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Q3 2022 Carriage Services Inc Earnings Call

EVENT DATE/TIME: OCTOBER 27, 2022 / 2:30PM GMT

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PRESENTATION

Operator

Good day. Thank you for standing by. Welcome to the Carriage Services Third Quarter 2022 Earnings Conference Call and Webcast. (Operator Instructions) Please be advised that today's conference is being recorded. I would now like to hand the conference over to your speaker today, Steven Metzger, Executive Vice President, Chief Administrative Officer, and General Counsel. Please go ahead, sir.

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

Thank you, Norma. Good morning everyone. Today we'll be discussing our third quarter results. 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 for management are Mel Payne, Chairman of the Board 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 different materially from those contemplated in such statements. These risk 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. As a young boy growing up in a rural farming community, I loved going to the annual county fair where my favorite ride was the rollercoaster. By far, the most thrilling part of the ride was after slowly climbing to the peak and then flying down the steep descent. I loved it.

Building Carriage over the last 31 years, especially as a public company after our IPO in August of '96, has been akin to riding a much bigger and steeper rollercoaster, with one hugely profound difference. Over the last 20 years, we have evolved a new business model and framework for operating and consolidating the still highly fragmented funeral and cemetery industry. It is a unique business model and framework. And throughout this period, through ups and downs in our performance, as we adapted the model and improved it, together with various severe adverse economic environments that together produce wild peaks and valleys in our share price twice hitting $1, we have continuously gotten better as a company at executing our standards operating model and strategic acquisition model.

Especially over the last 4 years, we have accelerated our progress toward our mission and vision of being the best at what we do. We are currently in the midst of a transition from peak performance in '21 for various reasons that have been well-documented into a post-peak COVID normalization of death rates at some point likely in the near future. Yet even with negative performance comparisons, currently during this transition period, we have never had a company anywhere close to this good in our history, populated by the best leadership talent and a stellar reputation as a succession plan solution for the best remaining independent businesses and the best strategic markets. My advice to those listening on this call is to hang in there. This too shall pass.

Without introduction, I will turn the call over to Carlos Quezada, who as President and COO and together with his teams of A players are one of the main reasons that the best is yet to come. Carlos?

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

Thank you, Mel. Good morning, everyone, and thank you for joining our call today.

Before we start, I want to thank our Carriage family in the field in our Houston support center for your commitment to our being the best mission and vision as it is the heartbeat of Carriage. Thank you for all that you do.

For today's call, I will review our total field operational performance for the third quarter of 2022. And then we'll cover financial performance in more detail later on this call. I will also provide a quick update on overall operations.

For the third quarter of 2022 our results are as follows. Total revenue of $87.5 million, a decrease of $7.5 million or 7.9%. Total field EBITDA of $35.3 million, a decrease of $9.4 million or 21%. Total field EBITDA margin of 40.3%, a decrease of 670 basis points. Adjusted consolidated EBITDA of $22.9 million, a decrease of $9.5 million or 29.4%. An adjusted consolidated EBITDA margin of 26.1%, a decrease of 800 basis points.

The performance variance in the third quarter of 2022 compared to the same period last year is the direct result of our historically abnormal seasonal peak and the record pandemic volumes experienced only in the third quarter of 2021, which on a comparison basis impacted our revenues. Furthermore, the inflationary cost and lower revenues over high fixed cost resulted in a negative operating leverage in many of our businesses. The good news is that our same-store average revenue per contract was up by $132 or 2.5%, equivalent to 232 contracts and making up for $1.3 million. Additionally, our overhead in the third quarter of 2022 was down $258,000 or 1.7%. While this performance in no way, shape or form represents Carriage's high-performance culture. To put some perspective, on our funeral home portfolio performance for the 9 months ending September of 2022, we identified 76 businesses that were down in field EBITDA, including preneed fueling interest earnings. For these 76 businesses, 34 are still above 40% field EBITDA, which we consider a high performance margin. These 34 businesses for the 9 months ending September of 2022 while averaging a high 46.2% margin, were down by $5.6 million in EBITDA versus 2021, but up by $3.1 million when compared to the same period last year.

Volumes were expected to normalize at some point and here we are now. However, we believe that death rates will normalize over the next year above 2019 levels, and we also expect seasonalized volumes moving forward. The really great news is that Carriage is a much better company than it was at the beginning of the pandemic. We are nimble and agile and we adapt quickly on the uncertain environments, just as we adapted amazingly fast in March of 2020 at the onset of the pandemic. We are now adapting through this transition in a post-COVID pandemic environment also through this inflationary period.

Here are some of the actions we're taking to adjust and get back on track to higher margins. Number one, we are continuously reviewing our pricing strategy and not absorbing the inflationary cost we have seen on salary and wages, utility, gas, insurance and merchandise. Number two, we are helping businesses that are below our standard operating performance threshold. And through coaching and mentoring, we help them navigate back to high performance. Number three, we're looking at process improvement and a plan that will help us improve broadly while keeping the nature of our decentralized model intact. Number four, we have identified specific businesses by business needs so that they can have performance improvements, and we're in the process of executing.

Number five, we continue to bring top talent in all company areas to help us improve collectively and in alignment with our being the best mission and vision. Number six, our operations leadership team will have a weekly meeting to evaluate progress made on the post-COVID transition strategies.

These are some of the specific actions we're taking. And we are confident that we will reach our goal of long-term sustainable ranges of total field EBITDA margins between 43% and 44%, overhead expense around 13% and adjusted consolidated EBITDA margins between 30% and 31% by 2024. If there is one takeaway I'd like you to take from me today is this, the third quarter of 2022 is not the new normal. We will execute our plans and strategies and return to a high performance normal sooner rather than later.

Now for operations update I will start with IT. Rob Franch, our CIO, has focused over the 6 past months on building a solid foundational technology platform across critical infrastructure and security services, and specifically cybersecurity, connectivity and compliance. Our biggest game-changer opportunity is in how we engage and collaborate with families. For example, automation, AI will help us streamline business process and operations, in addition to opening a new revenue channel through digital marketing and e-commerce. Our keystone project, Project Trinity, will aim to deliver next-generation technology, capitalizing on all of these opportunities. Positioning Carriage Services as an advanced digital provider of debt care services in the years to come.

Regarding our marketing overhead investments made earlier this year, we're seeing significant progress way above our own expectations. Alfred and his marketing team have accelerated field marketing adoption and are now effectively supporting marketing projects for 80% of our businesses.

Some of these projects are website redesign, a new call tracking system that improves performance, a new digital marketing dashboard for each business regarding paid digital advertisement and their return on investment, and a significant improvement in social media presence as well as an increase in Google reviews through the innovative ideas that the marketing team in partnership with our managing partners are coming up with to improve each business and their digital profile and presence.

Our marketing team is now gaining momentum and generating savings from marketing investments while delivering a seamless customer experience to the families we serve and our field teams.

We have restructured our regional portfolios and provide a balance between our west, central and east regions. This new portfolio distribution will enable our regional partners to optimize each region effectively. Moreover, to optimize even further, we are excited to announce that Robbie Pape joined Good to Great Journey on September 26, 2022. And she's our new Senior Vice President of Operations and regional partner for the Eastern region. Robbie has 30 years of industry experience, including positions in funeral, cemetery operations, finance, sales, systems, process improvement and audit. She's a certified public accountant with a marketing and information systems degree from Baylor University in Waco, Texas. She serves as the President-elect for the International Cemetery, Cremation and Funeral Association. Robbie is also active in CANA, Cremation Association of North America, and served as a board member until the fall of 2021. Robbie's vast knowledge and leadership style will be transformational for the east region.

Joining Robbie are our Jeremy Weaver and Chad Frye who joined Carriage as Directors of Operations for the east region on May 23rd in August 1, 2022, respectively. In combined have over 50 years of funeral and cemetery experience. We welcome Robbie, Jeremy, and Chad to the Carriage family. In closing, our commitment to our mission and vision of being the best operator, consolidator and value creator is as solid and real as ever. We have the talent, the businesses, and a company getting better every day. Our focus on extreme execution will allow us to deliver high performance as we transition to a normalized and seasonalized death rate environment.

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. As it relates to our growth through acquisition outlook, we are excited to announce our acquisition of a premier funeral and cemetery business in Charlotte, North Carolina earlier this week, Heritage Funeral & Cremation Service in Forest Lawn East Cemetery is one of the leaders in the Charlotte area with a greater than 25% share of the market. We often tell acquisition candidates we meet that fit in a relationship are critical as our reputation will become theirs and their reputation will become ours. In the case of Heritage, we couldn't be more excited to join the reputation of this fantastic business and team. Heritage served more than 1,200 families last year. And with multiple funeral homes, a cemetery and a dedicated cremation business, we are well-positioned for broad growth in one of the more attractive markets in the country. We want to thank Harris High and Carolyn Williams for selecting Carriage to continue to lead the wonderful business that they along with Carolyn's father have built over the years. And we want to extend a warm welcome to the entire Heritage team.

We're also pleased to announce that we're currently under a letter of intent to acquire an impressive business that serves as the leader in another large strategic market. We're particularly excited about this opportunity as it's one that reached out to us directly to explore if Carriage may be the right succession option for their business. For more than 31 years, Carriage has worked hard at building and protecting our reputation. We talk often internally about the importance of ensuring all aspects of an acquisition are successful. From the initial conversations with owners to the manner in which the actual transaction is handled to how the integration is led. As our reputation continues to grow and spread within the industry, we take it as a compliment and are humbled when a premier business reaches out to us directly to explore partnership based simply on what

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We look forward to sharing more details on this particular business on our next call, and believe the history and reputation that have led to this unique opportunity will continue to lead to others.

Our recent Heritage and San Juan acquisitions, along with the large business we currently have under letter of intent will combine to add approximately 4,500 funeral calls and 1,500 interment to our annual company-wide totals. To put the impact of these 3 acquisitions in perspective, those combined numbers will represent a greater than 10% increase to annual company-wide totals for funeral calls, and a greater than 15% increase to our total annual interments. That's significant growth in a short period of time. And we look forward to discussing the contributions these businesses make to our performance moving forward.

We're fortunate to have the opportunity to look at dozens of potential deals every year. And as we shared with our Board yesterday, we determined most of these opportunities are simply not the right fit for our company. We remain highly selective and patient, focusing on 3 key criteria when evaluating an acquisition. First, we're looking for strong growing markets. And this usually means a larger market with positive demographic trends and forecasts. Second, we're looking for businesses that have a leading reputation and serve as a top brand in the market. And third, there must be a clear and strong path to future growth and expansion.

If we believe a business, even a good business has peaked, then it's not going to be the right fit for us. Also worth noting, with our most recent acquisition in our current letter of intent, these 2 opportunities allow us to enter new large markets where we've not previously had a presence. Entering a new strategic market is important, but equally as important for us is doing it with a leading business that has a significant footprint, which is the case with both of these opportunities. That footprint and reputation facilitates our longer-term growth and expansion strategy within the market.

I'll wrap up my remarks by noting that in 2019 and 2020, we took advantage of some unique growth opportunities in a very short period of time as we closed several large deals that have proven not only to be highly accretive but contributed greatly to our focus on increasing our operating leverage. Following those large acquisitions, we paid down debt aggressively and quickly. While these current acquisitions don't rise to the level of that investment, we will once again turn our focus to reducing our leverage as we integrate these fantastic businesses and close on our current letter of intent. But that said, we're a growth company, and as we increasingly become the option of choice for more and more of the best remaining independent funeral homes and cemeteries in the country, we know it's important to ensure we remain financially flexible to act when a unique opportunity presents itself.

With that, I'll turn it over to Ben to provide additional color on the quarter.

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

Thank you, Steve, and thank you to everyone who has joined us on the call today.

For the third quarter, total revenue decrease 7.9% to $87.5 million. Adjusted consolidated EBITDA decreased 29.4% to $22.9 million.

Adjusted consolidated EBITDA margin decreased 800 basis points to 26.1%, and adjusted diluted earnings per share decreased 45.1% to $0.45. Year-to-date, our total revenue has decreased 1.3% to $276.3 million. Adjusted consolidated EBITDA has decreased 15.8% to -- adjusted consolidated EBITDA margin decreased 500 basis points to 29.2%, and adjusted diluted earnings per share decreased 13.7% to $1.96 per share. Our earnings per share decrease for the quarter and year-to-date due to lower total field EBITDA, due to the continued normalization of seasonal death rate trends, higher fixed overhead expenses from our investments in our operating support platform, offset by lower variable overhead expenses due to reduction of incentive compensation accruals, and an increase in interest expense from the continued rise in interest rates.

Our year-to-date GAAP effective tax rate was 27.8% at the end of the third quarter, an increase of 30 basis points from the second quarter due to lower expected pre-tax book income for this year. Adjusted free cash flow for the third quarter declined 36.3% to $16.5 million, and the adjusted free cash flow margin declined 840 basis points to 18.9%. While down year-over-year, the $16.5 million of adjusted free cash flow and 18.9% of adjusted free cash flow margin represented our highest reported free cash flow in 4 quarters, allowed us to incrementally pay down our debt while completing the acquisition of Funeraria San Juan during the quarter.

Year-to-date, our adjusted free cash flow has decreased 37.5% to $40.9 million, while our adjusted free cash flow margin has declined 860 basis points to 14.8%. Adjusted free cash flow declined year-over-year due to lower operating results, as well as higher cash incentive payments in the first quarter, including approximately $4 million for our 5-year Good To Great incentive award, which will be a lower amount over the next 3 to 5 years due to lower number of managing partners in each 5-year group year to today. Year-to-date adjusted free cash flow was also negatively impacted by the unusual timing due to COVID restrictions of our 5 incentive award or managing partner forums in the first 6 months of the year. We expect less expenses related to these important company events over the next few years.

Year-to-date we've invested $20.6 million back into our businesses through capital expenditures, split almost evenly between maintenance and growth CapEx. $2.2 million of that CapEx spend was related to damage caused by Hurricane Ida in New Orleans of last year, and was funded by insurance proceeds.

Our bank covenant compliance debt to adjusted consolidated EBITDA ratio increased to 5.14x in the quarter from 4.87x at the end of the second quarter. Going forward, we expect to allocate our available free cash flow towards completing the announced acquisitions, then pivot towards paying down our debt outstanding, which when combined with our improving operating performance in the future will allow Carriage to delever, similar to what happened after the 4 large transformative acquisitions we made at the end of 2019 and early 2020 when pro forma leverage ratio fell from a high of 6x to a low of 3.8x over the span of 15 months.

Through the first 9 months of the year, our discretionary preneed trust funds continued to significantly outperform the broader market with a negative total return of 8.5% compared to a decline of 23.9% for the S&P 500 and a decline of 32% for the NASDAQ Composite Index. In a volatile and uncertain market environment where we are dealing with a heightened geopolitical risk across the world, persistently high inflation and rapidly rising interest rates, our outperformance has been led by our equity portfolio that consists of companies that have high and reoccurring free cash that's primarily returned to shareholders in the form of high and sustainable dividends. These companies have proven to be attractive investments in an otherwise tough market environment and have provided our portfolio with the resiliency shown in our returns. We have booked almost $43 million in long-term capital gains in the portfolio over the last 24 months, including $10.4 million so far this year.

We've also increased our reoccurring annual income generated by our discretionary trust fund portfolio to $19.2 million compared to $9.4 million on March 6, 2020, prior to the execution of our repositioning strategy during the coronavirus market crisis. The increase in our reoccurring income in the portfolio will primarily benefit our financial revenue and EBITDA from increased earnings from our cemetery perpetual care trust in the current period, while the realized long-term capital gains will accrue to the underlying preneed funeral and cemetery contracts and be recognized as earnings over the next 10 to 15 years as those contracts mature.

The increases recurring annual income plus the realized capital gains will allow for our financial revenue and EBITDA to continue to incrementally increase earnings from financial revenue and EBITDA regardless of the market environment for the foreseeable future. Year-to-date, our financial revenue EBITDA had increased 3.4% and 3% respectively. Additional trust funds from acquisitions we have closed or expected to close will also provide an uplift to future financial revenue and EBITDA reported earnings. We have made the decision not to publish an updated rolling quarter outlook with this release. We believe it is prudent to have more time to assess the current normalization of death rates, our improvement in our own margin trends, and to incorporate the full impact of what is currently a very dynamic acquisition environment before we publish an updated rolling fourth quarter outlook by the time we report our full year results early next year.

It is important to note that we expect year-over-year quarterly comparisons from an organic perspective to be the most difficult for this past third quarter, the current fourth quarter, and the first quarter of next year. We also expect the continued return of historically seasonality to our earnings with third quarter typically the weakest while the first quarter, typically our strongest quarter. The addition of accretive earnings and cash flow from the acquisitions we have recently closed, and the business we have in our letter of intent now will provide an additional tailwind to our future results. We look forward to providing an updated rolling fourth quarter outlook with our year-end results early next year. And with that, I'm happy to open it up 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 have a few. Let me start off with accelerated acquisition activity, which is exciting. They're your first acquisition since those 4 transformative acquisitions that you spoke about in late 2019 and early 2020. With that said, what does your pipeline look like at this point, particularly given your plan for a balanced approach to capital allocation, investing in organic growth M&A and debt reduction?

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

Yes, good morning, Alex. This is Steve. So the pipeline, as we've mentioned before, is robust. And one of the things we tried to highlight this morning, which we're excited about is, we're seeing more businesses that are coming to us directly just based on reputation and word in the industry. So, as we've said before, we're happy to see all these businesses come in. We're taking a look at all of them, but the reality is we are highly selective and highly disciplined right now. So as we look to delever, we're going to continue to look at growing, but it's going to have to be a special business for us. The one that we just talked about under letter of intent, fits that criteria. It's a unique, special business, and that we're going to prioritize that. But at the same time, we're going to be able to manage and balance that with delevering.

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

Yes, Alex, this is Mel. Look, when we -- I was in the process of turning the company around in '19 from, not a major decline in performance trends, but some amount of decline in performance trend. So I had to jump back in and lead operations. So '19 was a turnaround year. It turned around to some degree, but there was just a lot of work all through the year and into '20. And in the last quarter, '19, you had these succession of 4 businesses show up, bang, bang, bang, bang, and except for the one in Buffalo, I knew them all, and I couldn't believe that we had a shot at these, and so we did. It took a lot of leverage. At the same time, we were still turning the company around from lower performance in '18. And when we issued the news about all this, our stock went way down because of the -- the leverage and the perception at the time that we couldn't integrate so much so fast. And then COVID shows up. So the rollercoaster continued real fast down trend after that in 2 big slices. And here we are, we prospered during COVID. And the integrated acquisitions went from being, I was accused of overpaying and being reckless to how do you get more of those? You stole them. We're not trying to steal anybody's business. We want to buy a great business that's already a franchise that's in a great market and then have it get better under us. And that's what's happened with each of those 4. And that

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has really been apt. And we thought post-COVID normalization there would be more activity when people start thinking about succession plan and what they had to go through being an independent through the worst of the crisis. And so we are seeing a lot more interest. And because of how we conducted our affairs through COVID in support of our businesses and our reputation, we're getting more ability to negotiate a fair deal without an auction. And this has always been my vision. I wanted to become like Berkshire Hathaway. It's been a long-term vision, but it's coming true now. And I think that COVID heightened everybody's awareness of what it means to be in a group that can provide incredible support service services even in the most adverse and unknowing dangerous environment. And so we see more of this, but we need to do -- we need to close the deals and then we need to slam down the debt. I know that's scary to a lot of people, especially going into a recession, but I've been through these before. 2008, '09, we had our best 6 months at the time, first half of '09 during the Great Recession. So the industry is an incredibly resilient and wonderful industry to be in, in an environment like this. We don't have all those risk of currencies and things like that. And the risk that we do have, we can manage then and we are managing them. But I appreciate very much your question.

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

Sure. And I appreciate that. And these acquisitions look very much like those acquisitions in late 2019, once-in-a-lifetime sort of acquisitions that you have, that you really have to make. 2 of the 3 businesses are combo businesses, and together they're going to really drive inorganic growth, I would think next year. With that said, your debt ratio is 5.1x at September 30. It'll probably be a little higher at December 31, just my guess. I realize the acquisitions also contribute EBITDA to that ratio, but you had at one point targeted a 4.5x ratio by the end of 2023. I'm wondering, does that get pushed off a bit? And then your long-term goal of sustainably growing the company at about 4x, what's the timeline on that debt reduction as best as you can tell at this point?

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

This is Mel. I think I made a mistake and been humbling at the time. It didn't seem like a mistake. We bought in too many shares post October 27th of last year at increasingly high prices, which ran up our leverage ratio. And then everything changed this year into a different market, different world. Nobody knows exactly what's going to happen. And so then all these things show up, which frankly I didn't expect to happen again. These series of acquisitions and maybe there's one more smaller one, but a fabulous business represented by 55%, 60% of what we did at the end of '19, early '20. It's a material thing, and once integrated, they'll have very high margins like the ones we bought. And so we'll be able to delever, but we did get too levered on the stock buybacks. This will push us up to a level that is not close to our policy of 4x. And we are right now working on plans to work on bringing down that leverage. And I think Ben mentioned that capital capacity plans. That will be put the company into position to whether any storms that might show up that right now are not on the horizon.

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

I appreciate the additional color. My last question is really about the rolling fourth quarter outlook. Given the elevated level of acquisition activity, which I estimate will add over $25 million to revenues on an annual basis and easing comps once you get past Q4 and Q1, it sounds to me like you're in for a big year after Q4 and Q1 in 2023. Am I wrong there? Because pulling guidance -- and I realize you're going to give it to us next quarter, but by pulling guidance you might be sending the wrong message.

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

Well, and -- look, I thought about that a lot. That was my decision, no one else's. And rather than put guidance out there -- the normalization, just like we were very surprised at how death rates stayed elevated even after the COVID deaths were greatly diminished and why death rates for all of the reasons stayed elevated, they're coming out with stuff now, there's a lot of other reasons for death. The COVID lockdowns and health maintenance wasn't there. And the baby boomers are older and they're not healthier. So we do think the normalization, it didn't really start to happen at the revenue level and the volume level until -- in a major way until September. And we're seeing that offset especially in October by much of our averages. Whereas the mix cremation versus traditional is about flat. So, it's a transition period that is right now not exactly predictable of what the normalized environment will look like. And rather than guess at it and then have to say we were wrong, and we got the acquisitions coming on board, I said, look, let's just explain that we're only way -- you're totally right about -- and Ben said it too, the fourth quarter and first quarter is tough. After that, we ought to be up, up and away. And I think it's wise to wait. I made that mistake before. I don't want to do it again. It's wise to wait. If somebody thinks we're

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we're not. We're being honest about the unpredictability of what normalization looks like. Carlos went through a lot of things. We got the best talent. If you're in the company beneath the covers and you don't look at the stock price, you've never been more excited than you are right now. That's what's going on. And that's the nature of being a public company. Is it frustrating? Yes. Can a message be interpreted the wrong way? Yes. But you hit the nail on the head. Post first quarter, we ought to have positive comps with our existing operations, with all the actions that Carlos and his teams are doing. And then you have the acquisitions coming on. I'm very excited about the trust funds involved. We know what to do with them. And we ought to have an upswing in our performance that should continue for a long time in the future.

Operator

And our next question comes from Liam Burke with B. Riley.

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

Carlos, you mentioned in your prepared statements about process improvements that you're going to implement throughout the organization. Could you be a little more specific at what you'd be doing to improve the initiatives and how it's different than the way you're operating the business right now?

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

Yes, absolutely. It's just really in the approach as to how we are trying to tackle price increases business by business. As you know, we're decentralized. But on a decentralized organization, it could take a longer turnaround to get all of that effectively change. And so we're trying to change a few things in that aspect to move a little quicker. But there's also other aspects that would allow us to gain some momentum from a process perspective where there is manual work that it is now being executed without even rolling out the new system that Rob is working on. These are just simple low-hanging fruit items that I believe that by providing some consistency and a strategy on executing on that, will definitely give us some benefit in the short term.

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

Just real quickly on price increases, obviously you've had both -- margin pressure both on the product and on the service side. Would you be able to get enough pricing power to offset these input costs?

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

Well, we're definitely going to do our best. You see, the thing is that the business owner, the managing partner knows what's best for that community. And sometimes it takes funding out where the pricing is around the competition landscape to define what is the best balance between competitiveness and of course cost improvements. And so we'll try to find that balance based on a case-by-case scenario, business-by-business. That's probably the best way I can describe it. But I do believe that in many cases we should be able to overcome the, and not absorb the cost increases. But there may be an instance where just from a competitive advantage, it may not be best because it could be at the cost of declining volumes. And that's something we never want to do.

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

So, Liam, it's Mel. We didn't see the inflationary impact until we got into the, toward the end of the maybe the second quarter, very end, and beginning of third quarter, began to really show itself. And then Carlos and his team went to work. And I know he mentions in this release that the average -- was it in September? The average was up.

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

Well, that's for the full quarter.

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

For the full quarter. Yes, so we've seen a trend through the quarter as volumes really began to normalize downward in September that the averages began to trend up. Now they're making a lot of moves, our managing partners. They each have an analyst, like a financial -- their own financial consultant, and they're doing various scenario, price increases, this, and this, and this, and this and that. And so what has happened is, the volume continues to be normalized more like September and October. And I don't want to say that this will continue, but it's very encouraging what we're seeing in October, means that a lot of the things, all those process things that Carlos is talking about, price increases, more options for cremations and whatever, our people are very tuned in because their incentives are based on being within a range of field EBITDA margins. And if they're not within that range, regardless of what happens to the rest of their standards, their incentive bonus goes in half. And if they're below 50%, they get nothing. And so you don't want to be one of those, we call them under-performers that moved back to Paris. And so what we're seeing in October is very encouraging on the average revenue. How much of that is price? How much of that is just more service options? But it's both in traditional burial and cremations. And I'm talking big percentage increases, double digits.

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

Fair enough. Just real quickly, after looking at, reviewing the business, are there any more properties you think need to be sold?

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

Yes, Liam, this is Steve. We're always looking as a team. And there may be one or two here there that are just not going to fit with the strategic growth model that we've talked about already. But right now, nothing that we're working on. But we're always looking.

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

Yes, I think Carlos and his team, now that he's fully -- got a full compliment of regional partners, DOSs, they're doing a continuous assessment on both the talent, succession planning, top grading and the nature of the business itself and the market in which it operates. And as we bring in these bigger, better businesses, which is where the trend has become our big friend, we will continuously look at pruning off those that really can't keep up with the higher growth portfolio that we're building. And there may be 2 or 3 right now on the radar, but too early to make the call.

Operator

(Operator Instructions) And our next question comes from George Kelly with ROTH.

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

So first to revisit something you were just saying, Mel, about October. Just wanted to make sure that I understand you right. You said it encouraged -- I wasn't sure if it was just based on the pricing changes that you've implemented or if you're starting to see volumes rebound from what you saw in September. And I guess what I'm really trying to understand is just do you feel like you're getting closer to seasonality, looking more normalized, or is it still like it could take until sometime middle of next year for seasonality to truly normalize?

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

Yes, I'm going to turn this over to Carlos, but I don't want to declare victory too early over a process that has been unpredictable since March of '20. And I'm not smart enough right now to predict when we will get to normalization and whatever that will look like. I'm almost 100% sure, whenever we do get there and then it sort of normalizes in a steady way, it will be materially higher than it was pre-COVID. Yes.

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

And, and to answer your question, George, Mel was referring specifically to what we have been observing so far in the month of October as it relates to our sales average. And it's very encouraging. It has grown for this month up to double digits. I guess the question is, is that coming just from pure pricing increases or maybe we have more offerings on services and items for the families. That we'll still need to get to the details once we close on the month. That's very, very encouraging. It's taken an impact. That's replacing volume from a revenue perspective. On the volume perspective, it's too early to say, however, if we would use the third quarter signal, it would seem as if we will get more seasonalized performance for 2023.

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

Yes, I mean -- George this is Mel. I don't know whether we'll have a flu season, in what degree. I've seen predictions of a strong -- we haven't had a flu season in the last 2 winters. It's been all COVID. And then you got this new thing, I never even heard what it was, RSV orâ€¦

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

RVS.

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

RVS or something like that, plus other variants of COVID. So it's still not quite clear how the pace of normalization of death rates will occur. But I will say that -- I'll make this point on these double-digit funeral revenue averages we're seeing so far in October. And that's -- we only had 8 more days to go and we were experiencing that. We made a decision, a business strategy decision not to aggressively sell preneed funeral on standalone funeral homes. 20 years ago I made that decision. And my thinking was, I don't know because I can't prove it with data on a standalone funeral home. Not a combination business where you have a funeral home on a cemetery, totally different. I don't have data that prove you can grow your market share, your revenue and your margins over time by aggressively selling preneed funeral and fixing your prices. And a lot of that being covered by preneed insurance where the growth rates are %1 or 2% at best. And then when -- and I experienced a lot of this in the 90s, I bought into that, and I never could see the evidence that it was a good concept. Instead, my thinking was, and this is how we built the company, we want to be the best at providing service in each market. And if you are the best, you can grow a market share by being better than everybody else and you retain your pricing power. And especially that becomes relevant in an inflationary environment like the one we're in now. And so we have pricing power on 87% of our funeral deaths, 87% we have pricing power, and that's unique in the industry.

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

And I will add to that, Mel, if I may just, just to give you some color, George, is that Q3 2022 compared to 2019, we are greater by 14.3% on volume from pre-COVID levels in 2019. So that a good number. That's a good trend.

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

Yes. Okay. That's helpful. And then couple other questions for you. First Carlos, you mentioned a digital revenue opportunity. And I just -- I didn't quite catch that. Can you give us any more detail about that?

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

Yes, so Project Trinity, which is not the name of the solution we are creating through integration of third party solutions and our own, I guess customization of what we need. We'll end up having a, let's call it point of sale for lack of different words, a point-of-sale system that would allow and enable families to engage more on the offerings that we have. That should include digital offerings and enable us to increase sales average, but also capture more calls than we have right now by advancing that ability to make arrangements from home and things to that nature. That's really what we mean on that line.

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

So it's some kind of central tech platform that interacts with consumers and you would charge funeral homes for some piece of that?

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

No, we're not going to charge our businesses for it. It's the creative revenue what we'll gain from providing a solution that families keep going straight into their browser, go to our different businesses webpage, and from there being able to do many, many selections and things that they want to choose on digitally without having to go to the funeral home, things of that nature. Also another option is in the arrangement conference, if they decide and choose to go to the funeral home which is typically the case, then they will be presented digitally, all the offerings that makes a much better presentation to the families that we believe will end up having significant greater average than the one we have today.

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

Okay. And then last question for me just on the balance sheet. So you have about, I think it's a $400 million, those senior notes at 4.25 fixed rate. And then the remaining debt is under the facility. Is that -- so I guess the question is, is the remaining debt, I believe you're getting pretty close to the max leverage ratio allowed under that. And so is that -- when you talk about, you're working with your banking partners, I'm assuming that you're trying to expand that max allowable. And also what is the rate and where would you anticipate that to kind of end up when you're done with this discussion with your banking partners? And that's all I had.

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

Well, this is Mel. Look on the floating rate part, I don't know where it will wind up because I don't know what the Fed will do and how long they will do it. I got a feeling that, I'm one of the few people that's still around very involved in business that lived through the '60s and '80s -- '70s where we had runaway inflation and then you had Reagan and Volcker. I mean, I was a banker in Texas when primary was 20%. And we had to be creative not to be usurious in making loans to a good customer. I don't know where rates will wind up, but our rates will go up. And that's one of the reasons once we close these acquisitions, we will have more debt, the rate will go up. But then when we start paying it down, it'll be a whole lot more accretive to earnings and free cash flow than it was even in '20 and '21 when rates were very low. So we'll get the acquisitions, we'll have to pay more interest to do it, and then we'll be -- we'll get the accretive performance from the acquisitions and the lowering of our debt and our interest cost over the next 2 years. Where we wind up with our banks right now is what we're working on. I can't say for sure, but we're working very actively with Bank America on this, and with our other banks. And so we expect to report more news on that in the next couple of months. Ben? Ben?

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

No, I was -- and George, I was just going to say just for context, like we're borrowing at about -- on the facility about 5.24 all in today, and it's obviously variable, so very tied movements and short-term rates. So that's where we are today, so.

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

Yes, the 4.25, George, is looking okay.

Operator

And our next question comes from [Robert Longnecker] with [Hope Tree].

Unidentified Analyst

Couple of questions. I think, Mel, you said something about the M&A activity being some percentage of what you did in '19 and '20, which I believe is maybe $170 million or so. Can you kind of provide a little more data or color around that comment you made?

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

Yes, and I was talking really about the revenue. Alex mentioned earlier, he mentioned $25 million. There's another nice business we've been looking at. It's not at this year or it's really a great business, has all the bells and whistles we look for. So I'm assuming that between now and the middle of next year, we get to about $30 million, and it will be the same profile of businesses and the high margin potential and revenue growth compounded over years that we did at the end of '19, early '20. So it should wind up being about 60% of that. We spent $170 million to get that, about $50 million of high-margin revenue. It won't be exactly proportionate to that in terms of the purchase price. But the businesses themselves should be about 55% without the other one, 60% with the other one once we get them integrated.

Unidentified Analyst

Got you. Okay. And then can you talk about pro forma for these acquisitions and pro forma obviously for the EBITDA that's going to come with them, what do you think your current leverage ratio is, once you've closed the acquisitions, what you think the leverage ratio is going to be?

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

So, Robert, for what we've already -- what we've closed is what I'm comfortable in saying. We're right just above that 5.2 right now. Given cash we've accumulated and what we've just paid for, the business here in Charlotte. What it's going to look like, again what it's going to look like when we, the timing and when this next acquisition will come in is kind of to be determined. We would expect it to be a little higher from where we are today. Exactly where that is, not sure.

Unidentified Analyst

And where's the covenant?

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

So that's the piece where we're focusing on now, right? So it's 5.25 is our max on our credit facility. So that's part of our discussions we're having with Bank of America and the rest of the group now.

Operator

I'm currently showing no further questions. At this time, I'd like to hand the conference back to Mr. Mel Payne for any closing comments.

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

Look, we had some great questions, and hopefully we answered those questions to your satisfaction. We have a great company, getting better in a very uncertain, in my own view, geopolitically dangerous world. I can't do anything about all that, all we can do is keep our focus on our talent and our businesses and execute like I know we will, despite what happens in the economy and in the world. So it's a great place to be. If you're

(technical difficulty)

Carriage, you're suffering some near-term unrealized loss. That's not how I view it. I'm doing this 31 years. 5 years from now, 7 years from now, we're going to be a much bigger and better company than we are in our business. Thank you very much.

Operator

This concludes today's conference call. Thank you for your participation. You may now disconnect. Everyone, have a wonderful day.