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Q3 2018 Carriage Services Inc Earnings Call

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Carriage Services third quarter earnings conference call. (Operator Instructions) As a reminder, this call is being recorded.

I would now like to introduce your host for today's conference, Viki Blinderman, Senior Vice President and Chief Accounting Officer. Ma'am, you may begin.

Viki King Blinderman ***Carriage Services, Inc. - Principal Financial Officer, CAO, Senior VP & Secretary***

Thank you, and good morning, everyone. Today, we will be discussing the company's results of the third quarter of 2018, which was released yesterday after the market closed. Carriage Services has posted a press release, including supplemental financial tables and information, on its Investor page of the website. The audio conference is being recorded, and an archive will be made available on our website later today through November 6. Replay information for the call can be found in the press release distributed yesterday.

Also, on the call today from management are Mel Payne, Chairman and Chief Executive Officer; and Ben Brink, Chief Financial Officer.

Today's call will begin with formal remarks from management followed by a question-and-answer period. Please note that during the call, we will make forward-looking statements in accordance with the Safe Harbor provisions of the Private Securities Litigation Reform Act of 1995. I'd like to call your attention to the risks associated with these statements, which are more fully described in the company's report filed on Form 10-K and other filings with the Securities and Exchange Commission. Forward-looking statements, assumptions or factors stated or referred to on this conference call are based on the information available to Carriage Services as of today. Carriage Services expressly disclaims any duty to provide updates to these forward-looking statements, assumptions or other factors after the date of this call to reflect the occurrence of events, circumstances or changes and expectations.

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

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

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

Thank you, Viki. My comments about our recent past underperformance and our high performance and value creation trends restoration program are fully outlined in our earnings release, and Viki and Ben will provide additional color on my summary comments.

In the past, we've had a tradition of naming our managing partners and businesses in each earnings release whose performance for that quarter qualified as High Performance Heroes. It seemed inappropriate to do so in this release with the large exception of 2 businesses in the Panhandle, Florida. Our businesses in Panama City comprised of Kent-Forest Lawn Memorial Cemetery and Funeral Home, Evergreen Memorial Gardens, Garden of Memories Cemetery, whose Managing Partner is Robert Maclary, were devastated along with Panama City recently, because they were in the bull's-eye of Hurricane Michael. Panama City's Mayor happens to be Greg Brudnicki, the former owner of these businesses.

We also have another business nearby in Fort Walton Beach, Emerald Coast, whose Managing Partner is James Bass. Our Regional Partner for the east is named Chris [Mansell]. Both Robert, James and Chris are all veterans of Hurricane Katrina in the New Orleans area. And their experience and heroism in handling this business and this devastation along with Greg Brudnicki's leadership, not only the Panama City trying to get it back to being a going concern, prosperous town has been anything -- there's nothing like what they've done. And so they are, as a group and their employees, High Performance Heroes.

And with that, I'd like to turn it over to Vicki.

Viki King Blinderman ***Carriage Services, Inc. - Principal Financial Officer, CAO, Senior VP & Secretary***

Thank you. We'll first review the quarterly and year-to-date results, and then we're going to dive into a little more color on the work that we are doing to improve operating performance as we move into 2019.

For the third quarter of 2018, revenue increased $3.2 million to $64.2 million, adjusted consolidated EBITDA increased $1.6 million to $15.7 million, adjusted consolidated EBITDA margin increased 130 basis points to 24.4%, while adjusted diluted EPS declined 44% to $0.14. Year-to-date, our revenue has increased $6.8 million to $150.4 million. Adjusted consolidated EBITDA increased $2.2 million. Adjusted consolidated EBITDA margin is flat at 26.5%, and adjusted consolidated EPS is down 6% to $0.94.

Year-to-date, adjusted free cash flow has increased $7.6 million to $32.5 million.

Year-to-date, our third quarter results benefited from acquired funeral home businesses made last year, improved performance of our cemetery businesses and a reduction of overhead expenses, particularly from a reduction of incentive compensation and other variable overhead accruals that we made in the third quarter. Our results were negatively impacted by decline in same-store funeral revenue and Field EBITDA margin along with an increase in interest expense and shares outstanding to our balance sheet recapitalization we completed in May.

A little more color on the operating performance. Our Cemetery results continued to strengthen throughout the year. Our year-to-date overall Cemetery revenue has increased 6.3% to $34.2 million along with Cemetery Field EBITDA growth of 10.5% to $10.8 million. We've seen not only a 3% growth in sales but also, an 8% increase in average price per cemetery contract. As mentioned before, our focus on hiring and developing strong sales leadership and sales team as we bottom line the performance of our cemeteries, and we expect performance trend to continue into 2019.

The third quarter performance of our funeral home portfolio continued to be challenged by lower contract volumes and lower Field EBITDA margins. In our same-store funeral segment year-to-date basis, we've experienced a 0.6% decline in volume, and the cremation rate has increased only 80 basis points to 52.8%. Same-store funeral revenue, on a year-to-date basis, has decreased 1.2%, and Field EBITDA has declined 5.7%, as our margin has decreased to 180 basis points to 36.9%. Overall, the decline in funeral home Field EBITDA margins for the first 9 months of the year can be attributed to lower contract volume, higher operating expenses, higher salaries and benefit expense as a percentage of revenue and increased health care cost versus prior year.

And in other operating manners, at the end of the quarter, our Cemetery Management Agreement with the City of Fort Lauderdale, Florida ended. We have managed the 3 cemeteries for the city for the past 20 years. The city has come to the determination that they will resume full operational control of their cemeteries as of October 1. These cemeteries contributed $5 million of operating revenue, $1.3 million of financial revenue for a total of $6.3 million of Field revenue and total Field EBITDA of $1.8 million. We appreciate the opportunity to serve the communities of the Greater Fort Lauderdale area over the past 20 years and cannot thank enough of all of our employees and their contributions over these years. We would also like to thank our colleagues on the Cemetery board and the city government for our relationship during the management contracts.

Additionally to announcing Covenant Funeral Home on our last call, we want to welcome 2 more businesses into the Carriage family: Brian Presley and the entire team at Presley Funeral Home in Cookville, Tennessee; and Barbara Poole and her staff at L Hill Pool

Services and Crematory Northfield, North Carolina. We are honored that these first-class businesses have chosen to partner with us, and we are excited about their ability to continue to grow and serve the families of these wonderful communities. During our second quarter conference call, we announced 3 pending letters of intent as a part of our Rolling Four Quarter outlook. We currently don't anticipate closings the third business under the Letter of Intent.

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

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And now to put some more color on our current operating trends and where we are as we move forward. Once we review the results through August, it became apparent that operating trends were not improving at the rate we anticipated coming out of the second quarter. The operating team, with Mel's leadership, conducted an extensive review of our entire Funeral and Cemetery portfolio in order to identify the causes of our underperformance and began to formulate a plan to improve our performance quickly. This review included a deep analysis of long-term historical operating and financial data for each business along with the corresponding historical standards achievement, which revealed the following: top-performing businesses in our company, of which there are many, were subsidizing underperformance in segments of our portfolio. In some cases, we have experience a breakdown in the correlation between revenue growth and standards achievement. Our standards operating model has not evolved enough over the past 7 years to properly align standards to changes in consumer preferences, particularly around cremation. Consequently, standards achievement across our entire portfolio is lower than our high-performance expectations, and we have a small group of businesses that as our standards are currently constructed, we'll continue to struggle to consistently achieve a minimum of 50% of standards. And finally, we identified the need to update our Cemetery standards to better align with our current performance, particularly in light of the number of new Cemetery sales managers we put in place across our larger cemeteries in the past 12 months and the progress our Cemetery portfolio has made so far this year. With this data and analysis in hand, our operating teams, along with our local management partners, quickly established business-specific performance improvement plans that are currently being executed throughout the company. These plans include: Improved expense control, updated local pricing strategies and changes to staffing levels at certain locations. The goal of these plans are to improve companywise standards achievement to 50% or above by the end of this year and set up each business for higher standards achievement and improve financial performance in 2019 and beyond. And while it is too soon to comment on the results of these actions, we have been pleased with the sense of urgency with which these plans are being implemented and from the buying that we have witnessed across the entire company.

As part of the extensive review of all aspects of Carriage, we have additionally identified $5 million to $6 million of overhead and stock-based compensation expenses that will be lower in 2019 versus the prior 12 months. In the fourth quarter, we expect to book between $1 million and $1.5 million of severance expense along with the still-to-be-determined charge related to the cancellation of previously granted performance awards. We also plan to take charges in the fourth quarter related to businesses that have suffered long-term declines in market share and competitive standing and no longer contribute meaningfully to our portfolio.

We've also begun the process to update our funeral and cemetery standards along with our short-term Being the Best and long-term Good to Great Field incentive programs. We are early in this process, but our current thinking is that our funeral standards will be updated to prioritize total revenue growth over growth in average revenue per contract, provide greater differentiation regarding margin ranges amongst business based on client family revenue profiles and improvement in how we apply and evaluate our 2 qualitative people standards. The feedback from our Standards Council members and other managing partners over these past weeks has been invaluable in our initial thinking regarding an updated standards has only reinforced our belief that the best ideas in carriage come from our operators in the field. We will complete the standards update at the end of the month when all of our operating leadership and Standards Council members will meet, and we will be prepared to roll them out as of January 1. The goal of standards refresh is to quickly restore credibility to the standards operating model through performance, to ensure a better chance of more success for all of our managing partners and their teams and to position Carriage for sustained operational financial performance well into the future.

Our pro forma net debt to EBITDA leverage ratio was 4.6x at the end of the third quarter. We will remain flexible in our capital allocation decision-making in the near term as we execute our performance improvement plans. This will also mean that we will deemphasize acquisition activity in the near term as we focus on improving operating trends. Given our strong and stable free cash flow generation, we expect to fund all our value creation capital allocation through internally generated free cash flow for the time being.

As we stated in the press release, we currently believe it is too early this process to publish an updated Rolling Four Quarter outlook. We recognize that we've lost credibility with investors, based on our underperformance versus previously released roughly right outlooks, announced those in intent

(technical difficulty)

Acquisitions that didn't close and changes to earnings per share expectations based on our recent balance sheet recapitalization. Yet, taken together, we believe that detailed action plans for each business that are being executed currently, the identified reduction in overhead and stock-based competition expenses and the next evolution of our innovative standards operating model will lead to improve operating financial performance in 2019 versus the last 12 months. Our intention is to provide an updated Rolling Four Quarter outlook along with a preliminary release of our fourth quarter and 2018 results in mid-January. This will provide us the necessary time to see the early results of our plans and allow us to publish our roughly right outlook that we will achieve.

And with that, I'd like to open the call up for questions.

QUESTIONS AND ANSWERS

Operator

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

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

I got a lot to digest here. Today, I've got a few follow-up questions but first a statement. While hindsight is 2020, I'm glad to see you're taking such deliberate and rapid steps to kind of get the company, again, heading in the right direction. I think investors invest in this space because of the stability and the predictability of funeral services and things like that. And quite frankly, we haven't -- it hasn't been as consistent and as predictable as you were -- we would like. So I applaud the efforts. And I'm optimistic as to 2019 at this point. So with that, let me just get into a couple of follow-up questions on the plan, if you don't mind. You talk about the divestitures. There'a line on the P&L that talked about divested revenue. You had 182 funeral home locations after the last 3 acquisitions closed. What is the magnitude? What are we thinking in terms of divestible locations through this process?

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

Yes, Alex. I don't -- as we stand right now, there's going to be a lot of tough questions for us to answer affirmatively. But I don't see us divesting any businesses or no more than what we've had historically, which is 1 a year or so, through this process. I think this is an opportunity for us to refresh and look at all of them underneath the covers, but I wouldn't expect a large amount or anything out the normal around divestitures.

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

This is Mel, Alex. First of all, I want to thank you for your comments. They were very kind, given our lack of predictability and performance. And I want to personally apologize to all those that feel let down, particularly by me. But we went through another one of these -- oh, and just to your point, when I saw, and Ben and Viki had been seeing as well, the weakness continue, those who know me best historically for a long time know that there's no incremental thing that's about to happen. It's going to be deep, brought, bold and tough. And I wrote a 7-page letter. It went out yesterday to all of the same people I wrote on October 1. And it's about the future. It's about change. It's about bonus. It's about difficult decisions. And it's about not hitting in the right direction, but getting it done. Getting it done fast because there's just one thing I hate more than anything else, in my life, and that's losing your reputation that what you say is good as gold. And the last thing I told our people in this letter, "Don't worry about the stock price." Some of you are. It will turn around when our performance turns around and heads up. In the meantime, I will say on this call, which I'm about to say, talk is cheap. Watch what we did. Now having said that, we will divest some businesses more than 1 a year. We want to clean out those that are declining, offsetting the winners, but that would -- that won't be a sudden washout like it was in the -- in 2000, 2001 when we had to really deleverage rapidly to save the company. Nothing like that is the case here. But we'd all -- we have some good businesses that have declined. We want to turn them around it, if we can, with the right leadership. And if can't over time, we will divest.

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

Okay. I appreciate that additional color. The charges in the fourth quarter, Ben, you talked about $1 million to $1.5 million for the severance and unquantifiable charge for canceling of the performance awards. And those charges for businesses not contributing like they once were. I'm assuming that's writing off some acquisition-related goodwill.

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

So order of magnitude, I'm just trying to get an idea and how big that charge could be. Could it be $10 million? Could it be more?

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

It's probably -- it's too tough -- it's early to say, Alex, I would say. It's too early to put a number on it. And it will be -- that will be, that obviously, be in 10 weeks. So 11 weeks or so when we kind of prerelease or our primarily release. That will be in there.

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

Okay. That was my next question. When you say preliminary release, is that a full release, just unaudited? Would you do a conference call with it in a typical sort of fashion? Or is to going to be an abbreviated release?

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

To be determined.

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

Okay. But at that point, the point at which you give preliminary results of the year-end, you're going to give your initial outlook for Rolling Four Quarters 2019?

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

Correct. We believe at that time, we will have enough visibility, enough results as we move through execution of this plan to be able to give that to investors.

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

And again, I think it's important to note, notwithstanding the Fort Lauderdale contract cancellation or conclusion, that while you've missed a number of quarters, you missed Q1, Q2 and now Q3. You missed a couple of quarters last year. These misses have not been huge. It's not that we swung from huge profits to huge losses. It's just the element of growth has kind of disappeared and the element of volatility has been introduced. Again, I'm just looking at the Q3 results. They're not great, obviously. They're below my estimates, but they're not significantly below. What should I think about the fundamentals in between? Are things going to deteriorate further, sequentially, in the fourth quarter from the third quarter before they turn up hopefully again in 2019? Or should we expect sort of similar type of performance? What's the comp like in the fourth quarter? Is it a tough comp versus a year ago? I don't recall.

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

This is Mel, Alex. I don't recall what the comp is, and I don't care what it is. This will not be a slow process. Like I said, these improvement plans were initiated October 2, and they were sequentially planned by business, by week. We wanted to go get the low-hanging fruit, the biggest low-hanging fruit sooner rather than later. So it's been sequence of that over time through the end of November. All the changes will be put in place. December should be a clean month except for special charges operationally. Whatever the comp was, I couldn't care less. What I care about is what I wrote about in the '16 shareholder letter. We were -- we changed a little bit of an accounting since then.

So we hit 29.7% consolidated EBITDA margin that has never been done before. Our goal was to get to 30%. Of course, we headed down after that. But you're right, it's not broken. We're still 25%, 26% year-to-date. That's still a good margin, but it's just not acceptable for some -- for a company that wants to be a high-performance company. And that's where we want to get to, and we want to get there by the end of this year. So full year of '19 reflects that. And even though we might have lost $6 million in revenue in Fort Lauderdale, I want to see more performance per dollar of revenue, cash earning power of revenue on an ongoing basis in place broadly by year-end. That's the goal.

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

And Alex, to follow up on your previous question about, kind of, total charges in this -- in the fourth quarter. Some quick math, as we're sitting here. Including severance, it will be between $8 million and $10 million.

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

Okay, good. That's helpful rather than just flying blind in the quarter. And then it is your expectation to get.

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

Can I make one comment about that, Alex? Almost $4 million of that is that performance awards things, and when they explain that to me, I couldn't believe it. I've often said sometimes GAAP is goofy. This is performance awards. Nobody earned, including me, and yet -- and so if we have a concept for pay-for-performance, and you don't give the performance, let's take away the program. So I said, let's just take it away for everybody, especially me. Well, came back, there's going to be a $4 million write-off. I said, "Wait a minute, $4 million write-off? Nobody earned it, and there's no cash. But that's the accounting." So out of that $8 million or $10 million, $4 million of it is that goofy write-off of performance awards.

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

Got you. Similarly, the write-off for goodwill will be noncash too with the (inaudible) not contributing, right?

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

Yes. Correct. Yes

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

So the only cash -- of the $8 million to $10 million, $1 million to $1.5 million is cash? Severance, yes.

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

That's right.

Viki King Blinderman ***Carriage Services, Inc. - Principal Financial Officer, CAO, Senior VP & Secretary***

Yes.

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

That's right.

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

Okay, good. And then the goal is to get it all taken care of in the fourth quarter? You're going to have a clean December, so the plan would be to have clean 4 -- all 4 quarters the next year and better performance. I mean, look, you're taking up to $0.23 out of overhead cost just off the back. So -- and then hopefully, we'll see a return to growth in 2019 as we -- yes.

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

Yes. 2019. This is the goal. The real goal is to get our company back up closer to that 30% consolidated EBITDA margin, which we all consider the cash-earning power of the portfolio. And the sooner we do that and then sustain it, increasing slightly over time, the sooner we gain back our reputation.

Operator

Our next question is from -- comes from Komal Patel.

Komal Rohit Patel ***Goldman Sachs Group Inc., Research Division - Fixed Income Analyst***

Just a couple of question for us. First, could you talk a little bit about the time frame that you're in now? It sounds pretty quick. So I guess, just, what gives you confidence that the issues can be corrected quickly? And I guess, just any kind of consideration to the potential disruption to the business?

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

Yes. The confidence we have in how quickly this will turn around has really been based on the work that's been done over the past 6 weeks. The work of our teams to go out across the country and work with our managing partners to put specific plans in place. And also, our ability from the overhead and stock-based compensation perspective to identify those savings and know that they're going to come out here in 2019. In terms of business disruption from this, I would say, it's negligible to none. I mean, I think, right now, we're seeing what we expect is improved performance as we move forward.

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

This is Mel. This may sound a little bit strange, but being small means declined slightly recently suffered trends show up. They don't have to be major numbers, like we were talking about, but they show up in the overall performance of the company. And that can be a blessing and a curse that means if you take bold action and you really have people, and I went out and sought feedback from all of our field people that I trust the most. And that's where all these changes came from. And when you then communicate because I did yesterday on a 7-page memorandum to all of them, what all this means, and we've already got peace plans going, what they have to do because we can't do it from here, and you stay in touch with them, the benefit of being small turns in your favor. You're nimble. You make changes. The people respond to it. And -- but like I often say, we'll see (inaudible). And talk (inaudible) watch what we do.

Komal Rohit Patel ***Goldman Sachs Group Inc., Research Division - Fixed Income Analyst***

Understood. And just kind of the second question. On the heels of the Fort Lauderdale contract, are there any other cities that have contracts coming to you in the near term that could be at risk, something that we should look out for?

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

We have -- outside Fort Lauderdale, we have one other management agreement with the City of Las Vegas for a smaller cemetery in that city. That contract, I believe, is up in 2020 or 2021.

Komal Rohit Patel ***Goldman Sachs Group Inc., Research Division - Fixed Income Analyst***

Got it. Is there an estimate on the revenue that, that contract represents?

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

No, but it's pretty small. Immaterial.

Komal Rohit Patel ***Goldman Sachs Group Inc., Research Division - Fixed Income Analyst***

Okay, okay. Fair. And then just kind one other one. I think in the press release you mentioned that a lower leverage profile is something that you'll be looking towards, especially compared to years past. Is there any kind of quantification that you could propose around that or a potential leverage target?

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

Yes. We've stated publicly, particularly as we went through the recapitalization process, that 4 to 4.5x is our leverage policy. We're currently above that a little bit. And we would expect to be a little above that here in the near term, probably a little behind our plan to get below 4.5 and stay there. But on long term, we can still consider getting the 4x leverage as a goal for us, longer term.

Komal Rohit Patel ***Goldman Sachs Group Inc., Research Division - Fixed Income Analyst***

Okay. Got it. So that target hasn't changed then?

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

Correct. Timing has been pushed out a little bit.

Komal Rohit Patel ***Goldman Sachs Group Inc., Research Division - Fixed Income Analyst***

Okay, okay, undercrested. And then just last one for me, just kind of high-level, what's the shift that you're seeing towards cremation? How do you consider kind of increasing the number of pure-play cremation locations that you guys have? Could that provide any kind of cost savings on the procurement or headcount side?

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

We don't see any change to our strategy in terms of the businesses that we acquire, and the types of businesses that occasionally we will build in open greenfield ourselves.

Operator

(Operator Instructions) Our next question comes from Duncan Brown with Wells Fargo.

Duncan Brown ***Wells Fargo Securities, LLC, Research Division - MD and Senior High Yield Health Care Analyst***

Maybe falling back on the leverage question. And I think you said earlier, Ben, that your whole plan on holding off M&A over the near term, I guess, a, can you confirm that; and b, also can you confirm -- I think last time we talked to you, you weren't planning on buying back any stock. Is that still the case?

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

So I would -- it's hard to say that in the near term, we don't anticipate any acquisition activity. That doesn't mean that if something comes our that we find unique and very attractive that we wouldn't go ahead and seriously consider that. In terms of share repurchases, that is certainly a part of our capital allocation plan. And so that's not a no. We currently have an authorization just over $25 million. And so we'll just have to see on that, but that's certainly a possibility as we move forward here in near term. But to my comments earlier that with cash on hand and free cash flow, that is how we're going to allocate our capital and use internally generated free cash.

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

We won't do anything here that will risk credibility for our bonds that we recently issued, if that's the gist of your question.

Duncan Brown ***Wells Fargo Securities, LLC, Research Division - MD and Senior High Yield Health Care Analyst***

Yes. It wasn't so much about creditability. Just making sure I understood what the structure and plan was. I mean, my sense was that until leverage was in that sort of 4 to 4.5x, you were unlikely to buy back stock, and I was just trying to confirm that one way or the other.

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

Yes. And I think that's -- that was a statement we made in net, the time we made our roadshow and issued our bonds. What we didn't see coming then was the downward trend in our performance. And then the plan we have launched to turn in around. And so the confidence that we have in this will be reflected in the capital allocation flexibility that we now intend to exercise.

Duncan Brown ***Wells Fargo Securities, LLC, Research Division - MD and Senior High Yield Health Care Analyst***

Okay. Maybe switching to operations. I mean, one of the things you said in the script was too many "underperformers holding back the outperformers". Was hoping to get a little more granularity around that. Any -- you, really, anything you provide, but maybe what percentage of locations are underperformers, and maybe some themes on why they are underperformers versus some of the outperformers?

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

Yes. I think as we did the deep dive, one of the things that became apparent that we -- like I said, we have had a number of businesses that have a long-term track record of sustained high performance where it is high margin and steady growth over long period of time. And those are folks that we've called out when we were worried a number of times. Then there is a subset of businesses that have been in continual decline, I mean, in a lot of cases, long-term continual decline. And that typically revolves around local leadership, leadership here from us at the home office. And sometimes, as a part of just the market that they're in, all of which were identifying and fixing and part of the plans to turn those around.

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

It's a little misleading to this amount to talk about number. We had 4 size groupings of funeral homes and few in cemeteries. The 2 larger groupings that we had didn't have many. I think, they were like 3, out of -- I can't remember how many, but a good many. And that was most of our performance as I outlined in the '17 shareholder letter. That -- those larger groups had many winners, and they were bigger winners making big differences. And it was in the smaller groupings where we had these too many. But if you add them up, they were still material as a group, but it's misleading to say how many because it doesn't mean that if I were to say 15, that's 15% of our total portfolio revenue and profits. So you have to look beneath the covers and get granular. In the smaller businesses, if you read our material, it's what we're moving away from. These were businesses typically bought in the '90s. And that's where the core of the problem was, not in the -- most of the portfolio.

Duncan Brown ***Wells Fargo Securities, LLC, Research Division - MD and Senior High Yield Health Care Analyst***

So if I'm hearing you right, the core of the problem is in the smaller facilities, and so percentage of facilities doesn't make any sense. But just to put some context around it, could you give a percentage of revenue perhaps that is....

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

I put that in the '17 shareholder letter. You went back and looked at it. I don't have it in front of me. You'll see that the 2 smaller groupings and the percentage of revenue and the percentage of EBITDA in the '17 shareholder letter. It's in those smaller groupings.

Duncan Brown ***Wells Fargo Securities, LLC, Research Division - MD and Senior High Yield Health Care Analyst***

But I would assume it's not every facility within the smaller groupings.

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

No, no, no Not at all.

Duncan Brown ***Wells Fargo Securities, LLC, Research Division - MD and Senior High Yield Health Care Analyst***

That's -- okay. Maybe taking a different direction. Just talk about a detailed plan of action, which is set down to the ones that were underperforming. It would be helpful, at least for me, if you could give any sort of specific examples of things that people that are within people's control to change. What sort of -- a few details would be helpful on what are -- what you are having the providers or the operators change?

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

Yes, this is Mel. If you read the '16 shareholder letter, I let this out really well for the first time on these standards. One of our standards is SMB as a percent of revenue, given certain criteria out of the number of funerals and the average revenue per funeral. Some of the recent acquisitions, for example, over the last couple of years have not been integrated well by operations. We had weak implementation by the leadership. The integration and in those cases, in almost all cases, they were overstaffed, and never had weeded out some of the weaker staff. And so that's real easy to define and real easy to execute. And so a lot of changes happen there over the last month. And that probably adds up to a big number. That's how poorly it had been integrated by the operating leadership. The operating leadership, Mark Bruce was COO; Rajesh Patel, Head of our Operations Analysis and Planning Group, both have left the company. I'm now the COO.

Peggy Schappaugh is now the head of operational analysis group. The leadership was a little bit leading from behind. And these were really nice people but the weren't getting the job done. And now they're not here. And everybody seems to be stepping up and pretty fired up about what we going to do next.

Duncan Brown ***Wells Fargo Securities, LLC, Research Division - MD and Senior High Yield Health Care Analyst***

Appreciate all that color. If I could seek one more in. It sounds like the example you gave has to do with some of the more recent acquisitions, which I assume are larger facilities and getting sales and benefits in line, which makes a lot of sense. Also sounds like some of the real issues are in some of the smaller hot -- excuse me, smaller facilities that were, as you said, acquired in the '90s. I guess what I'm what struggling is with, what can be done to improve those facilities, and how do you go about that in terms of some specific plans?

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

It's -- this is really -- it's not a complicated business. When I tell you that some of the standards have become outdated and were being used, in my view of the wrong way, I'm mentioning some of it briefly, in my comments, but there's a lot more. I can't get into all of that. I've got into all of that with the letter I sent out yesterday, 7 pages. We will have a Standards Council meeting on the 30th to rebuild and update our standards already. We're hearing a lot of feedback from my letter yesterday and from other sources in the field. Everybody is thrilled to have these changes coming, and energize, but if you get into the detail of this regard, I don't want to do that on this call. Is like I said earlier, we can talk about a bunch of stuff here but it doesn't matter unless anybody can put a number on it. So I just say there's a lot of stuff going on in the company. I I'm in direct conversations and contact with the CEO, the regional directors, and peace, Anders, counsel. This is my background. I love them. They know all of them. And they're going to respond to strong leadership. This is not what they had. That's my mistake. I put in place along leadership. Now I have corrected that mistake. And the next time, I'll try to get it right.

Operator

And I'm not showing any further questions. I would now like to turn the call back to Mel Payne for any further remarks.

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

I have no further remarks, but we do appreciate your interest, and we look forward to reporting early January. Thank you.

Operator

Ladies and gentlemen, thank you for participating in today's conference. This concludes today's program. You may all disconnect. And everyone, have a great day.