

**High Performance  
Through Passion and  
Partnership!**

**Being The Best Mission**  
**Five Guiding Principles**  
**First Who, Then What**  
**Right People On, Wrong People Off**  
**Flywheel Effect**  
**High Performance Culture Company**  
**Good To Great Journey**  
**High Valuation Over Time**  
**Built To Last Company**

Being The Best Mission  
Five Guiding Principles  
Flywheel Effect

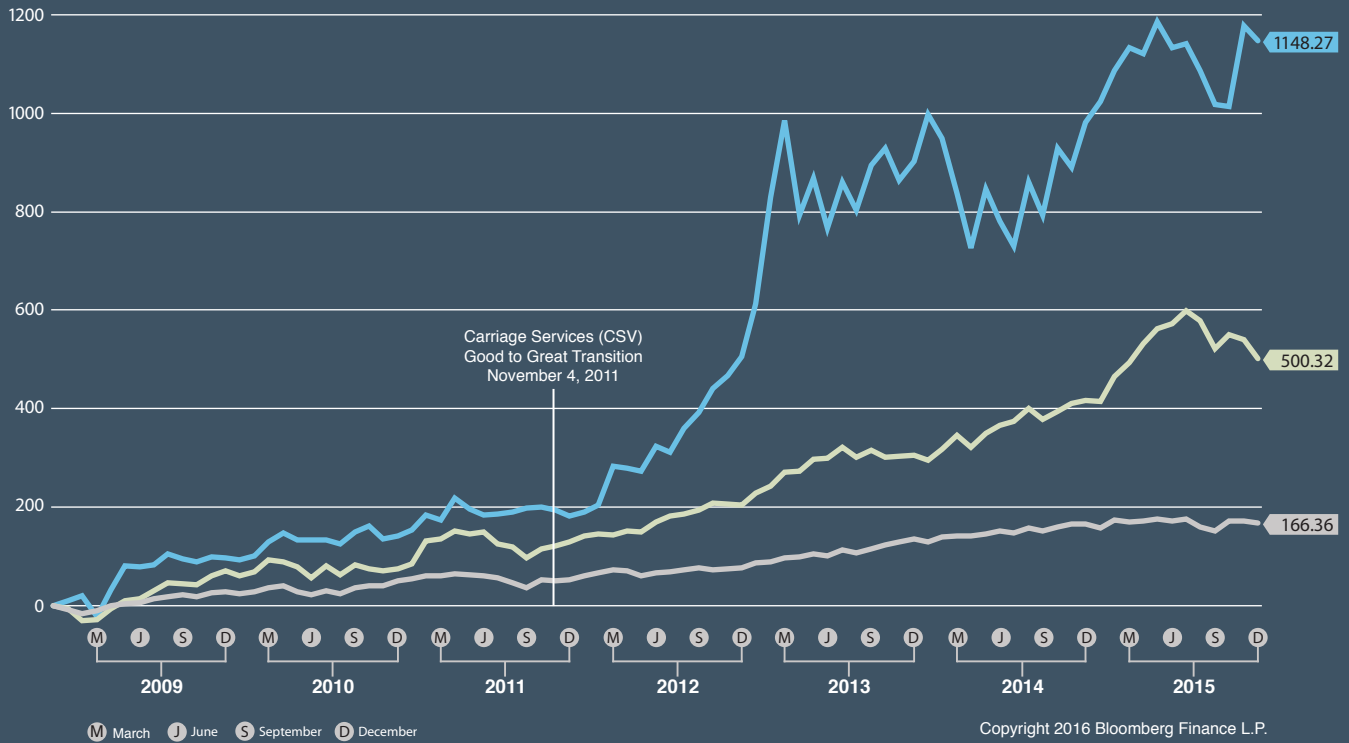
First Who, Then What  
Right People On, Wrong People Off  
Good To Great Journey

Built To Last Company  
High Performance Culture Company  
High Valuation Over Time

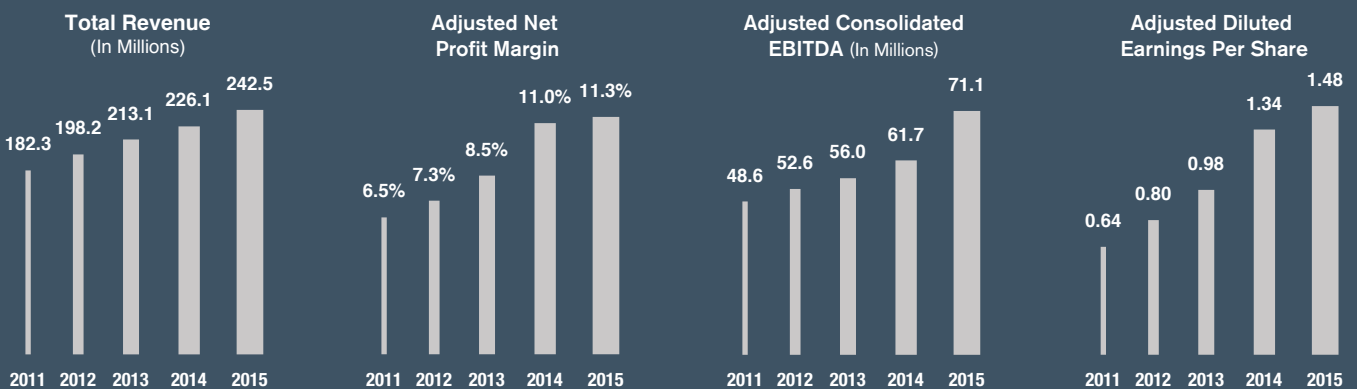
**Total Return 2009–2015 YTD Dec\***

\*Total Return includes stock price appreciation and dividend reinvestment

— Carriage Services (CSV): 1148.3%  
— Service Corporation Int. (SCI): 500.3%  
— Russell 3000 Index (RAY): 166.4%



The results after four full years of our five year Good To Great Journey launched on January 1, 2012 have been remarkable, as reflected in the Total Shareholder Return graph above comparing the seven full years ending December 31, 2015 (since January 1, 2009) of Carriage (up 1148.3%), SCI (up 500.3%) and the Russell 3000 Index (up 166.4%). Moreover, over 84% of Carriage’s Total Shareholder Return over the last seven years has been realized since our Good To Great Journey began, as our stock price has increased 330% from \$5.60 per share on December 31, 2011 to \$24.10 per share on December 31, 2015.



# SHAREHOLDER LETTER

---

Consistent with our annual **Good To Great** theme of “**Carriage Services 2015: High Performance through Passion and Partnership!**”, our 2015 performance was our seventh straight record annual performance with Total Revenue growth of 7.2% to \$242.5 million, Adjusted Consolidated EBITDA growth of 15.4% to \$71.1 million, Adjusted Diluted EPS growth of 10.4% (19.4% excluding 10¢ tax benefit in 2014) to \$1.48, and Adjusted Free Cash Flow growth of 13.0% to \$43.7 million. Since we launched the **Carriage Good To Great Journey** at the end of 2011, our long term performance trends have been extraordinary and have produced market beating shareholder returns:

	Years Ending December 31 (millions) <sup>(1)</sup>					
	Base Year	Carriage Good To Great Journey				
	2011	2012	2013	2014	2015	CAGR %
Total Revenue	\$ 182.30	\$ 198.20	\$ 213.10	\$ 226.10	\$ 242.50	7.4%
Adjusted Consolidated EBITDA	\$ 48.60	\$ 52.60	\$ 56.00	\$ 61.70	\$ 71.10	10.0%
Adjusted Consolidated EBITDA Margin	26.6%	26.5%	26.3%	27.3%	29.3%	
Adjusted Diluted Earnings Per Share	\$ 0.64	\$ 0.80	\$ 0.98	\$ 1.24 <sup>(2)</sup>	\$ 1.48	23.3%
Adjusted Free Cash Flow	\$ 29.10	\$ 22.90	\$ 36.20	\$ 38.60	\$ 43.70	10.7%
Share Price at December 31	\$ 5.60	\$ 11.87	\$ 19.53	\$ 20.95	\$ 24.10	44.0%

<sup>(1)</sup> Except Per Share and Percentage Amounts, presented in all tables herein

<sup>(2)</sup> Adjusted for one-time tax benefit of 10¢ per share

## HIGH AND SUSTAINABLE CASH EARNING POWER – COMPANY AND INDUSTRY MILESTONE

We believe that the achievement of an Adjusted Consolidated EBITDA Margin of 29.3% in 2015 is a level that has never been reached in the over fifty year history of deathcare consolidation by any mature, public company using current accounting methodology. This industry milestone confirms our conviction that Carriage has evolved over the last twelve years, and especially over the last four years, into a superior consolidation, operating and value creation platform for the funeral and cemetery industry. So much so that we have begun to describe our company as a High Performance Culture Company that just happens to be in the funeral and cemetery industry.

For those of you relatively new to the Carriage story, such a description might seem presumptuous, but it is factually supported by “trend is our friend” high and sustainable quantitative operating and financial performance over multiple years, as shown above. Since Ben, Viki, and I assumed the investor relations function in late September of last year and began to actively communicate with our institutional owners, we have learned that there was a very weak understanding in the investment community as to what makes Carriage so uniquely different as a value creation platform in our industry. Accordingly, we are committed to doing a better job in the future of explaining our company and its High Performance Culture Framework to institutional equity investors, especially as it relates to capital allocation and long term shareholder value creation. For this reason I will focus more on Carriage as a unique long term investment opportunity in this shareholder letter.

---

Having evolved Carriage over the last twelve years into a superior consolidation and operating platform within our industry, this past year we added to our **Ten Year Vision** a third element related to long term shareholder value creation, as follows:

**Become recognized by institutional investors and those in our industry as a superior Consolidation, Operating and Value Creation Investment Platform by consistently allocating our precious capital, especially our growing Free Cash Flow, with disciplined savviness and flexibility among various investment options so as to maximize the intrinsic value of Carriage per share over the next ten years.**

### **CARRIAGE FRAMEWORK OF HIGH PERFORMANCE IDEAS AND CONCEPTS**

---

Carriage's High Performance Culture Framework is designed around a few simple high performance concepts related to our view that over the last fifty plus years the consolidation and operation of family owned funeral homes and cemeteries by public companies has been over managed for short term yet unsustainable maximum profit, and under led for long term and sustainable market share and profitability growth. Our three core models, comprised of our Standards Operating, 4E Leadership, and Strategic Acquisition Models, are premised on the following passionate convictions about our company, business and industry:

- High Performance Ideas and Concepts of Carriage are 100% aligned with our **Mission of Being The Best** and **Five Guiding Principles**, which are the Qualitative elements that drive our High and Sustainable Quantitative Performance;
- Words in the form of ideas, concepts, high performance standards, recognition, Mission, Vision and Guiding Principles matter greatly to people with exceptional talent, especially those who are part of high performance teams – so over time we have developed a unique Carriage High Performance Culture Language;
- Nature of each of our businesses is high value personal service and sales delivered locally through highly motivated, skilled and culturally aligned leaders and employees fully involved in their communities;

- 
- Nature of each market in which we operate is highly competitive for market share with each market and Carriage business being unique as to its competitive opportunities and challenges that are not prone to centralized solutions or top down initiatives;
  - Weak leadership locally will make a healthy and/or dominant business weaker in competitive standing (market share) over time, whereas strong **4E Leadership** and the **“Right Quality of Staff”** in a Carriage business will produce high and sustainable performance from a good business almost overnight, consistent with the high performance concept of **First Who, Then What;**
  - A few simple high operating performance standards that do not change over time weighted heavily toward long term growth in funeral volumes and preneed cemetery property sales, which are the primary drivers of locally produced economic value creation through the financial dynamic of operating leverage, attracts the top entrepreneurial and competitive talent to Carriage businesses that do not need to be managed – just supported, recognized and rewarded like a partner; and
  - Nature of our industry is akin to “birds of a feather flock together”, as we have found that making Carriage highly selective on acquisitions and talent is attractive to the best remaining independent businesses and top entrepreneurial talent who want to join an elite club of **“Only The Best”** Carriage businesses and Managing Partners.

Our 2015 full year-end earnings press release dated February 16, 2016 was the most comprehensive in our history because we believe that long term investors want to hear about our high and trending higher over time performance using our own unique high performance culture language as opposed to the required GAAP language in SEC filings. The Carriage Language, which links all elements of our High Performance Culture Framework, is used by our senior leadership team along with the associated reporting to lead the company internally with a goal of continuously improving execution of our three core models over five year time frames.

During the first four years of our **Good To Great Journey**, our Adjusted Diluted EPS has increased \$0.84 per share equal to 131% from \$0.64 in 2011 to \$1.48 in 2015, while our stock price increased 330% from \$5.60 at year-end 2011 to \$24.10 at year-end 2015. We believe that most of the value creation over the last four years occurred in our field operations because of outstanding execution of our three core models, so I will attempt to dissect the primary “roughly right drivers” of our 84¢ per share Adjusted EPS increase using our Five Year Trend Report data shown on page 24 of this 2015 Annual Report.

## FIELD EBITDA VALUE CREATION

The value creation concept that has evolved over the last twelve years at Carriage is that we must first become a good operating company of funeral homes and cemeteries, meaning that we must be able to organically grow our number of customers served through our existing businesses and thereby our same store revenues and profits over time. Only then should we be acquiring new businesses that have an even higher revenue and profit growth profile compared to our same store portfolio. Shown below are the trends of our five Field EBITDA categories reflecting the value creation dynamic in each since 2011:

Field Performance	Years Ending December 31 (millions)					4 Year CAGR	Change 2011-2015
	Base Year	Carriage Good To Great Journey					
	2011	2012	2013	2014	2015		
Total Revenue	\$182.3	\$198.2	\$213.1	\$226.1	\$242.5	7.4%	\$ 60.2
Same Store Funeral Field EBITDA	\$ 45.3	\$ 48.4	\$ 47.0	\$ 46.7	\$ 50.6	2.8%	\$ 5.3
Acquisition Funeral Field EBITDA	0.8	5.1	8.4	13.8	17.7	N/A	16.9
Total Funeral Field EBITDA	\$ 46.1	\$ 53.5	\$ 55.4	\$ 60.5	\$ 68.3	10.3%	\$ 22.2
Same Store Cemetery Field EBITDA	\$ 9.4	\$ 9.9	\$ 11.7	\$ 11.8	\$ 14.0	10.6%	\$ 4.6
Acquisition Cemetery Field EBITDA	-	(0.1)	-	0.4	1.1	N/A	\$ 1.1
Total Cemetery Field EBITDA	\$ 9.4	\$ 9.8	\$ 11.7	\$ 12.2	\$ 15.1	12.7%	\$ 5.7
Total Financial Field EBITDA	\$ 12.6	\$ 15.3	\$ 17.3	\$ 17.7	\$ 18.1	9.5%	\$ 5.5
Total Field EBITDA	\$ 68.1	\$ 78.6	\$ 84.5	\$ 90.4	\$ 101.5	10.5%	\$ 33.4
Total Field EBITDA Margin	37.3%	39.7%	39.6%	40.0%	41.9%		460bp

While we have grown revenue over the last four years at a compound rate of 7.4%, totaling an increase of \$60.2 million since 2011, we have converted 55.5% of each dollar of revenue into Field EBITDA, which has grown by \$33.4 million since 2011 equal to a compound growth rate of 10.5% annually.

The impressive value creation dynamic in our field operations since 2011 is a function of the leadership and people qualitative elements of Carriage's high performance culture driving high and trending higher over time quantitative results. Our results over longer periods of time are no longer highly correlated to whether we make frequent acquisitions, just the right ones, or to when baby boomers start to die, or as much as in the past to short term uncontrollable vagaries of our industry such as death rates, timing and degree of the flu season, cremation versus burial mix trends, quarterly seasonality, economic cycles, market cycles and volatility, etc.

---

In other words, while our industry continues to be challenged by secular headwinds, we see the “industry and our company glass as half full” with tremendous upside, while others might see the industry and their business glass as half empty. In the High Performance Culture world of Carriage, “half glass empty” thinking by others spells OPPORTUNITY!

## **A SUPERIOR STANDARDS OPERATING MODEL – SAME STORE VALUE CREATION**

---

There has been a myth in the public equity market which we ourselves have perpetuated over the last four years that companies in our industry could not grow our existing same store portfolio of businesses because of secular headwinds (lower death rates and higher cremation rates), meaning that future value creation at Carriage is dependent only on acquisitions. We learned from the 1990’s acquisition mania and subsequent crash that thinking like that is dangerous to the financial health of the company, its leaders and employees, its creditors, and especially its shareholders because it inevitably leads to making bad acquisitions or overpaying for good ones just to make the “consensus estimates” of Wall Street analysts.

While “hitting or beating” the quarterly analyst “consensus estimates” methodology might be (regretfully) supportive of company stock price movements in the short term, gaming the numbers by making frequent acquisitions is certainly not good for long term value creation and market beating shareholder returns over much longer timeframes. I will discuss our view of the right way to grow by acquisition on page 8 of this letter.

We like to say that “the data don’t lie”, but full transparency using our innovative Five Year Trend Reports is the only way to derive the deeper insight into the superiority of our Standards Operating Model, which produces high and sustainable same store operating and financial performance because of our relentless focus on **“4E Leadership and Right Quality”** of people. The locally controllable business profit for each of our businesses is defined in our Trend Reports as Field EBITDA, which has no regional or corporate overhead allocations and no cost of capital or such GAAP accounting costs as depreciation and amortization charged to the business. Carriage also provides many support services to all of our businesses without charge, enabling the Managing Partners to be incentivized and judged only on what is locally controllable cash revenues and expenses, i.e. Field EBITDA which also approximates pre-tax Free Cash Flow at each business.



Shown below are Same Store performance data taken from our Five Year Trend Report that highlights conclusively and compellingly that we can produce low single digit compounded revenue growth over the long term while producing materially higher rates of growth in Same Store Field EBITDA. Almost all of the incremental increase over time of our Same Store Field EBITDA falls down through our relatively fixed overhead platform to Adjusted Consolidated EBITDA, which in our view is the primary value creation metric that approximates the cash earning power of Carriage as a consolidation and operating platform in our industry.

	Years Ending December 31 (millions)						
	Base Year	Carriage Good To Great Journey				4 Year	Change
	2011	2012	2013	2014	2015	CAGR	2011-2015
<b>Funeral Same Store</b>							
Funeral Contracts	25,507	25,164	25,341	25,040	25,270	-0.2%	(237)
Funeral Revenue	\$128.6	\$128.3	\$128.3	\$127.5	\$131.7	0.6%	\$ 3.2
Funeral Field EBITDA Margin	35.2%	37.7%	36.7%	36.6%	38.4%		+320 bp
Funeral Field EBITDA	\$ 45.3	\$ 48.4	\$ 47.0	\$ 46.7	\$ 50.6	2.8%	\$ 5.3
<b>Cemetery Same Store</b>							
Preneed Internments Sold	6,311	6,263	7,003	7,227	7,585	4.7%	1,274
Cemetery Preneed Prop. Rev	\$ 16.7	\$ 17.8	\$ 19.7	\$ 20.4	\$ 22.7	7.9%	\$ 5.9
Cemetery Revenue	\$ 36.5	\$ 38.1	\$ 40.2	\$ 41.3	\$ 43.3	4.4%	\$ 6.9
Cemetery Field EBITDA Margin	25.7%	26.0%	29.3%	28.7%	32.4%		+670 bp
Cemetery Field EBITDA	\$ 9.4	\$ 9.9	\$ 11.8	\$ 11.8	\$ 14.0	10.6%	\$ 4.7
<b>Total Same Store</b>							
Total Same Store Revenue	\$165.0	\$166.5	\$168.4	\$168.7	\$175.1	1.5%	\$ 10.0
Total Same Store Field Margin	33.1%	35.0%	34.9%	34.7%	36.9%		+380 bp
Total Same Store Field EBITDA	\$ 54.6	\$ 58.3	\$ 58.8	\$ 58.6	\$ 64.6	4.3%	\$ 10.0

As reflected above, our Same Store Funeral Contracts from 2011 to 2015 remained basically flat (-0.2% decline), beating any industry benchmarks that we know about, while Same Store Funeral Revenue increased 0.6% annually and Same Store Funeral Field EBITDA 2.8% annually equal to an increase over four years of \$5.3 million. Even more impressively, our Same Store Cemetery Revenue achieved compounded revenue growth of 4.4% and Same Store Cemetery Field EBITDA (excludes large financial profit from trusts) growth of 10.6% annually from 2011 to 2015, equal to an Operating Profit increase over four years of \$4.7 million.

---

On a combined Same Store Funeral and Cemetery basis from 2011 to 2015, our revenue grew at a compound annual rate of 1.5% and the local controllable Same Store Field EBITDA grew at a much higher annual rate of 4.3%, equal to a Total Same Store Field EBITDA increase of \$10.0 million. Remarkably, as a function of the mature operating leverage dynamic in our same store portfolio, we have converted 99.3% of each incremental dollar of Same Store Revenue into incremental Same Store Field EBITDA, i.e. \$10 million incremental revenue was converted into approximately \$10.0 million Field EBITDA, almost all of which falls straight to Carriage's pre-tax income. Put another way, we would need approximately \$80 - \$90 million of acquisition spending to achieve the same range of bottom line earnings growth.

For those of us working inside Carriage since 2011, and especially this past year, the contribution our existing same store businesses made to our performance and value creation process has not been a surprise. Nor have the longer term secular trends of lower death rates and higher cremation rates prevented our leaders and employees from successfully achieving low single digit revenue growth that is leveraged into substantially higher growth rates of locally produced Same Store Field EBITDA and Free Cash Flow.

Because our existing same store businesses have been owned at least five years (most acquired 1992 – 1999), increases in locally generated Same Store Field EBITDA does not carry incremental “below the line” depreciation/amortization and interest costs that are associated with new acquisitions. Therefore, incremental Same Store Field EBITDA approximately converts into Consolidated EBITDA and Carriage pre-tax income, enabling each of our Managing Partners to know how much EPS contribution their business with the **Right Who** employees makes to Carriage's performance over time. Our current Same Store EPS “meter moving” benchmark is \$275,000 of incremental Field EBITDA equals 1¢ per share of EPS for Carriage.

---

## **A SUPERIOR STRATEGIC ACQUISITION MODEL – ACQUISITION VALUE CREATION**

---

As we execute our Strategic Acquisition Model over the next 5 – 10 years, we expect that our highly defined ten strategic criteria for new acquisitions will add larger, higher margin businesses to our portfolio. These Ten Strategic Criteria are designed to add businesses that over the first 5 years of our ownership will produce compound annual revenue growth of 2% – 4% and Field EBITDA growth of 6% – 8% because of gradually increasing Field EBITDA Margins. During the second 5 years of our ownership, acquired businesses will then be reported in our same store portfolio and expected to produce compound revenue growth of at least 2% and Field EBITDA growth of at least 4%, thereby over a ten year timeframe creating even larger pools of Free Cash Flow that are allocated for investment to maximize long term intrinsic value per share.

Execution of our Strategic Acquisition Model over a full ten year timeframe should produce a portfolio of existing businesses that exhibits a higher revenue growth and higher Field EBITDA Margin profile compared to our current portfolio. Shown below are funeral home and cemetery portfolio trend data on businesses that have been acquired since 2011:

Acquisition Portfolio	Years Ending December 31 (millions)					
	Base Year	Carriage Good To Great Journey				Change 2011-2015
	2011	2012	2013	2014	2015	\$ / bp
Funeral Revenue	\$ 3.3	\$ 14.9	\$ 25.6	\$ 36.8	\$ 44.6	\$ 41.3
Funeral EBITDA Margin	25.0%	34.4%	32.9%	37.4%	39.8%	1,480bp
Funeral Field EBITDA	\$ 0.8	\$ 5.1	\$ 8.4	\$ 13.8	\$ 17.7	\$ 16.9
Cemetery Revenue	-	\$ 0.2	\$ 0.3	\$ 1.6	\$ 3.3	\$ 3.3
Cemetery EBITDA Margin	-	(45.8%)	(14.4%)	22.0%	32.8%	N/A
Cemetery Field EBITDA	-	\$ (0.1)	-	\$ 0.4	\$ 1.1	\$ 1.1
Total Acquisition Revenue	\$ 3.3	\$ 15.0	\$ 25.9	\$ 38.4	\$ 47.9	\$ 44.6
Total Acquisition EBITDA Margin	25.0%	33.6%	32.4%	36.8%	39.3%	1,430bp
Total Acquisition Field EBITDA	\$ 0.8	\$ 5.0	\$ 8.4	\$ 14.1	\$ 18.8	\$ 18.0

Since 2011 we have made sixteen separate acquisitions, numbering seven in 2012, one in 2013, six in 2014 and two in 2015, which have added higher revenue growth and Field EBITDA Margin businesses to our operating portfolio compared to our same store portfolio.

Our Ten Strategic Acquisition Criteria are each weighted according to the qualitative profile of the business and predictability of future growth in revenue irrespective of how the business is being managed under current ownership. Of the sixteen acquisitions we have made since 2011, only one has been a combination funeral home/cemetery business that was in the divestiture group of four businesses in New Orleans that we acquired from SCI in May 2014. In general these funeral businesses have mostly exceeded our expectations for revenue and Field EBITDA growth and as a group have achieved two straight years of Field EBITDA Margins (37.4% in 2014, 39.8% in 2015) that exceeded that of our same store portfolio.

---

Total Acquisition Revenue since 2011 increased by \$44.6 million and Total Acquisition Field EBITDA increased by \$18.0 million, a revenue into Field EBITDA conversion rate of 40.3% or less than half the 99.3% conversion rate of our same store portfolio because of the immaturity of the acquisition portfolio within the Carriage High Performance Framework. After five years of operating and being reported in our acquisition portfolio, a business then moves into our same store portfolio, where incremental revenue conversion into Field EBITDA should be at least 70% or higher.

We would expect this trend to continue in the future consistent with our **Ten Year Vision** of building a higher growth revenue and Field EBITDA profile portfolio by execution of our three core models. As we successfully execute this **Ten Year Vision** of Carriage, we would expect, rationally we hope, that Mr. Market would place a higher value on our performance metrics as well, i.e. our share price follows like night follows day the **Good To Great** execution of our three core models over time.

## **FINANCIAL SEGMENT VALUE CREATION**

---

Carriage took direct control of the investment decisions in our discretionary preneed funeral and cemetery trust accounts on October 14, 2008. Since 2009, our discretionary preneed trusts have had a total return of 163% and have recognized approximately \$111 million of net income in the trusts. Our investment strategy has focused on individual security selection with a bias since 2011 towards high yield fixed income securities. The large amount of recurring income from our fixed income portfolio benefits Carriage's preneed trusts by consistently accruing earned interest income on preneed funeral and cemetery contracts to be delivered in the future and through income earned in the current period in our cemetery perpetual care accounts.

Carriage views the prudent management of the preneed trust funds as a vital component of being a **Good To Great** operating company and as an important part of our Carriage Support Platform services to our field operating businesses with the goal of contributing to higher Standards Achievement over time by our Managing Partners and their teams.

Financial	Years Ending December 31 (millions)						
	Base Year	Carriage Good To Great Journey				Change 2011-2015	
	2011	2012	2013	2014	2015	CAGR	Dollars
Preneed Funeral Commission Income	\$ 1.8	\$ 1.7	\$ 1.8	\$ 2.0	\$ 1.5	-4.9%	\$ (0.3)
Preneed Funeral Trust Earnings	\$ 6.3	\$ 5.9	\$ 7.4	\$ 7.5	\$ 8.0	6.3%	1.7
Cemetery Trust Earnings	\$ 4.6	\$ 7.6	\$ 8.1	\$ 8.1	\$ 8.4	16.2%	3.8
Preneed Cemetery Finance Charges	\$ 1.3	\$ 1.5	\$ 1.4	\$ 1.4	\$ 1.6	5.2%	0.3
Total Financial Revenue	\$ 14.0	\$ 16.7	\$ 18.7	\$ 19.0	\$ 19.5	8.7%	\$ 5.5
Total Financial EBITDA	\$ 12.6	\$ 15.3	\$ 17.3	\$ 17.7	\$ 18.1	9.5%	\$ 5.5
Financial EBITDA Margin %	90.2%	91.3%	92.3%	93.0%	92.9%		270bps

Since 2011, Carriage has grown Financial Revenue by approximately 40% from \$14.0 million to \$19.5 million in 2015, while Financial EBITDA has increased by approximately 44% from \$12.6 million to \$18.1 million. We don't expect to have large increases in Financial Revenue and EBITDA in future years like we experienced over the past five years, but we do view the current run rate as sustainable due to the large amount of currently recurring income from our fixed income portfolio as well as the large amount of historically realized net income that has been accrued to existing preneed contracts that have yet to be serviced. We are currently as in the past focusing on individual company and security selection with a bias toward high yield securities in sectors under recent economic stress that can be acquired at a discount to par with recurring income "rent payments" that provide some degree of equity return on invested capital as well as prospective capital gains in the future.

In 2011 we began to report in our highly transparent Trend Report a Non-GAAP section for Withdrawable Trust Income, which represented earned income in cemetery preneed trusts that we were able to withdraw prior to a death occurring. The reported number on a quarterly basis reflects the change in available income to be withdrawn. Since 2011, Carriage has withdrawn approximately \$13 million in cash from these trust accounts, including a withdrawal of \$10 million in 2011, as our trust funds became substantially over funded because of the success of our portfolio repositioning strategy during and after the financial crisis of 2008/2009.

The amount of Withdrawable Trust Income reported as Non-GAAP has steadily declined over the past five years and was an insignificant contributor to our record 2015 results. We do not expect this category to be material in the future, so we likely will not include this category in our Adjusted EPS. This change will be part of our effort to have our Non-GAAP Adjusted EPS begin to converge during 2016 with our GAAP EPS.

## CONSOLIDATION PLATFORM OVERHEAD VALUE CREATION

At Carriage we believe that our relatively flat overhead structure plays an important role in our ability to create value by allowing an increasing amount of incremental Same Store Field EBITDA and Acquired Field EBITDA to fall straight through our overhead platform to our primary value creation metrics of Adjusted Consolidated EBITDA and Free Cash Flow. The Houston Support and Regional Leadership Teams are continuously focused on supporting our Managing Partners and their employee teams toward the goal of achievement of high and sustainable **Being The Best** Operating and Financial Standards. Integral to our High Performance Culture is a commitment to ensure that the hard work and performance of our operating businesses aren't needlessly wasted on extraneous overhead costs, public company bureaucracy and top down initiatives.

Shown below are the three components of our Carriage Platform Overhead over the 2011 - 2015 timeframe:

Overhead	Years Ending December 31 (millions)						
	Base Year	Carriage Good To Great Journey				Change 2011-2015	
	2011	2012	2013	2014	2015	CAGR	Dollars
Variable	\$ 9.4	\$ 9.6	\$ 8.8	\$ 10.8	\$ 10.9	3.7%	\$ 1.5
Regional Fixed	3.0	2.6	3.4	3.1	3.4	3.2%	0.4
Corporate Fixed	16.5	18.1	20.8	20.2	20.4	5.5%	3.9
Total Overhead	\$ 28.9	\$ 30.3	\$ 33.0	\$ 34.1	\$ 34.7	4.7%	\$ 5.8
% of Total Revenue	15.8%	15.3%	15.5%	15.1%	14.3%		-150bps

---

Since we launched our **Good To Great Journey** at the end of 2011, we have decreased Total Overhead as a percentage of revenue by 150 basis points, from 15.8% to 14.3%. Our expectation is that Total Overhead will continue to fall as a percentage of Total Revenue due to the large decrease in our Operations and Strategic Growth Leadership Team from fifteen to nine members in 2015. A smaller, more collaborative and value creation focused senior leadership team has also led to numerous system, people and productivity improvements within each of our support teams in Houston while simultaneously enabling the support organization in Houston to provide best in class support to a growing number of acquired funeral home and cemetery operations. We believe our current organizational overhead structure can be substantially leveraged with new growth from acquisitions over the next five years.

## **CAPITAL STRUCTURE VALUE CREATION**

---

After the deathcare consolidation mania of the 1990's in which we were a full participant in the stupidity of acquisitions, acquisitions, acquisitions at what became nosebleed valuations during bidding wars through brokers, we had to subsequently navigate through a financial crisis that lasted from 1999 to 2005. The issuance of \$90 million of 30 year, 7% coupon convertible subordinated preferred "Tides" in April 1999, convertible at \$20.44 per common share, provided the financial flexibility and credit support for our financial recovery. Only after deleveraging our balance sheet and improving our operating Free Cash Flow from 1999 to 2005 were we able to issue \$130 million of ten year unsecured 7.875% notes in early 2005, which then enabled us to once again focus on growing Carriage by acquisition – and this time learning from our past mistakes by being highly selective and strategic.

Shown below over the five year period 2011 – 2015 are major changes in our capital structure components, as the two legacy components of \$90 million convertible preferred securities and \$130 million high yield notes that were still in place in 2011 have been refinanced by syndicated bank credit facilities and a new \$144 million convertible subordinated debt security, convertible at \$22.56 per common share on a fully diluted 20% rising scale up to \$53 per share. Our capital structure refinancings have created a substantially lower cost capital structure biased toward shorter maturities to capitalize on a historically low rate interest rate environment following the financial system crisis in 2008/2009.

	Years Ending December 31 (millions)						
	Base Year	Carriage Good To Great Journey				Change 2011-2015	
	2011	2012	2013	2014	2015*	CAGR	Dollars
<b>Capital Structure</b>							
Senior Unsecured 7.875% Notes	\$ 130.0	\$ -	\$ -	\$ -	\$ -		
Senior Secured Bank Debt	\$ 3.1	\$ 172.2	\$ 153.9	\$ 160.8	\$ 203.5		
Location / Acquisition Debt	\$ 6.7	\$ 6.6	\$ 5.9	\$ 4.5	\$ 8.0		
<b>Total Senior Debt</b>	<b>\$ 139.8</b>	<b>\$ 178.8</b>	<b>\$ 159.8</b>	<b>\$ 165.3</b>	<b>\$ 211.5</b>	10.9%	\$ 71.7
7% Convertible Preferred (TIDES)	\$ 89.7	\$ 89.7	\$ 89.7	\$ -	\$ -		
2.75% Convertible Notes	\$ -	\$ -	\$ -	\$ 143.8	\$ 143.8		
<b>Total Debt</b>	<b>\$ 229.5</b>	<b>\$ 268.5</b>	<b>\$ 249.5</b>	<b>\$ 309.1</b>	<b>\$ 355.3</b>	11.5%	\$ 125.8
<b>Shareholders' Equity</b>	<b>\$ 126.8</b>	<b>\$ 134.8</b>	<b>\$ 156.0</b>	<b>\$ 179.9</b>	<b>\$ 157.6</b>	5.6%	\$ 30.8
<b>Total Capital Structure</b>	<b>\$ 356.3</b>	<b>\$ 403.3</b>	<b>\$ 405.5</b>	<b>\$ 489.0</b>	<b>\$ 512.9</b>	9.5%	\$ 156.6
Senior Debt / Total Capital	39.2%	44.3%	39.4%	33.8%	41.2%		
Total Debt / Total Capital	64.4%	66.6%	61.5%	63.2%	69.3%		
Adjusted Consolidated EBITDA	\$ 48.6	\$ 52.6	\$ 56.0	\$ 61.7	\$ 71.1	10.0%	\$ 22.5
Total Debt / EBITDA Ratio	4.7x	5.1x	4.5x	5.0x	5.0x		
Cash Interest	\$ 18.1	\$ 17.1	\$ 13.4	\$ 10.3	\$ 10.6	-12.5%	\$ (7.5)
Non-Cash Convertible Interest	-	-	-	2.5	3.5		
<b>Total Interest</b>	<b>\$ 18.1</b>	<b>\$ 17.1</b>	<b>\$ 13.4</b>	<b>\$ 12.8</b>	<b>\$ 14.1</b>	-6.1%	\$ (4.0)

\*2015 reflects pro forma as if the Seventh Amendment to the Credit Facility was completed as of the year ended December 31, 2015.

The \$144 million convertible note along with our recently extended bank term loan and credit facility secures our low cost of capital structure for the next five years. While the low cost of our capital structure will continue to be accretive to Free Cash Flow and value creation per share over the next five years, we fully recognize that the intermediate term nature of these components and the potential for share count dilution from the convertible notes has been negatively viewed by some long term shareholders.

Given the complexity and confusion that our convertible notes have created among investors, plus the increase in the short interest in our stock and the future cash cost to mitigate any dilution, we somewhat but not entirely regret issuing the \$144 million convertible securities rather than straight eight to ten year high yield unsecured notes. High yield notes would have cost us EPS because of the higher interest rate coupon but would've prevented the concern over 20% future economic dilution related to the convertible securities albeit at much higher share prices, and might have provided investors a reason to assign a higher performance multiple to our shares as we successfully execute our models over time.



---

As we continue to produce high and sustainable operating and financial performance over the next five years we will gradually improve our leveraging metrics from five times Total Debt to EBIDTA at year-end 2015 to about four times Total Debt to EBITDA while simultaneously continuing to grow the company through highly selective acquisitions financed primarily out of our growing Free Cash Flow. Our improving credit profile over the next five years will take maximum advantage of our current low cash cost capital structure, “cashing in” on the benefits of our convertible security and enabling us to refinance our bank credit facilities and convertible subordinated debt with longer maturity capital structure components on the most favorable terms at that time. We will also use opportunities over the next five years to repurchase more of our shares if Mr. Market continues to price them materially below what we consider intrinsic or “fair value” so that existing shareholders own more of our company over time.

### **FREE CASH FLOW ALLOCATION VALUE CREATION**

---

It may come as a surprise to investors not familiar with the long history of consolidation in our industry that there has been no pure common share equity raised since August 1999 by Stewart Enterprises, which reflects the strong operating cash flow characteristics of our sector. Carriage last raised common share equity in May 1998 and neither we nor SCI, the only other domestic public consolidator with a similar corporate structure (StoneMor is structured as a MLP) and twelve times our size, are likely to issue new common shares in the future.

In fact, the number of common shares outstanding in our sector available for purchase has dramatically declined since 1999 as SCI acquired ECI in 1999, Alderwoods in 2006 and Stewart Enterprises in 2013. And both SCI and Carriage have been focused on shareholder value creation by repurchasing our own shares out of Free Cash Flow with the goal of making our remaining shares outstanding more precious and valuable over time.

Carriage has primarily relied on internally generated Free Cash Flow to build equity value for long term shareholders. Our record setting performance over the past four years, coupled with the improvements we have made to our capital structure as described above, has allowed Carriage to allocate our own internally generated capital to grow intrinsic value per share. We expect this trend to continue as we remain disciplined in our investment activities to continue to grow per share value in the years to come. On the following page is a summary of our Adjusted Free Cash Flow and value creation investment activities over the past four years:

	Years Ending December 31 (millions)					Total 2012-2015
	Base Year	Carriage Good To Great Journey				
	2011	2012	2013	2014	2015	
<b>Intrinsic Value Creation Per Share Investment</b>						
<b>Adjusted Free Cash Flow</b>	<b>\$ 29.1</b>	<b>\$ 22.9</b>	<b>\$ 36.2</b>	<b>\$ 38.6</b>	<b>\$ 43.7</b>	<b>\$ 141.4</b>
Acquisition Spending	\$ 18.6	\$ 42.7	\$ 13.6	\$ 54.8	\$ 9.7	\$ 120.8
Share Repurchases	\$ 0.7	\$ 4.5	\$ -	\$ -	\$ 45.0	\$ 49.5
Growth Capital Expenditures	\$ 3.7	\$ 5.2	\$ 4.0	\$ 8.9	\$ 20.0	\$ 38.1
Business Divestitures/Real Estate, net	\$ 0.1	\$ 1.8	\$ (4.1)	\$ 8.4	\$ 6.0	\$ 12.1
<b>Shareholders Value Creation Investment</b>						
<b>(Acq., Repurchases, Growth Capex, Real Estate)</b>	<b>\$ 23.1</b>	<b>\$ 54.2</b>	<b>\$ 13.5</b>	<b>\$ 72.1</b>	<b>\$ 80.7</b>	<b>\$ 220.5</b>
<b>Percentage (%) Funded w/Adj. Free Cash Flow</b>						<b>64.1%</b>

During the past four years Carriage has generated approximately \$141 million of Adjusted Free Cash Flow, which has funded all of our funeral home and cemetery acquisitions over the same timeframe. Our increasing Adjusted Free Cash Flow has also funded over 64% of our total per share value creation investments (acquisitions, share repurchases, growth capital expenditures and real estate transactions) since 2012, while we have maintained a stable Debt to Adjusted Consolidated EBITDA leverage metric between 4.5 and 5 times. Over the next five years this trend will continue and even improve as we execute our Strategic Acquisition Model, while spending on growth capital expenditures and real estate transactions will be lower on an annual basis than 2015.

## HIGH PERFORMANCE HERO VALUE CREATION

Our methodology of reporting locally controllable Field EBITDA is the opposite of what other companies (and Carriage until 2007) have done in the past, i.e. allocating everything but the kitchen sink to the local businesses so as to diminish the reported amount of overhead at the top of the chain of command. Our Managing Partners find the Carriage reporting methodology highly motivating because they know their performance destiny is totally under their control and will be recognized and rewarded.

We offer the opportunity to earn annual **“Being The Best”** performance bonuses and five year **“Good To Great”** value creation bonuses under our innovative incentive programs that have no parallel in the history of consolidation of our industry over the last 50 – 60 years.

---

As we discussed in our 2015 year-end press release, our Variable Overhead was approximately \$1.5 million higher in the fourth quarter than we previously anticipated primarily due to the extraordinary fourth quarter and full year performance from our Managing Partners and their employee teams. As a result we increased our field bonus accrual, i.e. we were **Happy To Pay** for the High Performance produced by our High Performance Hero Managing Partners, who were the primary reason our 2015 performance was a company and industry milestone.

Being a Managing Partner of a Carriage portfolio business is like owning your own business except we do the “not so much fun” ownership stuff services for you, which are essentially free! Who worth their salt wouldn’t want to be a Carriage High Performance Hero Managing Partner?

We have a passionate conviction at Carriage that **RECOGNITION** is the highest form of motivation for **Being The Best** Managing Partners and their winning teams of employees. As anyone knows that listens to our quarterly calls, we take this “on the record” public opportunity to name 15 – 20 Managing Partners and Support Team employees as High Performance Heroes. As Indeed they are!

Our record 2015 performance led to a record thirty-seven Carriage Managing Partners earning a **Being The Best Pinnacle of Service Award**. A **Being The Best** Pinnacle of Service Award is earned when a Managing Partner achieves 70% or higher of their **Being The Best** Performance Standards over a three year period and/or achieves 100% of **Being The Best** Performance Standards in a given year. This amazing group of High Performance Heroes are listed on the page opposite the last page of this letter.

## **CARRIAGE SERVICES – ANALOGY TO BERKSHIRE HATHAWAY**

---

We were contacted this past year by a Columbia University student in his second year of the Columbia MBA Program who wanted to know much more about Carriage’s models and consolidation and operating framework for purposes of a class project. It turns out he was taking the Benjamin Graham course made famous by Warren Buffett, and each student was tasked with screening the public markets in search of a “Compounder Company”, then presenting his research and investment thesis to the entire class. We don’t know what grade he achieved on “Carriage as a Compounder Company”, but we certainly agree with his insight and long term investment thesis, which aligns perfectly with our **Ten Year Vision** of Carriage as a superior Value Creation Investment Platform.

---

Recently we have begun to present Carriage to top quality acquisition candidates as being analogous to Berkshire Hathaway in various ways. First, we like Berkshire want to affiliate with only top quality businesses and owners by reputation who care about and want continued involvement in their business and community after the transaction. Because of the superiority of our Standards Operating Model and our Fifth Guiding Principle, **“Growth of the Company is Driven by Decentralization and Partnership”**, we believe Carriage much like Berkshire has become the preferred succession plan solution for the best remaining independent businesses in the best markets in our industry.

Secondly, as Charlie Munger says of Berkshire Hathaway’s acquisition philosophy, “we will pay a fair price for a good business”, but never want to “pay a good price for a fair business”. There are many more fair and worse businesses and markets in our industry than good ones, so patience on acquisitions is a huge virtue along with building long term relationships with owners of businesses that we know would be a cultural and economic fit for Carriage and would rank high (70% or higher) using our Strategic Acquisition Methodology.

Thirdly, like Berkshire our goal is to avoid if possible buying businesses through brokers, as they have the rational priority of maximizing their transaction fees, which are typically 4.5% - 5.0% of the present value purchase price of the business. Our experience with the broker community is that they are certainly not focused on finding the best long term home for the selling family and business. Moreover, we try to avoid buying businesses from owners who are focused primarily on “maximizing price” because the process often leads to sacrificing long term satisfaction with their decision, i.e. Big Time Former Owner Regret. We are not in the “Regret Business”!

The fourth Carriage analogy to Berkshire Hathaway relates to capital allocation, as Berkshire Hathaway is a holding company (and investment company using insurance business “float”) for a diverse group of top operating companies, each one of the best in their industry sectors with culturally aligned CEO’s and management teams that operate within a decentralized framework. Berkshire Hathaway’s primary role is to harvest the growing pool of free cash flow from all of its wholly owned operating companies and partially owned investment companies and to allocate that capital to where it gets the highest long term return on invested capital within the portfolio of companies. These portfolio companies all have their individual leadership and support organizations and invest capital for long term superior returns on capital without regard to public company “short termism” pressure practiced by Wall Street.

Much like Berkshire, we view Carriage as a holding company of elite businesses in thirty states which are collectively producing larger pools of Free Cash Flow over time for our leadership to harvest and then allocate for superior long term returns on invested capital. This past year we invested our record Free Cash Flow of \$43.7 million primarily in two areas, growth capital projects

---

(three new funeral homes in high growth markets and large cemetery product inventory) totaling \$19-20 million, and repurchase of 1.9 million shares (12% of shares outstanding) for \$45 million, equal to \$23.34 per share. We believe that in five years these share repurchases will look as wise as the repurchase of 3.1 million shares equal to approximately 15% of our shares outstanding during the 2008/2009 financial crisis for \$10 million (\$3.23 per share) out of Free Cash Flow. We also made two high quality funeral home acquisitions during 2015 that ranked high within the framework of our Ten Strategic Ranking Criteria.

The fifth Berkshire Hathaway analogy is actually an inverse analogy, as Berkshire has only a small headquarters organization of about thirty people. We are the opposite of Berkshire Hathaway on home office organization, as we have all the support services (IT, HR, Legal, Reporting, Capital Planning and Investment, Operational Analysis, etc.) provided by our home office teams in Houston that we essentially offer for free to each Managing Partner of a business in our portfolio.

The final and sixth analogy relates to leadership of acquired businesses, as Berkshire would not acquire a business without a culturally aligned and most likely long tenured CEO already in place. And while we would much prefer to find the 4E Leadership Managing Partner required to execute our Standards Operating Model already in an acquired business, we stand ready to recruit a Managing Partner for the business that is mutually acceptable to both the selling family and to Carriage. This task of recruiting Managing Partners that possess 4E Leadership characteristics has become easier as our high performance reputation has spread throughout our industry.

## **EVOLUTION OF IDEA OF BEING THE BEST**

---

In this shareholder letter we have covered in detail the first four years of the first Five Year Timeframe of **Carriage's Good To Great Journey** that in principle should never end. More on that later. We expect to make 2016 a continuation of our "trend is our friend" performance over the last four years, and then to outline more specifically another Five Year Timeframe beginning in 2017 with annual themes for a continuation of **Carriage's Good To Great Journey**.

But for those of you who might be new to the Carriage story, and perhaps intrigued by the unorthodox nature of the various elements and reporting of our High Performance Culture Framework (or mad and/or confused), I will serve up a little co-founder history as well as the philosophy that drove and evolved the idea of Carriage as a **Being The Best** Value Creation Platform by first **Becoming The Best** as an Operating and Consolidation Platform in our industry.

---

After co-founding and then building Carriage and taking it public in 1996, we made all the same aggressive growth mistakes on cheap leverage as all the other consolidation companies at the time. But in 2003 we had financially recovered to a degree that the focus then became, “how do we become a good operating company?” It took brutal honesty to conclude that we had to literally do the opposite of what we and other consolidation companies had been doing in the past, which meant complete elimination of budgets and the processes, organizational hierarchies and business strategies that are used “to manage” a deathcare consolidation company to a desirable financial outcome. Over time this idea evolved and spread in unintentional and unpredictable ways throughout all field operations and home office support teams.

When someone has an idea that is radically different from what others believe is the “right way” to do something, the resistance is fierce and unrelenting from everywhere and at all times seemingly forever. But as Winston Churchill famously said to the British people about their future during the darkest hours of World War II, **“Never, Never, Never Give Up!”** And so it was with the idea in 2003 of a Funeral Standards Operating Model and especially our two “people standards”, i.e. **Right Quality of Staff** and **Continuous Upgrading of Staff**, each weighted 10% or a total of 20% of 100%. But the “unknowingness” of how to define these two people standards led us later to customize Jack Welch’s **4E Leadership Model** for Carriage in 2006 – and the rest as they say is Carriage evolutionary history although at times the process more closely resembled “revolution”!

Reading recently in The Wall Street Journal about Ray Dalio’s Bridgewater Associates L.P. reminded me of the similar evolutionary process that has occurred at Carriage over the last twelve years, and especially over the last four years culminating with radical senior leadership change in 2015. A former executive said about Bridgewater, “Bridgewater is an evolution machine. It makes changes, it can be painful and messy. But they steer the ship in a quite dexterous way.” The article also stated that some employees describe Bridgewater as an oasis where they are freed from traditional corporate hierarchies and are challenged to be their best.

And in a written statement, Mr. Dalio said, “By bringing problems to the surface and dealing with them forthrightly we produce better results and greater camaraderie among the people who love being that way. . . all employees know that Bridgewater is a real idea-meritocracy. It’s great for the people who love it and is difficult for those who don’t”.

That sentiment by Ray Dalio about Bridgewater is exactly the nature of Carriage’s High Performance Culture as it exists today. The Carriage to Bridgewater analogy might seem presumptuous or even preposterous, but not to me or the remaining nine members of our Operations and Strategic Growth Leadership Team. Nor to the vast majority of leaders and employees across our company in all areas.

---

What is fascinating today at Carriage, as compared to many different points in the past, is that if someone is not a high performance culturally aligned collaborative fit with other members of the Carriage team, their past success in other companies has zero correlation with success at Carriage and 100% correlation with rapid failure and subsequent elimination from our company. In other words, you either fit or you don't, and it's quickly apparent who either doesn't belong on the Carriage Enterprise Bus or is in the wrong seat on the bus. Everyone who does fit is passionate and excited about collaboration toward the same vision of accelerating the **Good To Great Journey** of a lifetime.

### **CARRIAGE AS A COMPOUNDER COMPANY**

---

Our Carriage High Performance Culture Framework has entered the sweet spot for superior value creation over the next ten years and beyond with or without a baby boomer death explosion. As co-founder, Chairman, CEO and largest individual shareholder with an approximate 10% family stake, I literally have "all my net worth eggs in the Carriage basket". But at 73 years of age and surrounded and supported by a company full of high performance leaders and employees, and an industry landscape that has turned decidedly in our favor, I wish I owned a lot more of our company.

If you happened to listen to our 2015 full year earnings conference call on February 17, 2016, then you already know that I followed Larry Fink's public company CEO call to action that, "Today's culture of quarterly earnings hysteria is totally contrary to the long term approach we need." For Carriage that means we will no longer respond to questions on our quarterly conference calls about the details of quarterly performance because we do not view "short term finish line results" as having any relevance to long term value creation.

What does have huge relevance is how well we execute our three core models over five year timeframes in 100% alignment with our **Mission of Being The Best** and **Five Guiding Principles**. And as I've outlined in detail in this letter, we believe the most difficult phases of evolving a radically different idea about how best to operate and consolidate funeral homes and cemetery businesses are behind us. That strong belief, actually a passionate conviction, means that the next five to ten years and longer should be Carriage's "time in the sun" for the best businesses and talent to find a high performance home with others who are like-minded with their ideals and vision.

Each of the members of our Operations and Strategic Growth Leadership Team is also learning how to be a great investor of Carriage's internally generated Free Cash Flow so as to maximize the intrinsic value of each share of our company in the future. We have finally evolved into a team

---

with a highly focused mindset of Leader Owners of all parts of Carriage irrespective of specific roles and responsibilities.

To witness and help with the mentoring of our high performance culture leadership dynamic on a daily basis is a privilege and honor for me as CEO. I envision being here for as long as I'm physically able to be here because this company and its leaders and employees provide the energy and passion wrapped around the noble work at our businesses across the country that are literally sustenance for a joyful and meaningful life. And being here is just so much fun!

Plus, the mathematics of outstanding execution of our three models over the existing Carriage Value Creation Platform means that our shareholder returns should continue to compound at a rate that will far exceed those in most public companies. I dedicate this Annual Shareholder Letter to our **Being The Best** leaders and employees across our company, who not surprisingly chose as our annual theme for 2016, "**Carriage Services 2016: We Choose to be Great!**" For those of you who are not a leader or employee of Carriage, I leave you with this final thought:

**"Greatness is not a function of circumstance. Greatness, it turns out, is largely a matter of conscious choice!"**

*A quote from Jim Collins, Author of Good To Great, 2001 and  
Co-Author of Built To Last, 1994.*

From April 28th through May 1st our Standards Council Members and nine members of our Operations and Strategic Growth Leadership Team will host these thirty-six High Performance Managing Partners and their spouses/significant others on a four day, three night trip to Montreal, Canada. They will be treated like the Kings and Queens that they are within the Carriage family of high performance businesses. Listed on the following page are the names of each Managing Partner, their business and location along with the category of their **Being The Best** Pinnacle of Service Award.

Respectfully,



Melvin C. Payne  
Chairman and Chief Executive Officer



## BEING THE BEST PINNACLE OF SERVICE AWARD

### MANAGING PARTNER

Kyle Incardona  
 Chris Chetsas  
 Justin Luyben  
 Chad Woody  
 Chris Duhaime  
 Frank Forastiere  
 Cesar Gutierrez  
 Ken Duffy  
 Jason Higginbotham  
 Ken Pearce  
 Robert Maclary  
 Patty Drake  
 Jason Cox  
 Mark Cooper  
 Tom O'Brien  
 Andrew Cumby  
 Steven Mora  
 Tim Hauck  
 Randy Valentine  
 Verdo Werre  
 Cyndi Hoots  
 Brad Shemwell  
 Jeff Moore

### BUSINESS

Hillier Funeral Homes  
 Cataudella Funeral Home  
 Evans-Brown Mortuaries & Crematory  
 Watson-King Funeral Homes  
 Funk Funeral Home  
 Forastiere Group  
 Heritage-Dilday Memorial Services  
 Sidun Group  
 Lakeland Funeral Home  
 Alameda Group  
 Kent-Forest Lawn Funeral Home  
 James E. Drake/Whaley-McCarty  
 Lane Funeral Home – South Crest  
 Seaside Funeral Homes  
 O'Brien Funeral Home  
 Cumby Family Funeral Homes  
 Conejo Mountain Memorial Park  
 Cape Coral Group  
 Dieterle Memorial Home  
 McNary-Moore Funeral Service  
 Schmidt Funeral Homes  
 Latham Funeral Home  
 Palms Memorial Park

### CITY, STATE

Bryan-College Station, TX  
 Methuen, MA  
 Sun City, CA  
 Rockingham, NC  
 Bristol, CT  
 Springfield, MA  
 Huntington Beach, CA  
 Red Bank, NJ  
 Lakeland, FL  
 Oakland, CA  
 Panama City, FL  
 Cynthia, KY  
 Rossville, GA  
 Corpus Christi, TX  
 Bristol, CT  
 High Point, NC  
 Camarillo, CA  
 Cape Coral, FL  
 Montgomery, IL  
 Colusa, CA  
 Katy, TX  
 Elkton, KY  
 Dayton, TX

## BEING THE BEST PINNACLE OF SERVICE AWARD & 100% OF STANDARDS AWARD

### MANAGING PARTNER

James Bass  
  
 James Terry  
 Kristi AhYou  
 Ken Summers  
 Richard Munoz  
 Bill Martinez  
 Andy Shemwell  
 Terence Shotkoski  
 Michael Nicosia

### BUSINESS

Emerald Coast/McLaughlin Mortuary  
 McLaughlin Twin Cities Funeral Home  
 James J. Terry Funeral Home  
 Franklin & Downs Funeral Homes  
 P.L. Fry & Son Funeral Home  
 Connolly & Taylor  
 Stanfill Funeral Home  
 Maddux-Fuqua-Hinton Funeral Homes  
 Cloverdale Funeral Home  
 Ouimet Brothers Concord Funeral Home

### CITY, STATE

Ft. Walton Beach, FL  
 Niceville, FL  
 Downingtown, PA  
 Modesto, CA  
 Manteca, CA  
 Martinez, CA  
 Miami, FL  
 Hopkinsville, KY  
 Boise, ID  
 Concord, CA

## BEING THE BEST 100% OF STANDARDS AWARD

### MANAGING PARTNER

Benjamin Friberg  
 Matthew Simpson  
 Curtis Ottinger  
 Jeff Seaman

### BUSINESS

Heritage Funeral Home & Crematory  
 Fry Memorial Chapel  
 Heritage Funeral Home  
 Dwayne R. Spence Funeral Home

### CITY, STATE

Ft. Oglethorpe, GA  
 Tracy, CA  
 Chattanooga, TN  
 Canal Winchester, OH

# FIVE YEAR OPERATING AND FINANCIAL TREND REPORT

This table uses Non-GAAP financial measures to present the financial performance of the Company. Non-GAAP financial measures should be viewed in addition to, and not as an alternative for, the Company's reported operating results or cash flow from operations or any other measure of performance as determined in accordance with GAAP. We believe the Non-GAAP results are useful to investors because such results help investors compare our results to previous periods and provide insights into underlying trends in our business. In addition, the Company's presentation of these measures may not be comparable to similarly titled measures in other companies' reports. The Non-GAAP financial measures include "Adjusted Net Income", "Adjusted Basic Earnings Per Share", "Adjusted Diluted Earnings Per Share", "Consolidated EBITDA", "Adjusted Consolidated EBITDA", "Funeral, Cemetery and Financial EBITDA", "Total Field EBITDA" and "Special Items". A full copy of our Five Year Operating and Financial Trend Report and reconciliations of the Non-GAAP financial measures to GAAP measures are provided on our website, www.carriageservices.com.

(in thousands, except per share amounts)	2011	2012	2013	2014	2015
<b>Same Store Contracts</b>					
Atneed Contracts	20,096	20,001	20,038	20,046	20,223
Preneed Contracts	5,411	5,163	5,303	4,994	5,047
Total Same Store Funeral Contracts	25,507	25,164	25,341	25,040	25,270
<b>Acquisition Contracts</b>					
Atneed Contracts	621	2,369	3,800	5,347	6,076
Preneed Contracts	117	331	713	1,015	1,281
Total Acquisition Funeral Contracts	738	2,700	4,513	6,362	7,357
<b>Total Funeral Contracts</b>	<b>26,245</b>	<b>27,864</b>	<b>29,854</b>	<b>31,402</b>	<b>32,627</b>
<b>Funeral Operating Revenue</b>					
Same Store Revenue	\$ 128,558	\$ 128,343	\$ 128,253	\$ 127,487	\$ 131,740
Acquisition Revenue	3,302	14,865	25,598	36,765	44,628
Total Funeral Operating Revenue	\$ 131,859	\$ 143,208	\$ 153,851	\$ 164,252	\$ 176,368
<b>Cemetery Operating Revenue</b>					
Same Store Revenue	\$ 36,481	\$ 38,113	\$ 40,181	\$ 41,257	\$ 43,336
Acquisition Revenue	-	166	298	1,599	3,321
Total Cemetery Operating Revenue	\$ 36,481	\$ 38,279	\$ 40,479	\$ 42,856	\$ 46,657
<b>Financial Revenue</b>					
Preneed Funeral Commission Income	\$ 1,811	\$ 1,711	\$ 1,853	\$ 2,036	\$ 1,484
Preneed Funeral Trust Earnings	6,241	5,884	7,378	7,447	7,966
Cemetery Trust Earnings	4,627	7,647	8,095	8,123	8,440
Preneed Cemetery Finance Charges	1,294	1,462	1,418	1,410	1,587
Total Financial Revenue	\$ 13,973	\$ 16,704	\$ 18,744	\$ 19,016	\$ 19,477
<b>Total Revenue</b>	<b>\$ 182,313</b>	<b>\$ 198,191</b>	<b>\$ 213,074</b>	<b>\$ 226,124</b>	<b>\$ 242,502</b>
<b>Field EBITDA</b>					
Same Store Funeral Field EBITDA	\$ 45,268	\$ 48,434	\$ 47,035	\$ 46,707	\$ 50,563
Same Store Funeral Field EBITDA Margin	35.2%	37.7%	36.7%	36.6%	38.4%
Acquisition Funeral Field EBITDA	825	5,119	8,424	13,767	17,750
Acquisition Funeral Field EBITDA Margin	25.0%	34.4%	32.9%	37.4%	39.8%
Total Funeral Field EBITDA	\$ 46,093	\$ 53,553	\$ 55,459	\$ 60,474	\$ 68,313
Total Funeral Field EBITDA Margin	35.0%	37.4%	36.0%	36.8%	38.7%
Same Store Cemetery Field EBITDA	\$ 9,370	\$ 9,897	\$ 11,757	\$ 11,845	\$ 14,045
Same Store Cemetery Field EBITDA Margin	25.7%	26.0%	29.3%	28.7%	32.4%
Acquired Cemetery Field EBITDA	-	(76)	(43)	351	1,088
Acquired Cemetery Field EBITDA Margin	0.0%	(45.8)%	(14.4)%	22.0%	32.8%
Total Cemetery Field EBITDA	\$ 9,370	\$ 9,821	\$ 11,714	\$ 12,196	\$ 15,133
Total Cemetery Field EBITDA Margin	25.7%	25.7%	28.9%	28.5%	32.4%
Funeral Financial EBITDA	\$ 6,681	\$ 6,195	\$ 7,966	\$ 8,348	\$ 8,339
Cemetery Financial EBITDA	5,921	9,060	9,338	9,341	9,754
Total Financial EBITDA	\$ 12,602	\$ 15,255	\$ 17,304	\$ 17,689	\$ 18,093
Total Financial EBITDA Margin	90.2%	91.3%	92.3%	93.0%	92.9%
Total Field EBITDA	\$ 68,065	\$ 78,629	\$ 84,477	\$ 90,359	\$ 101,539
Total Field EBITDA Margin	37.3%	39.7%	39.6%	40.0%	41.9%
Total Overhead	\$ 28,886	\$ 30,272	\$ 33,020	\$ 34,127	\$ 34,667
Overhead as a percent of Revenue	15.8%	15.3%	15.5%	15.1%	14.3%
Consolidated EBITDA	\$ 39,179	\$ 48,357	\$ 51,457	\$ 56,232	\$ 66,872
Consolidated EBITDA Margin	21.5%	24.4%	24.1%	24.9%	27.6%
<b>Other Expenses and Interest</b>					
Depreciation & Amortization	\$ 9,450	\$ 9,916	\$ 11,635	\$ 11,923	\$ 13,780
Non-Cash Stock Compensation	1,870	2,174	2,916	3,832	4,444
Interest Expense	18,089	17,088	13,437	10,308	10,559
Accretion of Discount on Convertible Subordinated Notes	-	-	-	2,452	3,454
Loss on Extinguishment of Debt and Other Costs	201	3,031	-	1,042	-
Loss on Redemption of Convertible Jr Subordinated Debentures	-	-	-	3,779	-
Other, net	(898)	(963)	(896)	195	45
Pretax Income	\$ 10,467	\$ 17,111	\$ 24,365	\$ 22,701	\$ 34,590
Net Tax Provision	4,448	6,794	9,245	7,255	13,737
<b>GAAP Net Income</b>	<b>\$ 6,019</b>	<b>\$ 10,317</b>	<b>\$ 15,120</b>	<b>\$ 15,446</b>	<b>\$ 20,853</b>
Effective Tax Rate	42.5%	39.7%	37.9%	32.0%	39.7%
Total Special Items, net of tax	\$ 5,776	\$ 4,213	\$ 2,973	\$ 9,348	\$ 6,508
<b>Adjusted Net Income</b>	<b>\$ 11,795</b>	<b>\$ 14,530</b>	<b>\$ 18,093</b>	<b>\$ 24,794</b>	<b>\$ 27,361</b>
Adjusted Net Profit Margin	6.5%	7.3%	8.5%	11.0%	11.3%
<b>Reconciliation of Consolidated EBITDA to Adjusted Consolidated EBITDA</b>					
Consolidated EBITDA	\$ 39,179	\$ 48,357	\$ 51,457	\$ 56,232	\$ 66,872
Total Special Items	\$ 9,395	\$ 4,253	\$ 4,550	\$ 5,421	\$ 4,261
<b>Adjusted Consolidated EBITDA</b>	<b>\$ 48,574</b>	<b>\$ 52,610</b>	<b>\$ 56,007</b>	<b>\$ 61,653</b>	<b>\$ 71,133</b>
Adjusted Consolidated EBITDA Margin	26.6%	26.5%	26.3%	27.3%	29.3%
GAAP Diluted EPS	\$ 0.33	\$ 0.57	\$ 0.82	\$ 0.83	\$ 1.12
Adjusted Diluted EPS	\$ 0.64	\$ 0.80	\$ 0.98	\$ 1.34	\$ 1.48
Average Number of Diluted Shares Outstanding	18,397	18,226	22,393	18,257	18,313
GAAP Basic EPS	\$ 0.33	\$ 0.57	\$ 0.83	\$ 0.84	\$ 1.16
Adjusted Basic EPS	\$ 0.64	\$ 0.80	\$ 1.00	\$ 1.35	\$ 1.52
Average Number of Basic Shares Outstanding	18,359	18,126	17,826	18,108	17,791

# CORPORATE INFORMATION

---

Carriage Services, Inc. is a leading provider of deathcare services and merchandise in the United States. As of December 31, 2015, Carriage operated 167 funeral homes in 27 states and 32 cemeteries in 11 states.

## Board of Directors

**Melvin C. Payne**

*Chief Executive Officer and Chairman of the Board*

**David J. DeCarlo**

*President and Vice Chairman of the Board*

**Richard W. Scott**

*Senior Vice President and Chief Investment Officer,  
Loews Corporation*

**Donald D. Patteson Jr.**

*Investor*

**Barry K. Fingerhut**

*Chief Executive Officer, Certification Partners, LLC*

**Bryan D. Leibman**

*President and Chief Executive Officer, Frosch Travel*

## Operations and Strategic Growth Leadership Team

**Melvin C. Payne**

*Chief Executive Officer and Chairman of the Board*

**David J. DeCarlo**

*President and Vice Chairman of the Board*

**Mark R. Bruce**

*Regional Partner – East Region*

**Paul D. Elliott**

*Regional Partner – West Region*

**Shawn R. Phillips**

*Regional Partner – Central Region*

**Viki K. Blinderman**

*Co-Chief Financial Officer,  
Chief Accounting Officer and Secretary*

**C. Benjamin Brink**

*Co-Chief Financial Officer and Treasurer*

**Gabriel Q. Ngo**

*Vice President – Human Resources & Payroll*

**Brijesh K. Patel**

*Vice President – Operations, Analysis,  
Acquisitions & Planning*

---

## Independent Public Accountants

Grant Thornton LLP, Houston, Texas

## Form 10-K Availability

The Company's Annual Report on Form 10-K for the year ended December 31, 2015 may be obtained by writing to: Investor Relations, Carriage Services, Inc., 3040 Post Oak Boulevard, Suite 300, Houston, Texas 77056; via the Company's website: [www.carriageservices.com](http://www.carriageservices.com); or via the SEC's website: [www.sec.gov](http://www.sec.gov).

## Transfer Agent & Registrar

American Stock Transfer & Trust Company, LLC  
6201 15th Avenue  
Brooklyn, New York 11219  
800-937-5449  
[www.amstock.com](http://www.amstock.com)

## Houston Support Office

Carriage Services, Inc.  
3040 Post Oak Boulevard, Suite 300  
Houston, Texas 77056  
713-332-8400  
[www.carriageservices.com](http://www.carriageservices.com)

## Common Stock

Carriage Services, Inc.'s common stock is traded on the New York Stock Exchange under the symbol "CSV".

---

## Forward-looking Statements

Certain statements made in this Annual Report by or on behalf of the Company that are not historical facts are intended to be forward-looking statements within the meaning of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. These statements are based on assumptions that the Company believes are reasonable; however, many important factors, as discussed under "Forward-Looking Statements" in the Company's Form 10-K for the year ended December 31, 2015, could cause the Company's results in the future to differ materially from the forward-looking statements made herein and in any other documents or oral presentations made by or on behalf of the Company.



Carriage Services, Inc.  
3040 Post Oak Boulevard, Suite 300  
Houston, Texas 77056

713-332-8400  
[www.carriageservices.com](http://www.carriageservices.com)