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PRESENTATION

Operator

Good day, and thank you for standing by. Welcome to Carriage Services First Quarter 2021 Earnings Call. (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, Steve Metzger, Senior Vice President and General Counsel. Please go ahead.

Steve Metzger ***Carriage Services, Inc. - Senior VP, Secretary & General Counsel***

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

In addition to myself, on the call this morning from management are Mel Payne, Chairman and Chief Executive Officer; Ben Brink, Senior Vice President and Chief Financial Officer; Shawn Phillips, Senior Vice President and Regional Partner; Peggy Schappaugh, Vice President of Operations and Acquisitions Analysis; Paul Elliott, Senior Vice President and Regional Partner; Chris Manceaux, Senior Vice President and Regional Partner; and Carlos Quezada, Senior Vice President of Sales and Marketing. Today's call will begin with formal remarks from management, followed by a question-and-answer period.

Before we begin, I'd like to remind everyone that during this call, we will make some forward-looking statements. Any comments made by our management team that state our plans, beliefs, expectations or projections for the future are forward-looking. These forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially from those contemplated in such statements.

These risks and uncertainties include, but are not limited to, both factors identified in our earnings release and those 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 press release as well as on our website.

Thank you 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. This is the first time in the history of Carriage that we've had all 8 executive team members in a room available for questions. It's been almost 30 years -- our 30-year anniversary will be June 1 -- since I cofounded Carriage. And if you have not taken the time to read my shareholder letter from 2020 titled A Tale of High Performance Transformation, I highly recommend that you do so. It's a long shareholder letter, but it's not full of fluff. It's full of content, and it's full of substantive data, history.

And if you don't get a sense by the end of it and after reading our first quarter, why I constantly say at 78 -- my kids and I own 10% of the company, and I wish I owned more, and I don't own anything else. If you're interested in an investment in our company, whether in the bonds or in the equity, you really should read the shareholder letter. It will lead you to ask a lot better questions when you talk to us the next time. And if you ask better questions, you can get more informed and build greater knowledge about why this is a great investment and it will be for the next 5 or 10 years.

Today, we'll have formal remarks by Ben first, followed by Shawn Phillips. Shawn, as I mentioned in the shareholder letter -- I covered the entire organizational structure, all the way down from the Board, the executive team, regional partners, the directors' support, operations, sales, managing partner, sales managers, Peggy's team of brilliant sops, everything is covered in there, all of our Houston support center. So you get a real good sense of how Carriage is organized.

So Shawn is Regional Partner for the Central, but he's also the point person for any new candidates that are thinking about succession planning and joining Carriage. So if you have questions about acquisitions, today, those questions will first go to him, and then maybe I'll elaborate on something additional. And then Shawn will turn it over to Carlos. There's a lot in here about momentum in our cemetery sales. There's a whole lot in the shareholder letter about that, in particular, the 4 new acquisitions we made at the end of '19.

So there's just a lot of substance. We are a whole lot more than a funeral home and cemetery company with almost 350 in sales over the last 12 months. If you want to understand why I refer to us as a high-performance culture company that just happens to be in that industry, there is a lot of reading and material for you to get to that point of understanding. And we look forward to discussing that with you.

So I'll just, from this point, turn it over to Ben.

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

Thank you, Mel, and thank you for -- everyone for joining us on the call today. Our first quarter operating and financial results were simply phenomenal and demonstrate that our teams across Carriage are accelerating the high-performance flywheel consistent with our 2021 annual theme. We view these results as proof of concept for the high-performance ideas we have here at Carriage and are indicative of the incredible earnings power potential of our business.

The continued performance by our managing partners and their teams validates our strong belief in the concept of First Who, Then What for every role here at Carriage. I join the rest of our leadership team in thanking them for all of their tremendous work and dedication to their businesses and their communities over the course of the past year, and I remain incredibly excited to see them accelerate our high-performance flywheel even faster in the years to come.

Now on to the record-setting first quarter results. For the first quarter, our total revenue increased 24.7% to $96.6 million. Total field EBITDA increased 52.1% to $45.8 million, and field EBITDA margin increased 860 basis points to 47.4%. Adjusted consolidated EBITDA margin increased 51.7% to $34.7 million. Adjusted consolidated EBITDA margin increased 640% to an industry-leading 35.9% margin for the quarter. And our adjusted diluted earnings per share increased an incredible 131.4% to $0.81 per share.

Our results for the quarter were driven by higher funeral home volumes in January and February, continued increases in our average revenue per contract in our Funeral Home segment; like Mel mentioned, the strong momentum in our cemetery pre-need sales programs; margin management by our managing partners and their teams across all of our businesses; the continued successful integration of the 4 acquisitions we made at the end of 2019 and 2020; and an increase in financial revenue from our trust fund repositioning strategy executed almost a year ago. I will let Shawn and Carlos expand on the individual drivers of high performance in their respective Funeral Home and Cemetery segments in their comments.

Beginning with our 2020 third quarter earnings release, we have published a detailed 5-quarter operating and financial trend reports to provide greater transparency into the transformative high-performance dynamics happening in real time across our entire company. In subsequent press releases and in Mel's shareholder letter, we have included additional performance data in order to provide investors greater insight into the drivers of our record operating and financial results.

In our most recent release, the 5-quarter trend report included additional granularity into the incredible performance and momentum we are experiencing with our entire Cemetery segment by highlighting the actual number of pre-need property contracts sold and the amount of pre-need revenue. As evidenced in the 5-quarter trend, transformative high-performance is accelerating in all areas here at Carriage. We hope this additional level of transparency, not normally seen from a publicly traded company, will help investors not only better understand the drivers of our recent performance, but more importantly recognize the true earning power of Carriage and sharing our excitement about the future earnings potential that we have.

In the first quarter, our total overhead increased $5.7 million to $13.6 million compared to last year. Total overhead included approximately $2.5 million of severance and retirement expenses and expenses related to supporting our businesses during the coronavirus pandemic. The large increase in overhead in the quarter is entirely attributable to an increase in incentive compensation. With the uncertainties a year ago brought on by the emerging pandemic, we made the decision to significantly reduce incentive compensation accruals in the first quarter. In the following 3 quarters in 2020, we had to increasingly increase these incentive accruals, particularly for our field Good to Great annual incentive awards as the performance within our businesses continue to improve rapidly.

Our incentives for our managing partners and their teams are the best in our industry, and we believe strongly in the concept of pay for high performance. In 2020, we paid out approximately $5 million in additional incentive compensation compared to 2019, with $3.8 million or 75% of that increase being paid to our managing partners and their teams. The increase in the first quarter incentive compensation accruals mirror the increases we saw in 2020, with the majority of additional incentive compensation being accrued to our field businesses.

To put it another way, the increase in the incentive compensation accruals equaled approximately $0.16 for the first quarter, with $0.12 of those being accrued for our field compensation and yet EPS still grew 131.4%. That is the kind of high performance we are happy to increase accruals for. Our discretionary pre-need trust funds had a total return of 8.3% in the first quarter compared to 6.2% for the S&P 500 and 2.4% for our 70/30 high-yield bond/S&P 500 benchmark. The investment outperformance of our trust fund portfolio in the first quarter is a continuation of a very long-term trend that has translated into a 14.4% annual return since the beginning of 2009.

The performance of our trust funds over the past 12 months is directly correlated to the execution of our trust fund repositioning strategy that began almost 14 months ago. As a result of our strategy, the annual income in our discretionary trust fund portfolio has increased 112% to $16.3 million and has generated significant realized yet primarily -- realized yet primarily unrealized capital gains within our trust fund portfolio.

The benefit of the increases in reoccurring annual income and long-term capital gains in our trust funds are recognized through our reported financial revenue and EBITDA from the increase in earned income through our cemetery perpetual care trust in the current period and from higher values in maturing pre-need funeral and cemetery merchandise and service contracts that we recognize at the time of death.

In the first quarter, our financial revenue increased 34.1% to $5.7 million, while our financial EBITDA increased 38.2% to $5.3 million, primarily driven by the increase in earnings recognized from our cemetery perpetual care trust. These results were consistent with our stated expectation for financial revenue to be between $22 million and $23 million for the year and financial EBITDA of -- margin of approximately 94%.

What is important for investors to recognize is that our trust fund performance and correlated increases in financial revenue and EBITDA are not onetime occurrences, but rather they are part of a 12.5-year track record of successful management of our pre-need trust fund assets. And that this higher plateau of financial revenue and EBITDA is sustainable for the foreseeable future. Our adjusted free cash flow in the quarter increased 115.3% to $27.1 million, and our adjusted free cash flow margin increased an incredible 1,180 basis points to 28.1%. For the last 12 months, our adjusted free cash flow totaled $84.5 million and our adjusted free cash flow margin expanded to 24.2%.

Last year, we introduced the adjusted free cash flow margin metric in order to demonstrate the amount of cash produced for every dollar of revenue that is available for shareholder value creation capital allocation. The strong operating performance we have experienced over the past 15 months has allowed us to pay down approximately $94 million of debt -- of total debt and reduce our total debt to adjusted consolidated leverage ratio by 2.2x to 3.8x from a peak of 6x post an acquisition of Oakmont on January 3, 2020.

This incredible and rapid improvement in our credit profile demonstrates the tremendous cash earning power of our business and positions Carriage to have the necessary financial flexibility to pursue all capital allocation opportunities after refinancing of our current senior notes at a lower interest rate. The majority of our future capital allocation will be self-financed through our growing and reoccurring free cash flow, which will allow us to maintain a normalized leverage ratio of 4x or below as a matter of policy moving forward.

We are excited to once again provide an updated Roughly Right 2-year Scenario for 2021 and 2022 with increased ranges of financial performance across all metrics. We use the term Roughly Right here at Carriage because like all good forecasts, they are sure to be 100% wrong at some point. Importantly, though, our continued operating performance and the momentum we see across our portfolio gives us the confidence to increase our 2021 ranges for adjusted consolidated EBITDA to $112 million to $118 million, increase our expectation for adjusted consolidated EBITDA margin to approximately 32.5% and increase the range of adjusted diluted earnings per share to $2.45 to $2.55.

For 2022, we have increased the performance ranges for adjusted consolidated EBITDA to $116 million to $122 million, adjusted consolidated EBITDA margin of approximately 33% and adjusted diluted earnings per share of between $2.60 and $2.80 a share. We expect normalized pro forma adjusted free cash flow to be $75 million in 2022 and grow from there. While there remains much uncertainty regarding the coronavirus and the ongoing vaccination campaign and the impacts it will have on the death rate and in particular our funeral home volumes, we believe we have a number of drivers within our control to achieve the ranges outlined in the updated scenario.

These drivers include the increased pre-need -- cemetery pre-need sales that will lead to higher cemetery revenue growth rates at higher sustained cemetery field EBITDA margins, a continuation of local market share gains across our funeral home and cemetery portfolio, growth in the average revenue per funeral contract as we continue to offer more value to a family choosing cremation and a sustained plateau -- same higher plateau of financial revenue and EBITDA.

Our increased 2-year performance scenario does not include any potential capital allocation in the form of acquisitions or share repurchases. Therefore, an additional driver of future earnings growth will come from higher returns on invested capital from continued disciplined capital allocation that is not included in the performance ranges, coupled with our anticipated lower cost of capital.

Again, I thank everybody for joining us on the call today. To reiterate what Mel said, we publish a lot of information. It is available on our Investor Relations website, Mel's shareholder letter, our recent 2020 and our most recent earnings release tell an incredible story of transformative high performance here at Carriage and lays out a clear vision for our future. I encourage everybody that is interested in our company to take the time to review, read, understand those documents.

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

Shawn R. Phillips ***Carriage Services, Inc. - Senior VP, Regional Partner and Head of Strategic & Corporate Development***

Thank you, Ben. As we look back on our 2020 and first quarter 2021 performance, I reflect on all the leadership changes that occurred to ensure we have the right who managing partners to drive our high-performance bus. Since September of 2018, we've made 29 leadership changes in our businesses with our managing partners, which transformed the performance of the entire company that moved several underperforming businesses from Paris low performance to London high performance.

In the first quarter 2021, our funeral same-store revenue was up $10 million or 21.4% versus first quarter 2020. The primary driver of our huge increase in same-store funeral revenue in January and February was from the spike in COVID deaths. Some of the volume increased during this period, and last year has been market share gains throughout our funeral portfolio.

In March, we started to see volumes settle down to more normal levels, while our averages have continued to increase with a favorable variance of $259 or 5.2% increase in March this year versus last year. With this favorable variance, we see a shift in our revenue increase in March coming from improved averages. This trend has continued into April, which will yield a more favorable variance compared to last year, as we experienced our lowest averages in April and May of 2020.

Funeral acquisition revenue was up $1.3 million or 14.1% in the first quarter 2021 versus first quarter 2020, while funeral acquisition EBITDA was up $1.2 million or 37.6%, which reflects an impressive conversion rate of 92% of the revenue growth in the field EBITDA. This performance is a reflection of our tremendous progress in successfully integrating these businesses into our portfolio, which includes our 4 newest large strategic acquisitions.

As to Ben's earlier comments regarding growth in field incentive compensation, what makes Carriage unique is how we reward outstanding performance and sharing the success of the business with the managing partner and their teams. Businesses that achieve above 50% of standards are eligible to participate in the annual Being The Best incentive program. As businesses achieve higher levels of performance, they are generously rewarded with this annual incentive. In 2019, 36% of our businesses were below 50% standards achievement. In 2020, with improved business performance, only 18% of our funeral homes were below 50% standard achievement. We saw similar trends continuing into the first quarter 2021.

Managing partners also have the opportunity to earn a 5-year Good to Great long-term incentive. The first Good to Great Journey class started in 2012, had 12 managing partners that earned this incentive. With the high performance in 2020 and into 2021, we have 30-plus managing partners that are on track to achieve a Good to Great incentive at the end of this year. In addition to these generous incentive programs, managing partners also have the opportunity to earn Pinnacle of Service Awards by achieving an average of 70% of standards over a 3-year period or by achieving 100% of standards in a single year, which neither is easy to accomplish.

On Page 50 of the 2020 shareholder letter, you will see a list of 41 businesses that earned their 2020 Pinnacle of Service Award. What you don't see are all the other businesses that stepped up their performance big time and accelerated their Good to Great journey, which has contributed to the flywheel momentum in a huge way. There are 22 businesses that would have earned Pinnacle that lacked the 3-year tenure as managing partner because of all the leadership changes that were made across the portfolio in all 3 regions since September of 2018.

I can personally attest, after almost 14 years with Carriage for the right person in the right seat on the high-performance bus, this culture will change your life both personally and professionally. It takes time to understand the uniqueness of Carriage. What you've seen over the last several quarters is the high-performance culture in action at its best during some of the worst times. When the pandemic started, we had no idea what to expect. What we did know was we worked hard in the months prior to COVID ensuring we have the right entrepreneurial leaders in place to drive this unique culture company that just happens to be in the funeral and cemetery business.

In order to understand how unique Carriage is, you have to be curious. You have to want to discover more, have the ability to listen, learn; and just as important, have the ability and willingness to unlearn, observe and ask thoughtful questions only after the proper time has been invested in doing the research. At Carriage, we call it getting to the other side. The worst thing anyone can do is to think we are just like everyone else. The recent 50-page letter of love that Mel wrote truly outlines the dynamics of our people and our businesses. It's truly a proof-of-concept when leadership and high-performance transformation dynamics are married together and create the Flywheel Effect.

I will now turn it over to Carlos.

Carlos R. Quezada ***Carriage Services, Inc. - SVP of Sales & Marketing***

Thank you, Shawn, and thank you all for being with us today. I introduced our transformational high-performance plan and our 6 sales drivers on February 17 when we had our 2020 earnings release. Today, I'm excited to present to you our cemetery portfolio performance update, where we have been able to sustain pre-need cemetery sales growth above the highest quarter in Carriage history, which was in

Q2 2019. This sustainable pre-need sales high performance is consistent in both same-store and acquisitions.

For example, during the period ending Q1 2021, our same-store pre-need cemetery sales performance was 34% over Q1 2020 and a combined growth in same-store and acquisitions of 58% over the same period. The sales success comes from both a focus on higher-end inventory sales and an activity-based approach that led to writing an additional 513 contracts or 52% more than we did in Q1 2020. And while cemetery at-need revenues are starting to normalize, our pre-need sales performance is contributing to our very impressive total cemetery field EBITDA margin of 45.3%, which is at an all-time high.

Our total cemetery operating revenue growth trend over the past 5 periods starting the first quarter of 2020 are as follows: Q1, $13.7 million; Q2, $15.6 million; Q3, $19.6 million; Q4, $20.2 million; and Q1 2021, $21.6 million, which represents a compounded growth of 12% over these last 5 quarters. This amazing growth, combined with our unique operational leverage advantage, allowed us to convert 68.5% of cemetery same-store revenue growth into same-store cemetery field EBITDA and 78.3% of cemetery acquisition revenue growth into acquisition cemetery field EBITDA, making our total cemetery revenue growth to total cemetery field EBITDA conversion rate of 73.7%.

Moreover, while these numbers are quite impressive, our transformational high-performance journey has just begun, and we are at the early stages of our plan. I have been traveling and visiting more locations where I have met our amazing partners and found tremendous opportunity for sales program and sales growth. Therefore, to give you a vision of the future and the reason why we know we're creating sustainable high performance that is above anything else we ever had before, I will go over our main 6 sales drivers, followed by an update on the execution of our transformational high-performance plan.

Our sales drivers are: number one, leverage technology as an enabler of sales acceleration; number two, introduction of performance-based rewards and incentives; number three, a strategic capital allocation to high-yield cemetery products and offerings; number four, sales growth through advanced planning strategies and robust marketing; number five, deployment of lead generation programs while improving conversion ratios; and number six, a standardization of cemetery sales processes, policies and systems. This is our progress on our sales drivers.

Our CRM is now underway, and we have a tentative pilot program launching to early adopters in August 2021. We have come to an agreement with Microsoft to provide tablets to our sales consumers that will accelerate our success with fast, simple and readily available information. We have implemented our new performance-based compensation plan in April 1 across the cemetery portfolio, aligning compensation with performance to target. And the feedback from the field as well as our sales trend has been very positive.

We have designed new reports that highlight performance expectations that aligns to our new sales compensation program and provide sales counselors and sales leaders in where they stand to their target at any given day during the month. We have started the deployment of capital to projects that have been reviewed and approved by the executive team, where the return on investment accelerates while creating beautiful inventory that is appealing to the local community and the target audience at each of our cemeteries.

With the markets starting to soften COVID-19 restrictions, we have launched our advanced planning strategy with the full focus in selling pre-need cemetery through 5 new teams we created during the first quarter of this year and with 5 more teams coming before year-end. This will result in additional sales production above the growth we will achieve from our legacy teams in some of these services, which are both included in our updated 2-year Roughly Right Scenario. We developed the process through a third party to deploy direct mailing campaigns in a fast, simple and effective way, generating new opportunities to our sales teams.

We launched our grassroot events program and created a standardized toolkit that enables sales leaders and sales counselors to attend community events and have a professional look that appeals to the consumer and engage with them while creating value and the significance of preplanning. We have standardized selling compensation, sales policies, incentive methodology, and we're in the process of standardizing park tours, giving families a different experience focused on service when they are looking at buying at one of our premier locations.

We have launched Carriage Academy, which includes light classes. This is a full week, 8-hour-day program for new sales counselors where they learn the foundation of cemetery pre-need sales and leave the class with tools and resources that will help them achieve their goals and dreams. From this program, we have successfully graduated our second class with the third one starting this Monday. Carriage Academy also offers a core program for existing sales counselors where we focus in the culture and skills that lead to sales success at Carriage Services.

We have created a new sales presentation as well as our new version of our planning guide, which we now call Caring Decisions Planner, and all the training that supports its success. We believe this new professional and systematic approach to sales will allow Carriage sales counselors to engage families in a way that generates interest, build trust and mutual benefits. As we continue on our transformational high-performance journey and goal of creating sustainable pre-need cemetery sales over time, we have achieved so much in just 9 months, and there is much more to come. But for now, I can say that the sky is blue, our future is brighter than ever before and that there has never been a better time to be with Carriage, and the best is yet to come.

Thank you, and I will now pass it to Mel.

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

Thank you, Carlos. I will end the formal remarks just by going over a few things. In the shareholder letter and in Ben's earlier remarks, we are planning a refinancing. Whenever that is done and it will be done, I think our cost of capital, according to Ben's recent work, will get down to as low as about 6.5%. Am I right,, Ben?

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

Yes.

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

And 6.5% cost of capital. So I've been teaching the 47 people, now 50, we put more -- 3 more into the Good to Great II 5-year shareholder value incentive plan. I've been teaching them, as Ben has been doing, how to think about their jobs individually and in teams, as we execute our 3 core models: Standards Operating, 4E Leadership and Strategic Acquisition. And I've been teaching them how to calculate various price ranges of our shares based on performance metrics that, as we've explained, you should expect to trend up over time, notwithstanding the external environment.

And if you look at the 2-year scenario, '19 actual, '20 actual, 12 months ending March 31, the 12 months going forward to March '22, all of '21, all of '22, it's not hard to see the transformation in these numbers. At the end of '21, I don't know what the COVID environment will be or not be. But at the beginning of '22, we will put out another scenario, even though we haven't finished the '22 year. It's been a total transformation. We will put out a 5-year scenario. In this scenario, we will now be allocating our capital in different ways to create more intrinsic value per share.

We'll put several scenarios in there, more acquisitions, less acquisitions, buying in shares, more dividends, keeping our debt right there at 4, 4 or less. And we'll have the free cash flow to do it. And so the fun part of my job and Ben's job now is to just educate our own people. Now I've been in the process. Somebody out there in your world gets educated, too. That's great. But that's not my primary motive. My motive is to get our own people educated about how they create value. I figure somebody out there will figure it out sooner or later by reading the materials Ben pointed to, because it's real and it's only going to get better from here.

But even if you just look right now at what Ben just said, we got $70 million in there for free cash flow after the refinancing, but I just heard him say $70 million to $75 million. Let's just take the midpoint, $72.5 million and divide it by 18.2 million shares. That's free cash flow per share of $4. One of the reasons I love this industry and started this company at 48 years old, I mean, this is what I know. I knew about all that stuff before I start at Carriage.

$4 in free cash flow per share with a share price of $37, I mean I can do the math in my brain. That's the 10.8% free cash flow equity yield. Compare that to what we will have as a 6.5% cost of capital. Now in a normal valuation of free cash flow equity yield, you would divide the free cash flow per share by your cost of capital or somewhere close to it. That would get you at current price or maybe a price a year from now of about $60 or $61. If you put a 20x multiple on the EPS, you come up with $50. So somewhere between $50 and $60 is where I think we will get to.

Now -- but this is what our -- this is what I'm teaching our own people. And why should I hold back by telling you the same? Because they all believe it. They all know we can execute it. And that's without even have done anything new with the capital we will have post refinancing. And we're going to do new things that will add even more value. So the team here -- and we've had very little input. I've had some on the Good to Great II 5-year shareholder value incentive plan. That's what everybody should be focused on. And you should be focused on why everybody here is excited about it.

And as Ben said, read the material, get on the cover. Come to see us. Come to see us. You'll see our places. If you want to go find out, go see a place run by a Standards Council member. They're in on the plan. They're 1 of the 10 in the 50. You will learn so much about this company. We're an open book. There ain't nothing to hide because it's real, and it's only going to get better.

And I'll end by telling you a funny story. I was almost late for this call. They were calling me, "Where are you? Where are you? Where are you?" Well, if you read the shareholder letter, you get to the end, and I acknowledge my wife for the first time. And I came to home for Easter. And our son's 35. Our daughter's 27. I'm an older dad. They keep me young, believe me. And my daughter read it first. And she got to the part about her mother, and she said, "Oh, dad, that's wonderful."

And then she said something else. Said, "You know, dad, if I've been you back then -- and I spent 3 weeks in Paris restructuring a company's debt with a government French bank -- wow, I would have flown home on Saturday, got dressed and gone to that same club and just sat there all night myself. That's what I would have done." And you know what? I know she's right. She's really bright. All right.

So as is my son. He called me this morning, "Dad, are you ready for the call? Are you ready for the call?" I'm all, "Oh, I'm more than ready." Because when you got a company like this, you don't have to prepare a whole lot. And so my daughter texted me. I was not even in the shower yet. "Oh yes, dad. I read the release. It is so powerful. It is unbelievable. I don't know why anyone wouldn't want to own this whole company or at least a lot of shares. And that's why I'm not selling any of my 127,000.6 shares. You told me not to. I get it. I'm never selling. In fact, I might buy some more." Now that's my kids. I don't think they're biased. I think they're just getting savvy about what is a good investment.

And with that, I'll 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***

Congratulations on another great quarter.

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

Thank you, Alex.

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

Well, first, I think it's the fourth consecutive quarter of beat and raise. And Carriage Services performance is now becoming as certain as best, something that investors have been looking for, for a long time in Carriage Services, the so-called desert island stock. The financial results at Carriage Services match the certainty that we all know that death has in life. So congratulations again.

I have a few questions for the team, if I may. Starting on the funeral side of the business. As you alluded to on the call -- and this is not just funeral, it also applies to at-need cemetery. As volume growth moderates or normalizes due to the pandemic subsiding, we've seen the average revenue per contract increase both in the months of March and April, given the more significant transparency that you put in the quarterly reports. And this is the first time in over a year. To what do you attribute the improvement in averages? Obviously, the comps are easy because they were impacted at the onset of COVID. But what are you doing to increase funeral averages, both burial and cremation?

Peggy Schappaugh ***Carriage Services, Inc. - VP of Operations & Acquisition Analysis***

Alex, it's Peggy. I'll answer that question. From the funeral home perspective, we actually started to see some average improvements really after May, more because our managing partners were getting very creative with their teams in holding outdoor services. And we see it thrive and more growth in our averages really in October, November. Saw a little bit of a dip as the COVID cases went up in December, January and February. But what we're really seeing in March -- and the comparisons are great because we saw that dip happen March of last year and really we hit the bottom in April of last year.

But It's a combination of the creativity that our managing partners had starting in May and June. But then now as people are becoming -- more people are becoming vaccinated, more states are opening up, restrictions are being lifted, people can have small gatherings. They're more comfortable with it. And then also, we continue to have a focus on our commission conversion and educating families on what's possible with cremation. We don't run away from it. We work on just educating the families on what's possible for them and how they can celebrate the life of their loved ones.

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

Yes. Alex, it's Mel. Just to add to what Peggy said. Early on -- I mentioned this in the shareholder letter. The Forbes article implied that this would be a catalyst for permanent behavioral change, people choosing direct cremations, pure services all around on cremations, burials and so on. It's a bunch of malarkey. You got a little clever headline for a second or 2, but it was total BS and it was misleading. So what we're seeing is the people who were told what they can't do by government mandate and so on, fear. Now that this thing is loosening up even though COVID hasn't gone away, the fear is subsiding. And this thing called a death that you alluded to has been going on for thousands of years. It's inevitable.

And there's a lot of research on how do you kickstart grief. Well, you don't kickstart grief by being told you can't do anything and you have to stay by yourself. Just get over it. And so now people are wanting more than ever. And so the COVID environment over the last year has been a catalyst for people to want more, more service, more creativity, more value, more friends, more family, grief, celebrate. And our people saw that. Now they've been unleased, and they're making it happen broadly. We're seeing some amazing average increases.

California was just hammered, but the averages now are back and the volumes are still a lot there. That's the one place in the country where the volume is still up and the averages are way up. So even when they normalize, you saw April. It's pretty extraordinary what's going on in April, and it's broad. And so what we're seeing is the initial outbreaks in Long Island and Massachusetts, Connecticut, New Jersey, Pennsylvania and New Orleans, because of a mild drawback then. Their volumes are down.

But more broadly, we think this thing is going to normalize with higher revenues for Carriage. And then we're off to the races because we just got better. We got better than we were before. We're not going to get worse again than we already are. So this is the nature of an adaptive company. That's why we call it a company that just happens to be in the funeral and death care industry. So you can start talking about those things and you get lost in the wilderness, gets too close to a tree, you don't recognize the nature of the actual company. And this is the difference.

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

Well, that makes perfect sense as volumes spiked due to COVID and averages came down as COVID recedes and volumes normalize averages go back up again. It's kind of a an offsetting function. And then you have all these other levers to grow the company like cemetery. And Carlos did a good job outlining that. So I don't have any further questions for Carlos at this point, except to say I remember last year, the Ching Ming holiday was severely impacted in the early days of COVID. I was just wondering, anecdotally, how did the Ching Ming festivities go this year versus last year, particularly in California?

Paul Donald Elliott ***Carriage Services, Inc. - Senior VP & Regional Partner of West***

Alex, this is Paul Elliott. Very successful. It wasn't the same turnout as 2019. However, we were able to have the event, and some good success in our trends in April are looking very favorable.

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

I would tell you, Alex, who that who is. Well, I don't want to. I was told I can't do that because the talent we got in this company is like 8 players everywhere, and I don't want somebody coming after our 8 players. But the other driver -- and this is another thing I hear all the time. I'm sick of it. Oh, cremations, cremations, cremations. But where were they back when I started the company when cremations were less than 20%. Now they're 56%, 57%, and we're growing revenue like crazy. So I did want to be a little proactive and say, "Thanks for asking me that question." Chris, why don't you answer it?

Christopher Manceaux ***Carriage Services, Inc. - Senior VP & Regional Partner***

Yes. So we've been working very hard in -- with the cremation families who initially are choosing no service, and we're sitting down, having conversations, learning about the life lived, journey through life, all the accomplishments. Again, continuing that conversation while providing options based on what we've learned from the family and the accomplishments of family and putting it together with service options that allow the -- all the participants through the -- through life to come in and celebrate with the family and share their stories of the loved one and whether it's a small gathering or a large gathering.

And what we're seeing is when we're slowing down, having these conversations with families, they haven't really thought about it. So we're having -- our take-up rate is starting to improve each period. Where families are still choosing no service, they're starting to have small gatherings or celebrations.

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

Yes. I mean, cremation value -- I mean I explained this in the shareholder letter. Most families don't choose cremation and they're surprised because of the method of disposition. And that secular change will continue. But in spite of the cremation going from the teens when I started the company 30 years ago to 57%, 60% now. And one of the greatest upsides is higher averages on all the cremations. And we're taking a lot of market share in the cremation area. And that's a huge opportunity over the next 5 or 10 years as opposed to a huge negative. It's a huge positive.

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

Great. And then the last question for me for now is probably for Shawn since he leads the point on M&A. While guidance does not include any future M&A activity, what are your plans for M&A post refi going forward? You're going to -- you haven't done -- you haven't closed one since January 3, 2020. Obviously, there was a record number of acquisitions, I think, $170 million in cash outlay. You've been integrating those, integrating those successfully. I'm presuming that you're going to get back in the M&A consolidation game post refi. What should we expect there? And what are you looking to?

Shawn R. Phillips ***Carriage Services, Inc. - Senior VP, Regional Partner and Head of Strategic & Corporate Development***

So Alex, I've had a lot of conversations even during this time with a lot of our acquisition candidates that we targeted that we would like to be partners with. So we've never stopped that communication with them. We're going to start picking that back up. What I'm currently doing is sending the shareholder letter out with personal communication for myself or Mel about the shareholder letter and getting back in front of it. But the -- I can tell you the activity has picked up. Last probably 45 days, I've had probably 12, 15 calls. But again, our acquisition model is very strategic on what we look at, and we'll continue that path as well. But the activity has picked up.

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

And one other point on what you said. Since Carlos joined us on June 26 and then brought his 8-player team in and has done everything he's outlined, made a huge difference on how we view acquisition candidates. We want more cemeteries that are high-quality cemeteries, combination businesses. But there's another way to think about it. We acquired our own existing cemetery portfolio of 32 cemeteries. They were sitting right here, and we owned them all. It was like we bought 32 of them. And now we're going to have acquired all the performance out of those own cemetery that we never could get before broadly. That's the way to think about that.

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

That's great. And then one more sneak in question. Ben, you didn't say anything about CapEx plans for the year. I think last quarter, you said $18 million to $20 million. Is that still a good number?

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

Yes. Alex, I'd probably say we're probably around that $20 million range for the full year. We were just over $4 million in total CapEx for the quarter, split almost evenly between maintenance and growth CapEx. Really big focus this throughout the year in cemetery inventory developments. We'll be making more investments in that than we have historically. So very excited about that and the projects that we are evaluating and getting started right now.

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

And then for the full year, 50-50 growth CapEx...

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

Yes. Yes. That's -- probably $10 million and $10 million is going to be the number. Thank you.

Operator

Our next question comes from Chris McGinnis with Sidoti & Company.

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

Nice quarter. Also, just reading the shareholder letter, I thought reading prior ones. You learned a lot about the business, but obviously, a ton of information and insight. So thanks for sharing that. And congrats again on the numbers. I wanted to just ask a quick question, I guess, just around the competitive landscape. You've taken a lot of share. Can you just talk about what's happening with the more fragmented component of the market?

Are they starting to come back? And are you seeing them maybe open up? Or are they still having a harder time operating in the environment? And then how does that play into the M&A strategy? Is that opening up more opportunities for you? I know you just commented a little bit about M&A. But just I guess tell us -- just that fragmented market operating and the opportunity that presents for you.

Shawn R. Phillips ***Carriage Services, Inc. - Senior VP, Regional Partner and Head of Strategic & Corporate Development***

Yes. This is Shawn. I can tell you that with our IT strategy, we were able to get out to our businesses quickly. We're able to do things that a lot of our competitors were not. The other interesting thing, Chris, is a lot of competitors were not doing services. They were only offering direct burials or direct cremations, where our managing partners were like, "Let's bring it in and celebrate the life lived." So I don't know if that's really going to translate into M&A activity. But again, as people hear our story, they see what we're doing out in the market. I do see it ramping up over the next probably 6 to 12 months.

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

But what -- Shawn, could you explain to Chris how this might spread in terms of how Carriage -- if you were part of Carriage, including some of the ones who joined us like Rest Haven and so on, Oakmont and others, Fairfax. You heard them tell you, thank goodness, we joined Carriage before this happened.

Shawn R. Phillips ***Carriage Services, Inc. - Senior VP, Regional Partner and Head of Strategic & Corporate Development***

Yes.

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

And how do you -- how do we get that out there in the end?

Shawn R. Phillips ***Carriage Services, Inc. - Senior VP, Regional Partner and Head of Strategic & Corporate Development***

Yes. So there's a lot of -- I've heard a lot from directly from managing partners, especially a couple of our businesses that we partnered with in the last 4 we did. I mean they said if we were an independent, we couldn't do that, Chris, because we were able from here to provide all the support necessary they needed, whether it be PPE, refrigerated trailers, whatever it was. So it wouldn't distract them to have to go to try to find those supplies of that support. They're able to focus on serving the family. So that resonates out in the community. Our competitors see that happening. And a bigger, better businesses see that level of support that we can provide.

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

Great. Great. And I guess just are they starting to get back to normal? Or are they still operating kind of in a tougher capacity at this point?

Shawn R. Phillips ***Carriage Services, Inc. - Senior VP, Regional Partner and Head of Strategic & Corporate Development***

Our businesses?

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

So I guess that competitive landscape, that -- the competitive landscape I was asking about.

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

It's hard for us to know here. We're back into Pentagon. We don't pay attention to what competitors are doing against our local managing partners, but our managing partners know. And that's why we follow their data and they're incentivized to grow volumes and compound revenues. And so based on what we're seeing our own people do, I wouldn't want to be the competition.

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

Yes. Clearly, clearly. And then just a question for Carlos. In going to the market with the pre-need, can you just talk about how you're approaching that now in the COVID environment? How was it different, I guess, prior to that? And do you see that maybe normalizing as well as the economy starts to open?

Carlos R. Quezada ***Carriage Services, Inc. - SVP of Sales & Marketing***

Thank you, Chris. Great question. So yes, with restrictions starting earlier last year, it's really difficult to be in front of families, knock on doors, get appointments at family homes, which is the main driver of pre-need sales through community grassroot efforts. But there's 2 pieces to pre-need, right? You have the family services pre-need opportunities, which is families that we're seeing on a daily basis, whether they're currently owners of a pre-need contract that they want to expand for their family members as well as those that may have already passed, and we want to reach out to their family members and see if they would be interested to be right their -- right next to their loved ones.

And so between these 2 approaches, we were able to still continue the pre-need efforts even and despite of the COVID restrictions. As those restrictions are starting to slowdown and a lot of cities and markets and counties are opening up, it allow us and enable us to be more aggressive into that approach. Some example of that, we have been able to secure some grocery stores in California, where we can actually set up a booth, a table, where we can provide information to those shopping and engage on a face-to-face environment, of course, respecting social distancing and wearing all the protection that's needed, but we're still able to get that done. As that continues, we will be able to then expand on seminars, in-house appointments and other type of items as families get vaccinations and feel the -- drop the fear of this pandemic. So all we see honestly after this performance moving forward is more and more opportunity as restrictions open up and they get dropped.

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

Great. Now I really appreciate that insight. Congrats on the quarter, and good luck in Q2.

Operator

(Operator Instructions) Our question comes from Andrew Boord with Fenimore.

Andrew F. Boord ***Fenimore Asset Management Trust - FAM Small Cap Fund - Portfolio Manager***

It's great to talk to you guys. First thing, I just want to say thank you to everybody at Carriage. I mean I knew things were going to get better a couple of years ago. But even excluding COVID, I mean, I knew things are going to get better, but this is a lot better. You guys have really just done a fantastic job. And my only complaint you didn't hire Carlos when he was coming out of high school. So you've just done great jobs.

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

Some things are a little slow on the uptick. That's my fault.

Andrew F. Boord ***Fenimore Asset Management Trust - FAM Small Cap Fund - Portfolio Manager***

That's all right. I'm going to spot you that one. A couple of questions. One is really a follow-up, and maybe this isn't -- I'm expressing my own ignorance, but I have never planned a funeral, thank God. I'm sure I'll get to. What does it really look like when one is doing a cremation? Like what are those services you can cross-sell to bring up the average revenue per cremation over time? And I'm not worried about the COVID influence on that number, but like long term, 5, 10 years, like what are those services you can cross-sell? And how does that really work kind of at the ground level?

Christopher Manceaux ***Carriage Services, Inc. - Senior VP & Regional Partner***

Yes, Andrew, this is Chris. It's really all about whether it's a religious service or gathering, just some way to assemble family and friends to share information or stories rather than information. And when we host these services, whether it's our -- at our venue or another, it allows us to pick up the revenue to host, to provide our team to guide this family through a very difficult time of their life. Most of these families are not thinking of service when death initially occurs. So we help guide them through this process.

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

So Andrew, let me embellish that a little bit. You get a call. They come in and we want mom cremated. And I covered this in the section called entrepreneurialism, innovation and the adaptation in the shareholder letter. That's both of them coming in and saying, "Well, mom died and we're going to bury her." So that's a decision about disposition. And when I was growing up and my mother-in-law -- I hear her say, "You know, I don't want to be burned. I thought of being burned is not something I want." And so she wanted to be buried.

And then other people will come along now and say, "Okay, I thought a body lying in there and whatever happens over years, I don't want that thought." And that's really the choice. Now -- but because of that -- and we thought cremation is newer than traditional burials. Burials go back to the Egyptian, remember. And so they think there are rules and protocol about what you can't do. There are none. As long as it's legal, you can do anything. You could have any kind of service anywhere with the body or without the body.

You can embalm the body and do other -- can have a visitation with a casket. You'd have the casket open where people could see the person and blah, blah, blah. But the final disposition is still going to be cremation. You can cremate the body even after the embalming, even after visitation, all kinds of services, with the casket. And there absolutely are no rules to what you can and cannot do as long as it's legal, and that means just about anything. But see, people don't know that.

So unless you engage them and start giving them all kinds of options, after you find out about that life and what was unique about it and what was really of importance to them, then you could start recommending various options of services, products and all kinds of things, still with the final disposition being cremation. And then even then, there are lots of options about what you do with the cremates and having a final place for people to come and visit in a beautiful cemetery and all kinds of things you can do with that.

So it is such a creative process. And if you don't have creative people doing it, just like what I said, you wind up with something that's more like a commodity. And that's why this is the greatest opportunity we have. And the way to do it is get the people right who interface with the family, if that helps.

Andrew F. Boord ***Fenimore Asset Management Trust - FAM Small Cap Fund - Portfolio Manager***

That's outstanding. I really appreciate it. I hadn't even thought about some of those variables. So that's great. The only other question I have, and there were some great questions before me. I appreciate those. But you mentioned 6.5% is your cost of capital. Did you mean that is likely the cost of the new debt? Or are you talking about a higher math, black, finance and BA type cost of capital.

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

Yes. Andrew, that's our -- what we believe our weighted average cost of capital will end up post the refinancing transaction, highly accretive and really is going to be a meaningful impact to our return on invested capital moving forward.

Andrew F. Boord ***Fenimore Asset Management Trust - FAM Small Cap Fund - Portfolio Manager***

Excellent. Yes, that's great. We're getting pretty close to that time period. You can call that debt. I think it was a June 1, maybe. I can't remember. I promise I read that letter, but it took me 3 days. I may have forgotten a few details, but when should we expect some news on that?

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

That's a 30-year anniversary at Carriage. How cool is that? June 1.

Andrew F. Boord ***Fenimore Asset Management Trust - FAM Small Cap Fund - Portfolio Manager***

Oh, that's good. There you go.

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

Yes. Andrew, you're correct. It is -- June 1 is the call date. We're focused on refinancing those notes, and we'll provide detail as it comes. Absolutely.

Andrew F. Boord ***Fenimore Asset Management Trust - FAM Small Cap Fund - Portfolio Manager***

Okay. I look forward to that. That's great. Outstanding. Well, guys, that's really all the questions I have, but I do want to say thank you again to everybody, and I really enjoy those letters. I've read them all. So thank you for keeping those coming.

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

Thank you, Andrew. Look, I want to -- I just want to thank my sixth grade teacher, [Barbara]. We had a really smart class since she moved through the grammar real fast and said, "Okay, now I'm going to hit you 6 graders with creative writing." And I'll never forget it. I wrote a story about the day in the life of an ant. But I didn't say it was an ant, and you didn't know it until the end. And my class to this day remembers that. How relevant that is to Carriage? I have no idea.

Operator

Thank you. And I'm showing no further questions at this time. I'd like to turn the call back to Mel Payne for any closing remarks.

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

Well, you heard from all of our 8 players on the executive team today. And if you want to know why I never plan to retire, it's them and everybody else in this company. You come to work. You have a lot of fun. You work really hard. You work really smart. You work together. And you take a journey, and we hope you take it with us. Thank you very much for your support.

Operator

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

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