significant opportunity to gain additional market share through highly personalized services and detail-oriented experiences for both our Funeral Home and Cemetery portfolios. Our CAREdge Forum will be a catalyst for further growth, the beginning of a new service and guest experience for all our families, and another step on our Good to Great Journey that never ends.

To support this vision even further, we're creating our first server Carriage Innovation and Creativity Committee comprised of the best of the best and most creative managing partners in our portfolio of businesses. This talented group will come together to design innovative and creative tools for a thoughtful service chain that other managing partners can use to grow their businesses, creating value to the families they serve, their employees, and carry shareholders.

We're also very excited to announce that we have recruited our new Chief Information Officer, who will start in April, and whose primary responsibility will be to create a 10-year vision, 5-year strategy and 1-year plan for the complete digital transformation of all of our IT systems. We believe that Carriage can create value by designing, creating and implementing a customer-centric platform that seamlessly integrates with each business customer journey. This innovative and digital transformation will include, but not be limited to improve digital in situ experience, integration of celebrations of life through technology, a seamless chain of custody, full integration of the back and front office systems, and our first-in-class cybersecurity systems and policies. These technology innovations will automate current redundancies and other processes, optimizing our operations and enabling our teams of passionate field employees to focus their time on what they do best, which is to serve families.

We're looking forward to accelerating the successful implementation of this complete digital transformation plan. There is so much going on at Carriage that it is impossible not to be excited about our future. And with so many opportunities ahead of us here with a

2022 theme of higher performance value creation culture, which is in complete alignment with our Being the Best mission and vision, we will always strive to be a little bit better every day and capture every opportunity, and continue our Good to Great Journey, so that we can become the best operator, best consolidator and best value creator company in the Deathcare industry.

In closing, our optimistic view of Carriage and the blue skies ahead is because, from the beginning of our transformation at the end of 2018, we have been preparing and becoming better, even on the most -- some of the most challenging circumstances over the past 2 years. Carriage has become a value creation platform for years to come. And for this reason and everything else that we have covered in our 2021 earnings release, I continue to say that this is the best time to be with Carriage, and the best is yet to come.

Thank you, and I will turn it over to Steve.

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

Thank you, Carlos. As it relates to the performance that you just described, a couple of questions that have understandably come up time and again during the past 2 years, have been, first, how do we know the growth in call volume and revenue isn't just related to COVID; and second, how can we be sure that, as deaths related to COVID begin to decrease and normalize, performance won't follow suit. The reality is, nobody in the industry was equipped to answer those questions at the beginning of this pandemic. However, we're now 2 years into living with COVID, and have the benefit of data from which we can begin to make some reasonable, roughly right inferences, surrounding its impact on our business.

For example, beginning in December of 2020, we began to capture COVID-related deaths supported by death certificates on our contracts. When we look at total calls from 2019, the last full year prior to the pandemic to 2021, the first full year when reported COVID deaths were captured on our contracts, among all of our funeral homes and our same-store portfolio, the data supports a clear story of market share growth. Specifically, among all of our funeral homes and our same-store portfolio, we've seen growth in total call volume of 20.9% from year-end 2019 to year-end 2021. Of that 20.9%, approximately 13.2% is related to reported COVID deaths, meaning, approximately 7.7% of that total growth is not related to COVID. Furthermore, roughly 75% of our businesses in our same-store funeral portfolio have achieved growth beyond COVID of greater than 10%. That's a broad and compelling story of growth beyond COVID, and supports what we've been hearing from our leaders in the field about market share gains over the past several years. And more recently, when we look at our same-store funeral contracts for just last month and compare it to the same month last year, we see an almost identical number of total contracts, but an increase of more than 14% in non-COVID related contracts.

As further support for this market share growth story, we turned to data published by the CDC related to COVID deaths in the U.S. As reported by the CDC, there were approximately 37,000 fewer COVID-related deaths in the fourth quarter of 2021 as opposed to the fourth quarter of 2020. That's 25% fewer total COVID deaths in the U.S. quarter-over-quarter. During that same comparable timeframe, our total funeral same-store call volume actually increased by more than 300 contracts. So again, despite COVID deaths broadly and substantially decreasing, we continue to see growth in our same-store funeral portfolio.

We then looked at our preneed maturity trends to gain some additional insight. Preneed maturity captures when a preneed contract goes At-need and is served. So when our preneed maturity rate goes down, that means we're serving more pure walk-in At-need families than we are preneed families. If the preneed maturity rate goes down and our total contracts go up, it's highly likely we're gaining market share as there are more At-need costs that are being served. Over the past several years, we've seen a steady decrease in our preneed maturity rate, including a significant decrease just last year, despite total calls continuing to increase. This is just additional support that the steady growth we're seeing is likely being impacted by broad market share gains. Now there's no question that COVID has tragically and materially contributed to a number of additional deaths in the past 2 years, and we've been honored to have the privilege to serve many of these families during these challenging times.

With that said, we've identified 3 separate and significant data-driven trends that all support market share growth beyond COVID. Any one of these trends is persuasive. But when you look at all 3 together, it becomes a compelling story of the work by our leaders in the field to continue to compete for every call and grow market share. So what's driving this growth over the past few years? At a high level, since September 2018, we've made significant and aggressive changes to talent and leadership. We modified our Standards Operating Model to focus on compounded net revenue growth, and serving cremation families, and we've revamped our unique approach to 1 and

5-year incentive compensation, placing a strong emphasis on margins. These critical changes have combined to help create the high-performance alignment that is now seen in the financial performance Carlos just referenced, and which Ben will cover in more detail shortly. We strongly encourage everyone to read our press release for a deeper explanation of this high-performance alignment, specifically as it relates to what we believe is driving market share growth and performance broadly throughout Carriage, including a discussion surrounding what we are confident is the best pay-for-performance incentive plans in the industry.

Our unique operating model, which allows our managing partners to truly lead their businesses as owner operators, combined with those best-in-class 1 and 5-year incentive plans, which we discussed in our release, are just 2 of the key differentiators that we highlight for acquisition candidates who are exploring possible succession plans. As we look forward to the remainder of 2022 and beyond, we continue to be encouraged by the prospects for growth through acquisition. While we don't currently have any transactions to announce, we continue to have advanced discussions with a number of fantastic businesses, and we look forward to welcoming new partners to the Carriage family in 2022.

As we've stated before, we remain highly selective in our approach to growth through acquisition, as we continue to build relationships with potential candidates who are looking for a one-of-a-kind customized succession planning option. We are well positioned with our capital structure, performance and available capital allocation opportunities outside of acquisitions, to remain patient and disciplined with our acquisition strategy.

With that, I'll turn it over to Ben, who will provide more color regarding why we're so excited about that positioning as we look to 2022 and beyond.

Carl Benjamin Brink ***Carriage Services, Inc. - CFO, Principal Financial Officer, Executive VP & Treasurer***

Thank you, Steve, and thank you for everybody who joined us on the call this morning.

Yesterday, we released our fourth quarter and year-end 2021 earnings press release, which in true Carriage fashion, turned into a comprehensive, in-depth shareholder letter for 2021. It was a fun and collaborative process between Mel, Carlos, Steve, myself and many others, to not only provide a review of our phenomenal 2021 performance, but also to paint a clear vision for our future. I encourage anyone with an interest in Carriage to study the shareholder letter in order to understand the drivers of our record high performance in 2021, and why we believe that the Carriage high-performance Good to Great Journey is just getting started.

For the fourth quarter, total revenue increased 6.5% to $95.9 million. Adjusted consolidated EBITDA increased 7.4% to $30.4 million. Adjusted consolidated EBITDA margin expanded 30 basis points to 31.7%, and adjusted consolidated -- our adjusted diluted earnings per share increased 36.8% to $0.78 per share. For the full year 2021, total revenue increased 14.1% to $335.9 million. Adjusted consolidated EBITDA increased 21% to $126.2 million. Adjusted consolidated EBITDA margin expanded 200 basis points to 33.6%, and adjusted diluted earnings per share increased an incredible 62.4% to $3.02 per share.

In 2021, our adjusted free cash flow increased 8.1% to $75.7 million. Our adjusted free cash flow margin was 20.1% compared to 21.2% in 2020. Our pro forma adjusted free cash flow when adjusting for a full year impact of lower interest costs from our senior note refinancing in May of 2021, was $79.7 million, and our pro forma adjusted free cash flow margin was flat at 21.2%. Our pro forma adjusted free cash flow margin was flat year-over-year due to an increase in maintenance capital expenditures, as we continue to reinvest back into our local funeral homes and cemeteries, and due to an increase in cash taxes paid as compared to 2020.

Our total debt to adjusted consolidated EBITDA ratio at year-end was 4.5x compared to 4x at the end of the third quarter, and 4.4x at the end of 2020. As of today, our total debt to adjusted consolidated EBITDA ratio leverage is 4.38x. The increase in our leverage ratio compared to the third quarter is due to the execution of our share repurchase program in the fourth quarter.

During the fourth quarter, we opportunistically repurchased 1.46 million shares for $80.7 million, which brought the total shares we repurchased in 2021 to approximately 2.9 million shares for a total cost of $142.3 million at an average purchase price of $49.01. This $49.01 average purchase price is 34.7%, below the $75 per share mid-point of our newly increased opinion of the roughly right range of intrinsic value per Carriage share. The 2.9 million shares represents a 16% decrease in our shares outstanding compared to the prior --

compared to prior to the execution of our share repurchase program, mainly during the second half of the year. This decrease in shares outstanding will be fully reflected when we report our first quarter results, with basic shares outstanding of approximately $15.3 million and diluted shares outstanding of approximately $16.5 million on a pro forma basis, taking into account the full year impact from lower interest expense of $4 million and the estimated diluted shares outstanding of $16.5 million. Our pro forma diluted earnings per share for 2021 is $3.53, 17% higher than our reported diluted EPS of $3.02, and represents an 89% increase compared to 2020.

Yesterday, our Board of Directors authorized an additional $75 million to our share repurchase program, which brings our total availability to approximately $83 million or 10% of our current equity market capitalization. We will continue to repurchase shares, and they trade at a discount of 10% or more compared to the low end of our roughly right range of intrinsic value, while balancing the execution of the share repurchase program with our other capital allocation priorities of high-quality strategic acquisitions, and high return on invested capital internal growth projects.

We also intend to maintain a total debt to adjusted consolidated EBITDA leverage ratio range of 3.6x to 4.4x over the long term. Our reoccurring and growing free cash flow, combined with our low-cost capital structure, provides us the necessary financial flexibility to allocate capital opportunistically, to continue to grow the intrinsic value of Carriage.

The total return for our discretionary trust fund portfolio in 2021 was 19.3% compared to 28.7% for the S&P 500, and 12.3% for our 70-30 high-yield bond S&P 500 benchmark. The performance of our discretionary trust fund portfolio was a continuation of our long-term track record of highly successful investment management, since we took over managing our preneed trust assets in October of 2008. Over the past 13 years, the total compound annual return of our discretionary preneed trust portfolio has been 14.3% compared to 16% for the S&P 500, which is remarkable, considering on average, 60% to 70% of our assets have been invested in fixed income, particularly high-yield bonds.

Most importantly, given the events that are currently happening and impacting the market, we believe that, since the execution of our trust fund repositioning strategy at the depths of the Coronavirus market crisis, have positioned the trust fund portfolio for higher interest rate and inflation environment that can remain resilient in balance of market volatility, such as we are experiencing today. Year-to-date through yesterday, our discretionary trust fund portfolio is down approximately 2.5% compared to a negative return of 11.3% for the S&P 500, and a negative return of 16.7% for the NASDAQ.

We do expect the current market volatility caused by geopolitical conflicts, higher interest rates and inflation, to persist. We currently have almost 8% of our portfolio sitting in cash, and we remain patient and prudent in our deployment of that capital, just as we've done over the long-term management of our preneed trust assets.

We are excited to announce a new and updated roughly right ranges of performance scenarios for years 2022 through 2024. These roughly right ranges are not meant to be exact projections of our future performance, but rather conceptual ranges of our future performance under a base case capital allocation scenario of 100% of our annual free cash flow. We believe that trying to provide precisely right projections about future performance are sure to be precisely wrong in the future. This base case scenario has realistic expectations of organic revenue and field EBITDA growth, with incremental growth and field EBITDA margins.

The capital allocation scenarios for each year include internal growth projects, with high return on invested capital potential, strategic acquisitions, share repurchases only in 2022, and maintaining our current dividend rate. We have included estimations of acquisition activity based on, as Steve had commented, our view of the current acquisition landscape that remains highly favorable to Carriage, and our expectation is that we'll have opportunities to allocate capital towards strategic acquisitions in high-growth markets beginning in 2022.

We have included the new 3-year roughly right ranges of performance scenario on Page 8 of the shareholder letter we released yesterday. Total revenue we expect to grow from $375.9 million in 2021 to a range of $450 million to $460 million in 2024, adjusted consolidated EBITDA to grow from $126.2 million to a range of $155 million to $160 million in 2024, adjusted consolidated EBITDA margin to expand from 33.6% to a range of 34% to 35%, adjusted diluted EPS to grow from $3.02 in 2021 to a range of $4.40 to $4.50 in 2024. We expect adjusted free cash flow to grow from $75.7 million to a range of $94 million to $100 million in 2024, with adjusted free cash flow margin being in a range of 21% to 22%. We expect our net debt -- our total debt to adjusted consolidated EBITDA leverage ratio to remain within our range of 3.6x to 4.4x over the period, and debt to remain fairly flat.

Additionally, on Page 9 of our shareholder letter, we have included potential Carriage share price ranges using 3 different valuation methodologies: enterprise value to adjusted consolidated EBITDA multiple, price to earnings per share multiple, and our preferred methodology free cash flow equity yield. These are meant to illustrate the potential share price using these realistic valuation multiples on our updated roughly right ranges of performance scenario for 2022 through 2024. The mid-point of our 2022 roughly right range of adjusted free cash flow, $84 million, was equal to approximately $5.09 of adjusted free cash flow per share, and a current free cash flow equity yield of 10.3%. The accelerating high-performance transformation that you've witnessed over the past 2 years, have turned Carriage into a high and sustainable free cash flow machine, with the necessary financial flexibility to invest that free cash flow with savviness and discipline to grow our intrinsic value over the long term.

Therefore, we believe it is appropriate to calculate our updated roughly right range of intrinsic value, by applying a free cash flow equity yield range of 6.4% to 7.4% to the midpoint of our 2022 roughly right range of adjusted free cash flow. This equals an equity market capitalization range of $1.1 billion to $1.3 billion, and an updated opinion for our roughly right range of intrinsic value rounded to $70 to $80 per Carriage share.

And finally, to close, I'd like to read a little bit of my final thoughts from our shareholder letter. What I've experienced of course in person over the last 2 years and what should be taken away by a reader of this shareholder letter and to anyone listening on this call, is that, there has been a complete high-performance transformation here at Carriage, and is only accelerating. This broad transformation has manifested itself in higher organic market share growth, significantly improved cemetery sales, operations and profitability, sustainably higher preneed trust fund income and financial revenue, improved operating leverage at our local funeral homes and cemeteries leading to higher field EBITDA margins, improved overhead platform leverage with greater size and scale, greater consolidated platform leverage with more opportunities for capital allocation at higher rates of return on invested capital, improved capital structure leverage, a low-cost, long-term balance sheet that provides greater financial flexibility at a lower cost of capital, and a significantly lower share count after this fourth quarter.

For any investor who takes the opportunity to study the shareholder letter, and his curiosity is peaked by our unique and differentiated high-performance culture that we described, I would encourage you to begin your journey of getting to the other side, by first studying our available materials on our Investor Relations website, then come visit us here in Houston for a look underneath the Carriage covers to truly understand the long-term value creation dynamics that are at work here at Carriage. What you will find is a company that has undergone a radical transformation, which is producing accelerating high performance, led by an amazing group of talented entrepreneurial leaders across Carriage, who have formed an unbreakable union of belief in our vision of being best, and our Good to Great Journey that will never end. It's because of this accelerating high-performance transformation that all of us leaders here at Carriage have the confidence to say that the best is yet to come.

And with that, I will turn the call over for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from Alex Paris with Barrington Research.

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

I wanted to offer you my congratulations on the strong finish to the year. And, specifically, I'd like to congratulate Carlos on his promotion.

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

Thank you very much, Alex. I appreciate it. Thank you.

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

So I also thought it was encouraging that you noted that you've had an acceleration in December and January versus very tough comps year-over-year, unlike some of the other competitors in this space that talk about that pull forward of death and a tough COVID comps in 2022. In that -- in the annual letter that you published last night, many of my questions have been answered, but I have a few follow-ups for you. Specifically, in the press release, you talked about headwinds becoming tailwinds. I was wondering if you could offer us a little bit more color there. I think you're talking about things like death rates, about the appreciation of celebrating life, whether through traditional funeral services or through cremations. So a little bit more color there would be helpful.

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

30-plus years after cofounding this company at 48 years old. You heard from my 3 fellow members of our strategic vision and principles. We've grown up. And, when I started this company, I had a very sophisticated background and private placements which have proved they were the best in the world, the only companies doing what they were doing, and the methodology was incredible. And I became fascinated with why some companies in the same sector become great, very few, rare, and we were making private placements to all kinds of companies. At that time, the population was moving to the suburbs. So there were all kind of multi-store operations like drug stores, department stores, convenience stores, blah, blah, blah. And we were the biggest private placement lender to all those companies across America in the 70s, including at that time, Walmart which was still a private company and had 55 stores. So I got to be 1 of 2 analysts that got called Newark to review all the loan submissions from all the private -- all the loan production offices across the country. So I learned a tremendous amount about how to break down the data, long-term data, by profit division, product line, gross margins by store. And that history was taken then to Texas Commerce Bank when I moved to Houston, because I didn't want a career in Newark, and that's where I knew I would always be. So that's a bank that became 1 of 2 AAA banks in 5 years at the time, the other being JPMorgan. Now it's part of JPMorgan Chase.

So I mean I got to see up close and personal, as Ben said, how to be curious, number one, of how to build a great company through data and high performance metrics. And then I got to be part of doing it at Texas Commerce Bank. But as a bit now more better -- and I always was going toward more risk and entrepreneurship. And even though I was certain and I was told that I could be running the bank in 5 years, it's the last thing I felt that I wanted to do. And so I kept going and I turned around companies for 10 years. I got good at that. But I wasn't satisfied. It wasn't meaningful until somebody said, "We'll loan you the money. We know you want your own company. We'll own you the money, see, I had a finance company, but you got to buy funeral homes." And that was in March of '88. I didn't start the company until June of '91. Took me 3 years to get used to the idea that death was a noble business and I was willing to spend the rest of my career.

Now it's been over 30 years. And so I will tell you, this industry has been difficult to master. It's been challenging. It's been resistant to all the high-performance ideas and database, incentive programs and talent upgrading, because it's so strong financially, it enables mediocrity to exist, and that is a huge competitive advantage for Carriage. And the company you see today, described in this shareholder letter, is a high-performance culture company that just happens to be in the funeral and cemetery industry. That was always my vision, being the best. And when you say being the best and you want to show it -- no company will put out the kind of transparent detail we do about our operations. Nobody. If they do, let me know about it, and we want to buy that company in our trust funds. Once you put it out there, you cannot take it back. You got to keep getting better. And so this is the whole notion of Carriage. And what you're hearing from Carlos, we're not done, what you're hearing from Steve. My god, he's an attorney. He's talking about high-performance people and talent and incentives. I mean it's just making my day. These guys learned so much writing the shareholder letter. Ben. I mean, everything we do, even though we're not a huge company, is related to being the best at what we do, whether it's investing our money, acquisitions or operating.

And right now, we've been facing secular wins, revenue trends for 30 years, and all I heard was skepticism from investors, "oh, cremation, blah, blah, blah." It was in the teens when I started the company, and the baby boomers are going to start dying tomorrow. You get rich. Well, here we are 30-plus years later, and I decided, somewhere along the way, I wasn't going to wait for something I could not control to give me the high performance that I knew we could get if we just got better and better and better and better every day, as Carlos said, and finally, we would become the best in every market, and we wouldn't rely on death rates going up by baby boomers dying. And when they did, it would be gravy.

Who would have known that the Coronavirus seems to have been a catalyst for a higher death rate, and an endemic disease that will probably make, along with just ageing and the demographics, a higher death rate for years and years to come, maybe 20 or 30, just like it's been the last 30. It hasn't happened. Now it's happening. It's hard for people to believe it, but pull forward and all that crap. We don't believe in that. Anybody who tries to predict precisely the future, will be precisely wrong 100% of the time. You just got to get better at what you do, and trust in your people, put them on the play and fill and let them compete. That's what's going on with Carriage. The organic revenue that we're seeing in the funeral side -- Steve covered it -- has continued into '22. All I read in the papers, cases of plummeting, blah, blah, blah, blah, blah. We don't see our -- we see our cases -- our deaths are high. We had a positive variance in January. We're going to beat the hell out of it in February.

So what's the problem? There is no problem. And I don't know what the future will bring in terms of death rates. All I know is, I trust what Carlos is doing with operations both in funeral home, how we get better servicing guests, sales. And now we've got the balance sheet and the free cash flow machine to allocate. We're in the best of times, and I just don't know why anything, including geopolitical problems, will change it. It's a good place to be, Alex.

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

It's what I was thinking, but you said -- much better coming from you. You did well in the face of headwinds, and it appears that those headwinds are abating and may become a tailwind. So it will help those better performers do even better going forward.

So going back to the letter from last night. You've signaled a resumption of acquisition activity. You did 4 big ones in late 2019, early 2020. You've been integrating those acquisitions, you've been restructuring the balance sheet, you've been reducing debt, but you're signaling a return to growth through acquisition, and you're encouraged by the number of acquisition opportunities, and you're in advanced discussions with some. If you look at the allocation of free cash flow using the base case, it looks like the plan for 2022 is split pretty evenly between share repurchases and selected acquisition activity. Am I right in assuming that share repurchases would be more front-end loaded, while acquisition activity will be more back-end loaded in 2022, first off?

Carl Benjamin Brink ***Carriage Services, Inc. - CFO, Principal Financial Officer, Executive VP & Treasurer***

Yes. Under -- again, under that base case, right, just conceptually what we think it would look like. 2022 would be share repurchases more on the front end versus acquisition activity in the latter half of the year. You're right.

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

And then, based on that forecast, 38% of adjusted free cash flow dedicated to acquisitions, $34 million allocated to share repurchases. But with regard to the allocation, what is $32 million by you, in terms of the best remaining independent operators out there? I guess what I'm trying to drive at is, you're going to spend $32 million this year based on that base case; more next year, over $50 million, and closer to $75 million in 2024. I'm just wondering what multiples look like in the group, revenue multiples or EBITDA multiples? What can we hope for in terms of incremental revenue and EBITDA from this acquisition plan?

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

I think, the way that we view the acquisition strategy, is every business stands on its own in terms of what multiple is applied to it. We have an internal multiple range that we focus on, but we also really get to know the owners and the business, the market and the potential for growth moving forward. So we often talk about -- we're looking for businesses where the best years are in front of them, not behind them. And when we find those businesses, we're focused on putting together a customized solution for them. In terms of $32 million number, it's a placeholder for us. And in terms of what it can buy? Obviously, it depends on the size of the business. And so that really is a placeholder depending on what pops up. We'll be ready, whether that's a little bit less than $32 million or more than $32 million, to act on the right businesses.

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

Very helpful. I'll get back in the queue. Again, congrats on the strong finish to the year.

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

So Alex, so I just wanted to cover your multiple question. A lot of owners have been challenged over the last 2 or 3 years with COVID, of course. And I think, the idea of succession planning, just like the notion of death itself, which is inevitable, is uppermost on more people's mind today, both in planning for it and dealing with the value of ritual, to celebrate life and much more. And you see our average is going up. Our people are doing a great job because people -- that's what they will want, and they'll pay for it if you deliver the value. So I think, the activity should be higher over the next 5 years because of this awareness and succession planning becoming part of a group that makes your company better versus try to milk it for a maximum of cash. That's what I think will happen. It's hard to predict quarterly or even semiannually, how that activity will ebb and flow, but we do have a strategy, we do have existing relationships and candidates, but they have to be ready. And the kinds of businesses that join us now as opposed to the '90s, and even some of the periods after that, it got to be really good franchises. And everybody knows they're good franchises, and the owners know they're good franchises. So you don't get to steal any great franchise from an owner where that business is larger and in a great market, positioned for better future than it was over the last 20 years. So we'll pay a nice multiple, but over the 5 or 10 years, in the way it's worked is, that multiple will go down because of our ability to grow and integrate into this model. And the returns to our shareholders and on the cash we invest, will be 15%, and growing after that.

Operator

Our next question comes from Liam Burke with B. Riley.

Liam Dalton Burke ***B. Riley Securities, Inc., Research Division - Senior Research Analyst***

In terms of some growth opportunities on a trend basis, how is cremation in terms of contract growth with market penetration and then revenue per contract. Is that still another source of growth for you?

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

It's a great question. It's something we addressed yesterday. So just at a high level to give you an example. We talk about changing our standards, operating model to really focus on that cremation contract. So as the cremation trend increases, we want to get out in front of it and look at it as an opportunity. So from year-end 2020 until year-end 2021, the cremation rate increased, right --so from 56.3% to 57.1%. But, even though we saw more cremations during that past year, our average revenue per contract broadly actually went up as well. So what that tells us is, our folks in the field are doing a great job at explaining to families, educating families on memorialization options with cremation, and taking advantage of that as an opportunity.

Liam Dalton Burke ***B. Riley Securities, Inc., Research Division - Senior Research Analyst***

And in terms of underperforming assets, it looks like, Ben, you've sort of run them down. At a macro sense, are you satisfied with your portfolio of assets now? Or are there other candidates that may not meet your return standards?

Carl Benjamin Brink ***Carriage Services, Inc. - CFO, Principal Financial Officer, Executive VP & Treasurer***

The -- we've set out kind of mid-2020 to -- we identified 18' to 20' -- either businesses or pieces of property that we were looking to divest. And, to your point, we've done the majority of that. I think we have 2 to 3 more that are still on the list. We expect to get done here this year. And outside of that, I feel really good about where we are with the portfolio, how everybody is performing, and would not look to do any significant divestitures anytime soon. So it's a really good -- like Mel said, a really good spot to be in.

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

Look, this framework of standards, high-performance standards for the Funeral Home and Cemetery is -- I mean it's not like we have to guess who becomes a candidate. They become a candidate because they can achieve 50% and then grow it from there to a higher level of standards achievement. And that's not purely a financial thing. And, for example -- Steve covered it very well -- just the amazing history of standards achievement after we updated the model in '18 and the incentives in the '19 -- and now we have very few below 50% and many, many businesses well above 50%. And I think we averaged as a company close to 80% or something like that. I mean, if you would have told me that 5 years ago, I would have said that's impossible.

But it is possible and it's being done. And so you get -- we get a standard achievement report every month for every business in every region, and that is -- that goes on a lead table company-wide. Every managing partner sees where they stand monthly on the lead table. Everybody knows that Carriage is a self-cleaning oven. And if you fall down below 50% as a managing partner and you've got a decent business, it's going to clean -- the other one is going to throw you out. But we have very little of that now.

And so it's been a wonderful thing to witness how this concept called Standards Operating Model, has evolved. And now -- you get the right talent. We had a Board meeting yesterday, and regional partners, Sean Phillips, Poly Elliott, Carlos, they're talking about businesses where we top-graded the managing partner who was underperforming probably under 50%. Now it's turned into like -- and this is what I don't think investors really understand. In this framework and model, you get an A player and replace a C+ or a B+. Now that B+ might have looked pretty good back when we had budgets. But you get an A-player grower, and literally, it's like you made a new acquisition. I mean, not a small one; one that really is throwing out performance over time, and it only takes $240,000 of field EBITDA, and they all know it equal $0.01 a share. So when we call a meter moving, we're talking about EPS meter moving value creators. And this is the language. This is the culture. Everybody understands it. It's not a secret backcourt at the Pentagon. It's a wonderful thing to witness, and that's why we invite all of you to come down here and get a closer look or calling our Standards Council member. Don't be shy. They'll tell you exactly what's going on.

Operator

Our next question comes from George Kelly with ROTH Capital Partners.

George Arthur Kelly ***ROTH Capital Partners, LLC, Research Division - MD & Senior Research Analyst***

So I think just 2 for you. First, in your prepared remarks, I believe it was Carlos talking about the digital platform and some of the investments you plan to make over the next 10 years. And it sounded like that was mostly kind of back office stuff. So curious if I heard that right. And what is -- where are there the most opportunities for efficiencies? Is this mostly about cost savings? Like how significant could this opportunity be, to put in a better tech platform?

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

Absolutely, George. Thank you for your question. So it's really not about processes and cost reduction strategies for our technology transformation. It's really about creating a platform that is customer-centric, designed for the purpose of delivering an elevated service and guest experience, enabling those in the field to then focus more of their time serving families and capturing additional market share rather than focusing on manual processes, all the type of things that are just in the way. It is a way to integrate all of the free systems that we have across Carriage, and really maximizing that opportunity through technology. The deathcare industry, as we all call it, has a tremendous opportunity for disruption, and we would rather disrupt ourselves than be disrupted by others. And so this transformation will be a platform for that disruption broadly across our portfolio of businesses as well as our Houston Support Center, and how we help those in the field dedicate more time to what they do best, which is their families.

George Arthur Kelly ***ROTH Capital Partners, LLC, Research Division - MD & Senior Research Analyst***

Are there 1 or 2 different kind of functions or key places of investment? Like can you help me sort of see what it is you're speaking of? What kind of -- just if you could boil it down to like, here's one place that we could really make us different.

Carl Benjamin Brink ***Carriage Services, Inc. - CFO, Principal Financial Officer, Executive VP & Treasurer***

Sure. Absolutely. So just think about the way it usually works, right. The family has death. They go into what we call an arrangement conference, and they're going to spend 2.5 hours, 3 hours, going through a process of selections, caskets, services, merchandise, all kinds of things, service arrangements, the chapel, all different things that they want to do. For the most part, most of those selections are recorded manually, and then go and get recorded into a computer. And there's a significant amount of manual process that goes into the back end of those selections to arrange and to get all the details coordinated throughout all the different team members throughout the Funeral Home. And so by creating a centric customer journey that tackles through technology and facilitates all of that process, automating most of it, and just make the selections easier going into an automated contract just through those selections, will dramatically change how we serve families, helping them focus more on the grief rather than on the choices they need to make.

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

Look, if you wanted to do one thing that will help you understand what Carriage is all about rather than cost efficiencies and all that kind of thing, which is normal, and that's intuitive -- However, what you'll find is that, we are the opposite of normal and intuitive. We're counterintuitive and very unorthodox. It's all about what goes on in the business in a very unique market. Like every life is unique, so is every business. And so you can't cookie-cutter it and you can't map funeral it. And if you want to learn a lot about how this works in the technology part, there's 3 or 4 managing partners that Carlos can give you the names of, they will light up your brain and your neurons, and you'll be able to get it, what this digital transformation is going to do for our market share, our compounded revenue growth, and because of the inherent operating leverage at each business rather than cost efficiencies, expanding field EBITDA margins. You will get it. I promise you. They won't buy it.

George Arthur Kelly ***ROTH Capital Partners, LLC, Research Division - MD & Senior Research Analyst***

Appreciate it. I'd love to chat with them. So yes, I'll follow up with you after this call. For sure, one, maybe 2 questions. So the second topic I wanted to cover is just the growth. It looks like kind of a high single-digit growth rate that's baked into your roughly right outlook. Curious if you could help -- how much of that is organic growth? And how much of the organic portion -- just broadly speaking, what are your expectations for volume and pricing?

Carl Benjamin Brink ***Carriage Services, Inc. - CFO, Principal Financial Officer, Executive VP & Treasurer***

George, again, to not get super granular in the weeds of this, right. That mid to high single-digit revenue growth rate is what we thought about this business long term, for a long time, right. And we're at this point now where it's very real. I kind of break that up into kind of half and half in terms of acquisitions and growth capital that we do versus our -- the organic growth of our businesses that we have here. There is certainly -- that Steve talked about, right, we've seen market share trends, growth in that average revenue per contract that we think can continue even if there is some uncertainty about COVID and the death rate, and that in the very short term. If that helps you there.

George Arthur Kelly ***ROTH Capital Partners, LLC, Research Division - MD & Senior Research Analyst***

It does. Yes.

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

So George, just to elaborate a little bit on that. The way we put this together is not top down. I mean, this is not me and Ben and Carlos and Steve -- well, this is what we should do to be really impressive out there. No. We have every business from the bottom up, looking at what they can do over the next year, and maybe because -- it's not like we don't know what's going on in every business here. We're very flat. I used to say that, between me and every business, there was only one layer. Then I got Carlos. He's the second layer. Okay. I think that's a really good layer. So we understand what's going on in the trends in each business. And so this is not -- it's a bottoms-up collaborative, interactive with our managing partners. They know what their incentives are, both 1 year and 5 year, and the standards, what they have to do to compound revenue and what that means to them. And so we take every business -- and everyone is different -- how it might lay out this year and next year, and we add them all up. And then we come up with some roughly right ranges and how they all consolidate up to us. And we try to not overpromise and under-deliver. And Ben's got that DNA. I mean, he got that concept; don't overpromise and under-deliver. What that does to the price, all investor market can determine. But that's how that has come about.

Operator

(Operator Instructions) Our next question comes from Chris McGinnis with Sidoti & Company.

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

Nice quarter. And congrats on such a strong year. Carlos, also congrats on the promotion. I just want to ask around the standards, incentive you're -- a lot of time on today -- Obviously, a big change following 2018 when you changed the standards. How do you keep that relevant going forward? And do you think about any changes to that, just to keep it fresh and updated?

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

Thank you very much, Chris. So yes, there's always an evolution of the Standards Operating Model. There was some changes at the end of 2018 when Mel took over as CEO of the company again, and there were some small changes in 2019. And we just had our Standards

Council meeting last January, a few weeks back, and we also made some small changes to make those adaptations, if you will, or iterations to whatever standards we need to tweak, as time goes by, as we continue through this evolutionary process of organic growth and also new growth through acquisition on both Funeral and Cemetery.

It sometimes needs those little changes and many things. One thing that I want to mention, for example, is the weight on our service and guest experience, which right now is at 10% out of 100. And, as I mentioned on the earnings release, after our CAREdge Forum, with all our managing partners from all businesses get together and they experience a different way to look at service and guest experience. The Standards Council will reconvene to evaluate whether the weighting on that standard shooter should not change. So it is a continuous process of evaluating where we are, what needs to change, and based on where we're going in adapting to those changes in that environment.

Operator

Next question comes from [Richard Busch].

Unidentified Participant

I'm a new investor in Carriage. I've recently taken a position. I'm not part of the financial analyst community. But I took a position because I not only like the numbers that you've shown on your earnings and your revenues, but I'm particularly curious as to whether you have any data or findings on projected business growth activity from vaccine problems. There are a number of cases being reported now of heart attacks, cancer victims and others that have experienced their demise due to the COVID vaccine. Senator Johnson recently exposed the Med reports with the Department of Defense, with startling new numbers of 300% to 1,000% increases in a number of different illnesses, some of which are leading to death others to permanent illnesses. But I'm just wondering -- it's impressive, you've been able to grow your business activity with the decrease in COVID cases. But now, as I look ahead, the next 12, 24, 36 months, what is the projection or potential for growth with people that have suffered from the vaccine itself?

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

We talk a lot in Carriage about, we control what we can control. And the trends that you just referenced are not things that we have familiarity with. But, what we can control is, if a family is looking for service, we want to make sure that we provide the best possible service available and compete for that call. So no insight into the trends that you referenced, but we are very focused on making sure that we're equipped to serve families when they need us.

Operator

There are no further questions. I'd like to turn the call back over to Mel Payne for any closing remarks.

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

Thank you very much. Well, I'd like to close with a profound e-mail I got yesterday during our Board meeting from one of our Standards Council members. Her name is [Christy Ihu], and she's been on our counsel since the end of '18, when she reached out and said, how can I help. And has she ever helped. I won't read all of it, but I will read a part of it, because I think it seems a message about who our company is, and may clear up some of the confusion about why we are the way we are and why we're getting the high-performance results that we are. And now this is her e-mail to me.

I had heard of this quote in many times since mostly from you and from reading the book a few times. Greatness is not a matter of circumstance. Greatness, it turns out, is a matter of contours choice. It is truly a matter of choosing to be more and then willing to go to the edge and jump off. I made that choice when I decided to accept a position as a managing partner of a brand-new acquisition with Carriage Services. And then princely she said that, I just happened to have worked at while attending mortuary college. You have stated in your last shareholder letter, quote, "We have learned at Carriage that if you don't focus intensely 100% of the time on getting your people right to enact with families who have just lost a loved one, your client families will never come first." Then this is her statement about my quote. There is no truer statement.

That's because you won't have the right people engaging your client families and learning about the life of their deceased loved one, in order to recommend high-value emotional ideas and options about how best to honor and memorialize the life of their loved one. As you know, Mel, I had my own unique experience serving as the managing partner of my business and as a client family simultaneously. My adult son passed away and I needed to make funeral arrangements. That is when I knew that my focus of 100% getting the Right Who onboard, mattered. I trusted everyone on our team at Franklin & Downs to care for my son, our family and me. They all jumped into action by putting their own lives aside to ensure that my family -- the client family received every detail of what I needed to pay tribute to -- for my combat veteran son.

That is because of you, Mel. You have set a path for all of us to follow on. And let me tell you, it matters and has made a difference. I am continually amazed of the truth and all of this. And then the she quotes our guiding principle. "There are 5. Honestly, integrity and quality in all we do, is a real thing that matters. Hard work and shared success through employee ownership is actually a fact and proven through your actions. For example, compensation, being recognized and treated with respect by leadership. Outstanding service and profitability go hand-in-hand, proven by numbers. They do not lie. Growth of the company is driven by decentralization and partnership. The realization and understanding of this concept inspires and creates a drive to succeed, and it is proven at Carriage. As a Good to Great tool recipient, I must say thank you loudly.

Where is there in the funeral industry that this would even be a possibility? Then you and your leadership team created a 5-year pay for sustained high performance incentive plan called Good to Great. I had no idea when looking for a challenge I would find an opportunity so amazing, so fulfilling and beyond any expectations. Being part of the achievement of a company whose mission is Being the Best, is truly inspirational, and a driver to actually be the best. Christi Ihu." And then she puts the sign off. Energy, the passion and drive to get the job done; Energize, how a leader motivates and gets others excited; Edge, the determination to make difficult decisions and execute the ability to carry out the plan and to deliver results.

So in signing off and reading [Christy's] wonderful note during our Board meeting yesterday, it might give all of you some idea of what you can learn about our company if you simply went to the people who know at best. Those are the Standards Council members. We have 11. You will not be disappointed in what you find out. And then what you read in the shareholder letter, all 38 pages of it, will make a whole lot more sense. Thank you for calling in on such a crazy day in the world.

Operator

This concludes the program. You may now disconnect. Everyone, have a great day.