CSV – Q2 2016 CARRIAGE SERVICES, INC. EARNINGS WEBCAST

JULY 27, 2016 | 9:30 A.M. CT

CORPORATE PARTICIPANTS

Viki Blinderman *Carriage Services Inc. - Co-Chief Financial Officer and Chief Accounting Officer*

Mel Payne *Carriage Services Inc. – Chief Executive Officer and Chairman of the Board*

Dave DeCarlo *Carriage Services Inc. - President*

Ben Brink *Carriage Services Inc. - Co-Chief Financial Officer and Treasurer*

CONFERENCE CALL PARTICIPANTS

Alex Paris *Barrington Research - Analyst*

Greg Charpentier *Oppenheimer - Analyst*

Alan Weber *Robotti & Company - Analyst*

Barry Mendel *Mendel Money Management - Analyst*

PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Carriage Services Second Quarter 2016 Earnings Webcast. At this time, all participants are in a listen-only mode.

(Operator Instructions)

As a reminder, this conference call is being recorded. I would now like to introduce your host for today's conference, Ms. Viki Blinderman, with Carriage Services. Ms. Blinderman, you may begin.

Viki Blinderman - *Carriage Services Inc. - Co-Chief Financial Officer and Chief Accounting Officer*

Thank you and good morning to everyone. We would like to welcome you to the Carriage Services conference call.

Today, we will be discussing the Company's results after the second quarter which was released yesterday after the market closed. Carriage Services has posted this release, including supplemental financial tables and information on its Investor page and our website at Carriageservices.com. This audio conference is being recorded and an archive will be made available on our website.

Additionally, later today, a telephone replay of this call will be made available and active through July 31st. Replay information for the call can be found in this press release, distributed yesterday.

On the call today from management are Mel Payne, Chairman and Chief Executive Officer; Dave DeCarlo, President; and Ben Brink and myself, Co-Chief Financial Officers.

Today's call will begin with formal remarks from management, followed by a question-and-answer period. Please note that during the call we will make forward-looking statements in accordance with the Safe Harbor Provision of the Private Securities Litigation Reform Act of 1995. I'd like to call your attention to the risks associated with these statements, which are more fully described in the Company's report filed on Form 10-K and other filings with the Securities and Exchange Commission.

Forward-looking statements, assumptions or factors stated or referred to on this conference call are based on information available to Carriage Services as of today. Carriage Services expressly disclaims any duty to provide updates to these forward-looking statements, assumptions or other factors after the date of this call to reflect the occurrence of events, circumstances or changes in expectations.

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

Now, I'd like to turn the call over to Mel Payne, Chairman and Chief Executive Officer.

Mel Payne - ***Carriage Services Inc. - Chief Executive Officer and Chairman of the Board***

Thank you, Viki. Those of you who've gotten to know me realize that I think a little differently than most people. And that certainly is true related to public markets and what I consider a way overemphasis on short-term quarterly consensus estimates and thinking. I've written about this extensively. I agree with Larry Fink and that group.

Although even amongst the group of institutional investors, I saw recently they came out with their principles of governance; they couldn't agree on very many specific things, but they did agree on that. And I've written about it extensively and stand by my writing for those of you who might want to research that.

And I am constantly mentoring our leaders and our people here in the Company about how to think about the Company in terms of vision, ten-year vision, five-year strategy, one-year plan, always rolling forward for quarters. And I'd like to really start this call off with a profoundly important example, and the name of that enterprise is Yahoo!. Yahoo! was sold this week to Verizon for $4.8 billion. It was really one of the first Internet stars in early 2000 -- January 2000 -- the market value was $125 billion.

And I just - the article that I will now quote from was in the Journal yesterday. "What is Yahoo!? Riddle Plagued CEOs For Two Decades." And I will quote just a few lines from the article. The Internet Company's prolonged decline, sold for $4.8 billion, could serve as a classic case-study in defining a business, whose many chief executives struggled to answer, What is Yahoo!?

Begun in a Stanford University dorm room in 1994, it spent its first decade, building scale as the Internet's portal. Then there's Google, Inc. and Facebook, Inc., two companies that nearly acquired for $1 billion, now worth hundreds of billions. Built lucrative -- those are my comments -- built lucrative footholds in search and social media. Yahoo! fell behind the fast moving Internet economy it helped create. Visitors and revenue dwindled, as it strained to innovate across its myriad services. Quote, "if you're everything, you're kind of nothing."

Garlinghouse, a former Yahoo! executive, who in 2006 wrote the Peanut Butter Manifesto, an internal memo criticizing the Company for spreading itself too thin. Quote, "the sad reality is that it never solved its core identity crisis."

Now, I come to Carriage.

There is one thing certain, if you hang around this Company for very long we are very focused on who we are, our vision of where we're going and how we're going to get there. More than anything else, we've learned how to go where we're going by learning from the mistakes we made in the past. And I will say, very clearly what we are. We are a high-value personal service business -- that happens to be called the funeral and cemetery business.

The only way to become a high-value personal service business is to have high-value highly motivated leaders in every business with highly motivated and skilled employees on the front lines serving the client families; one-by-one to grow market share in their communities and to beat their competition. That's who we are. Everything else in our Company is supportive of that local idea.

So this call will feature upfront the people who should be featured upfront. The high performance heroes for the second quarter and that's the only mention of the second quarter I will make on this call.

For the East region, Charlie Eagan, Greenwood Funeral Home; New Orleans, LA; that's a new business we acquired out of the SCI package; way to go, Charlie; Curtis Ottinger, Heritage Funeral Home; Chattanooga, TN; Sue Keenan, Byron Keenan Funeral Home & Cremation; Springfield, MA; Scott Sanderford, Everly-Wheatley Funeral Home; Alexandria, VA; we also bought that out of one package from SCI; Courtney Charvet, North Brevard Funeral Home; Titusville, FL; Dan Simons, Everly Community Funeral Care; Falls Church, VA; also bought out one of the two packages; Phil Appell, Keenan Funeral Homes; West Haven, CT.

Central Region, Jeff Seaman, Dwayne R. Spence Funeral Home; Canal Winchester, OH; Mike Conner, Conner-Westbury Funeral Home; Griffin, GA; Brad Shemwell, Latham Funeral Home; Elkton, KY, say hi to Jimmy, Brad; Ashley Vella, Deegan Funeral Chapels; Escalon, CA; Michael Nicosia, Ouimet Brothers Concord Funeral Chapel; Concord, CA; Rick Davis, Rolling Hills Memorial Park; Richmond, CA; our biggest business, cemetery looking out over East San Francisco Bay; say hi, to [Nanchi], Rick; my family and I love Shanghai -- recently; and Alan Kerrick, Dakan Funeral Chapel; Caldwell, ID.

And then from our Houston Support Office, Jennifer Flores, Houston Support-Treasury; Jennifer, way to go, keep all that cash rolling in from our operating businesses, but be sure and thank the people sending it in; and also you can tell the banks as we pay them down, we don’t need any more right now; and then Megan Bartels, Houston Support-PreNeed Administration.

Thank you all, high-performance heroes, and so many else of you out there every day doing what you do to make us the best there has ever been at what we do.

And with that, I'll turn it over to Viki.

Viki Blinderman - *Carriage Services Inc. - Co-Chief Financial Officer and Chief Accounting Officer*

Our second quarter operating and financial results marked another period of impressive performance for Carriage. To recap just a few of the second quarter record metrics, we achieved 4.4% growth in quarterly revenue to $61.9 million, 6.5% growth and total field EBITDA to $25.1 million, 3.5% growth in adjusted consolidated EBITDA to $17.8 million with continuing high adjusted consolidated EBITDA margin of 28.7%, and 8.8% growth in adjusted diluted earnings per share of $0.37.

Our adjusted free cash flow continues to be strong at $13.2 million for the quarter. The first-half of 2016, simply reflects the high and sustainable performance that can be achieved by consistent execution of our Standards Operating Model by our Managing Partners and their teams.

Despite the small decrease of 0.1% in year-to-date call volume, total funeral operations generated 1.5% revenue growth and 3.8% funeral field EBITDA growth primarily from our acquisition portfolio. Whereas same store funeral operations have experienced declines in volume and revenue, same store funeral field EBITDA has remained flat, which speaks to the operating leverage dynamics when such weak or declining environments are in play.

EBITDA margins across the Funeral Home portfolio have increased year over year. Same store funeral EBITDA margin to 38.8%, a 50 basis point increase and the acquired funeral home EBITDA margin to 42.2%, a 180 basis point increase over prior year and impressively 340 basis points higher than the funeral home same store margin. These businesses in the acquisition portfolio is a testament to our execution of the strategic acquisition model, where our focus is on the best remaining independent businesses in the best strategic markets, which will result in long-term high annual compound revenue and EBITDA growth.

Our cemetery operations leveraged 7.2% or $1.7 million growth in revenue for the first six months of 2016, into 7.5% growth in cemetery field EBITDA due to an 8% increase in average property sales per contract. And in a few of our cemeteries where we recently developed new property inventory, we have seen upwards of 15% to 20% increase in the average. All in all, for the first six months of 2016, the funeral and cemetery performance have produced total field EBITDA margin of 42.2%. The highest margin we have seen in any of our year-to-date performances.

We expected our reported overhead to be higher in the first-half of this year compared to 2015, primarily due to one-time charges related to leadership changes that occurred throughout 2015, and for the retirement of Bill Heiligbrodt. Total overheads should decline over time and trend below 14% of revenue, because of our two fixed components, regional and corporate expenses are now more stable.

In the latter half of 2016, we showed materially lower incentive compensation charges comparatively from the fourth quarter of 2015 due to a historically high field EBITDA performance in Q4 of 2015, which resulted in providing additional incentive accruals for record bonus payouts; if such need occurs in 2016, will be honored to account for such additional reserves to pay for high-performance.

All these factors discussed have contributed to the continued growth in our cash earning power of the Company as defined by our adjusted consolidated EBITDA at an increase of $0.8 million to a historical high of $37.7 million, representing a 2.2% increase over 2015, all the while with adjusted consolidated EBITDA margin at 30.1% and continually generating strong adjusted free cash flow over the past six months of $24.9 million, 20% of our total revenue.

With the heightened attentiveness of non-GAAP reporting by the SEC, it is worth to mention again our point of view. Historically, the dynamic nature of the evolutionary process of building our Carriage culture, especially, since launching the Good To Great Journey in the beginning of 2012, has led to a large number of charges such as severance, consulting and other balance sheet activities that we view as not core to our operations, and as such have been added back to GAAP earnings as special items.

This past year we have listened to our investors' comments regarding the noise that sometimes resulted in presenting certain of these special items and agree with them that our non-GAAP reporting should be simplified. We have spoken publically since last year that these special items will be comprised of only of those charges materially outside the normal course of business and the convert accretion, which should result in a major reduction of the, quote unquote, gap between our GAAP and non-GAAP reported performance.

Our goal will continue to have transparent non-GAAP reporting to reflect the true earning power of Carriage's operating and consolidation platform.

So in summary, volume comparisons are trending higher. We are seeing strong growing contract averages, leveraging increasing solid margins and overhead is steadily declining as a percentage of revenue. Based on these current trends in our businesses and the progress year-to-date, we are reaffirming our rolling four quarter outlook ending June 30, 2017 of $1.71 to $1.75 adjusted diluted earnings per share.

We are very proud of the performance thus far and look forward to reporting our results as we move forward to the remainder of 2016. And now, I'm going to turn the call over to Ben.

Ben Brink - ***Carriage Services Inc. - Co-Chief Financial Officer and Treasurer***

We have long held the belief that the interest rate environment would remain lower for a longer period of time versus historical cycles, due to global conditions and Central Bank policies. To that end, we have positioned both Carriage's capital structure and trust fund portfolio to best take advantage of this environment over the medium and longer-term.

We were very active in the discretionary trust portfolio during the first-half of the year in executing our previously announced repositioning strategy with a focus on individual fixed income security selection, through a detailed credit analysis, in order to increase the reoccurring income produced from the portfolio.

As a reminder, this recurring income benefits our preneed trusts by accruing a high amount of current income onto preneed contracts to be delivered in the future, along with increasing the amount of income we are able to recognize in our current GAAP financial statements through our cemetery perpetual care trust. The fixed income component of our discretionary trust portfolio has slightly outpaced the recovery in a high yield market through the first-half of the year with a total return of just over 10%.

This performance was predominantly driven by the individual security selection and the execution of our repositioning strategy. On average, the fixed income securities we have purchased this year have had a net total return of 19% through yesterday. The discretionary trust portfolio had a total return of approximately 2% in the first-half which has trailed our benchmark. This lagging performance was almost entirely attributable to our position in TARP warrants issued by a Too Big To Fail financial institutions.

We have used these positions over the past six years to act as a hedge against our fixed income portfolio. We have reduced our exposure to these securities during the year and we believe we will continue to have opportunities to further reduce these positions in the second-half of the year.

Overall, we feel good about the execution of our previously announced repositioning strategy and believe that we have the flexibility within the portfolio and with our strategy to take advantage of any future market conditions.

And with that, I will turn the call over to Dave to discuss corporate development activity.

Dave DeCarlo - ***Carriage Services Inc. – President***

Thank you, Ben. As stated in the press release, we are very pleased with our new partners, Bradshaw Carter and Cypress Fairbanks in Houston. In fact, Bradshaw Carter Managing Partner, Tripp Carter, has a national reputation for high quality personalized service. And very often, when we have potential acquisition candidates visit us in Houston, we would take them for a tour of Bradshaw Carter's beautiful facility.

We now have nine locations in the Houston area. Our pipeline is very healthy and we are hopeful to partner with one or more premier firms in the second-half of 2016. You know a few years ago, I used to say that Carriage Services was the best kept secret in the industry. But our marketing campaign we launched in May 2014 it has been very efficient and effective in making us the most talked about succession planning solution in the industry.

As an indication, we received 25 acquisition inquiries just in this past second quarter. The marketing campaign is also helping us recruit the best highly motivated employees in the profession. But as you know, we are very selective in our choices on our highly disciplined 10 strategic ranking criteria and we will continue to be that on our acquisition model.

With that I'll turn it over to Mel.

Mel Payne - ***Carriage Services Inc. - Chief Executive Officer and Chairman of the Board***

Thank you, Dave. As I said in my annual shareholder letter and again in this second quarter press release, I have been surprised since last fall and earlier this year, when becoming more active talking to institutional investors, I've been surprised that there was as much confusion and is much lack of understanding of our three core models that define our operating and growth strategies and make us so unique, and as I mentioned in the press release, not only in our industry, but to my knowledge across all corporate America and any industry, that is unrelated to the Internet and technology.

I take full responsibility for that lack of understanding and view it as a glass half-full. With huge opportunity, define new small cap oriented institutional investors with an open and curious analytical mindset and a very long-term view of what our Company will look like and be worth in five and ten years with continued excellent execution of our three core models.

And importantly, for all investors existing and to be, including especially our employees and leaders, notwithstanding our small size as a public Company, no one can ever say that we don't think big on a per share basis about the future and dream even bigger about the future value of our Company.

In this earnings release, are featured our Standards Operating Model, which was developed and rolled out in late 2003 for implementation on January 1, 2004. After two years of data analysis from 2004 and 2005, we concluded that performance under the Standards Operating Model was more a function of leadership than pure management, which relates more to budget and control.

So we introduced our 4E Leadership Model in mid-2006. In our third quarter earnings release, I will feature this model, which is so critical to the fundamental nature of a high-performance culture. And lastly, I will feature our Strategic Acquisition Model, which Dave alluded to, in our fourth quarter and full year earnings release in late January or early February 2017. At that time we will also profile a revised roughly right scenario of our portfolio of operating businesses and its increasing earning power in free cash flow characteristics. At the end of the next five-year timeframe, ending in 2016, and 10 year timeframe, ending in 2026. But of course with new annual themes on the Carriage Good To Great Journey that never ends.

With that, I'd like to open it up for questions.

QUESTION AND ANSWER

Operator

(Operator Instructions) Alex Paris with Barrington Research.

Alex Paris - ***Barrington Research - Analyst***

Good morning, everyone.

Mel Payne - ***Carriage Services Inc. - Chief Executive Officer and Chairman of the Board***

Hi, Alex.

Alex Paris - ***Barrington Research - Analyst***

I've got a couple of questions, Mel, you're always so thorough that you answered most of my questions before I ask them, but I have a couple nonetheless.

Mel Payne - ***Carriage Services Inc. - Chief Executive Officer and Chairman of the Board***

I can read your mind, Alex; I've been meaning to tell you that.

Alex Paris - ***Barrington Research - Analyst***

Now I'm worried. So anyway, first of all, I want to say I applaud the change in your non-GAAP performance reporting. I think it's the way things are going and it's in keeping with all your other management philosophies. With that said, you didn't raise your rolling four quarter guidance, like you typically do. In fact, last quarter you raised it by $0.02.

I'm wondering to what extent that this change in non-GAAP performance reporting -- play in that. For example, you're adding back fewer pennies than you had in the past. Am I on the right track there or is it, because there is not an acquisition included in that guidance, because there's nothing under LOI?

Mel Payne - ***Carriage Services Inc. - Chief Executive Officer and Chairman of the Board***

I would say, on a scale of zero to 10, Alex -- and I'm infamous in our Company for putting everything that I talk about on the scale -- on a scale of zero to 10 whether non-GAAP reporting had something to do with that, I'd say it's a negative 10. It had absolutely nothing to do with it.

But we've been doing that for a while. It didn't seem to make any difference. We don't have any acquisition signed. I think we're close on some. So we just decided to put a rest on it and nothing to do with what we think the future will be.

Alex Paris - ***Barrington Research - Analyst***

Got you.

Mel Payne - ***Carriage Services Inc. - Chief Executive Officer and Chairman of the Board***

Now, if there are some things we did, we may do, but who cares about $0.01 or $0.02. I don't care about it as a long-term investor and the largest individual shareholder. I care a lot about what happens over the next five years, next year, next three years, and what it might be worth, but I can't see a reason, why a $0.01 or $0.02, because right now, we're trying to explain ourselves more -- we're trying to explain ourselves more fundamentally right than ever has been done before and get away from what does a $0.01 mean anyway. That's the truth of the matter. It has nothing to do with non-GAAP.

Alex Paris - ***Barrington Research - Analyst***

Yes, okay. I appreciate it.

Mel Payne - ***Carriage Services Inc. - Chief Executive Officer and Chairman of the Board***

Because that makes it -- I'm not the criticizing your question. I think it's a great question. But I do think short-term-ism in the public markets has become a game. And when it becomes a game and everybody tries to guide people in on this or that $0.01 or $0.02, it becomes corrupting and dangerous. And we're just going stay away from it. It's a treadmill that -- if we always have to raise a $0.01 or $0.02, we haven't done anything different.

Did that make us a worst Company when we don't do it? No. So I wanted to see what the reaction would be, frankly. That's --

Alex Paris - ***Barrington Research - Analyst***

Judging by the stock price today, there is little reaction. And I agree with you and I think most on this call would agree with you. Though, as I have said before every three months we kind of get together and we measure the Company versus people like me who put out numbers, and I'm forced to put out a number to see how milestones and things like that.

Mel Payne - ***Carriage Services Inc. - Chief Executive Officer and Chairman of the Board***

The one thing I would say about your numbers, I think you do a great job. But I don't know that I would compare them to FactSet. I don't know Mr. FactSet consensus. He has never been around here. He never visited any of our places. I never talked to him. And I don't know that whatever he says about us has any relevance to value creation.

Alex Paris - ***Barrington Research - Analyst***

No, I hear you. So everyone on the call make sure to compare results to Barrington Research's estimates. Okay.

Mel Payne - ***Carriage Services Inc. - Chief Executive Officer and Chairman of the Board***

There you go. Now, that's a better benchmark.

Alex Paris - ***Barrington Research - Analyst***

And the other excellent analysts on the call, so one other little picky question, and maybe this is for Viki or Ben. The shares were --

Mel Payne - ***Carriage Services Inc. - Chief Executive Officer and Chairman of the Board***

I have to say this, okay. Now, the reaction on the call -- I'm looking at it right now, if you got my -- I haven't looked at it until now down $0.38, 18,300 shares. I could tell you these are either day traders or idiots. And that means nothing to me. That doesn't change the value of the Company. And I agree with Warren Buffett; the way to look at it is, what would you pay for the whole Company. What would you pay for the whole Company, 18,000 shares? That means nothing to me. That's not institutional investor selling.

Now, we had a lot of shareholder turnover, big volumes in the last nine months. So there are a lot of new owners of Carriage. That's who we're talking to. So that --

Alex Paris - ***Barrington Research - Analyst***

No, you're right.

Mel Payne - ***Carriage Services Inc. - Chief Executive Officer and Chairman of the Board***

I've had people in the Company fairly recently, Alex, that would say, on a day like today, oh, we lost money. That's a ridiculous thing to say about a short-term little thing on little volume. You don't lose money until you buy something and sell it at a lower price.

Alex Paris - ***Barrington Research - Analyst***

Right and that was my point. I wasn't saying that sarcastically; the stock is down slightly. The market is down slightly, at least across my screen it is. And my point was it was very little reaction to the fact that you didn't raise the rolling four quarter guidance reflectively.

Mel Payne - ***Carriage Services Inc. - Chief Executive Officer and Chairman of the Board***

Right.

Alex Paris - ***Barrington Research - Analyst***

Yes. So moving on, shares were a little bit higher than I expected in the diluted share count. This is a question for Ben or Viki. Is that just the dilution for the converts coming in related to stock price?

Viki Blinderman - ***Carriage Services Inc. - Co-Chief Financial Officer and Chief Accounting Officer***

And options, we had dilution from options and the converts.

Mel Payne - ***Carriage Services Inc. - Chief Executive Officer and Chairman of the Board***

Okay. I want to speak to that, Alex. I'm sorry. This has given me a platform. You're asking such great questions.

Since a long time ago, 2008, we made some great moves. We bought in 3.1 million shares in that crisis at an average of $3.19 I think. But the reason I'm called the chief mistake maker is that I make a lot of fundamental mistakes. Since then, we issued a lot of shares and options, mostly to people who are no longer here. So I wasted a lot of upside on people who are still here and want to be here.

That is over. I am so focused on per share value and not having diarrhea of diluted shares that you won't find another person so focused on per share value creation in any public Company. Because, okay, it takes -- I'm a slow learner. I don't want per share value diluted by giving it away to people who are not creating more of it.

And keep it simple, that just is over, and we've done some of that over the last four or five years. I regret it, but it's over.

Alex Paris - ***Barrington Research - Analyst***

Got you. All right, thank you. And then, I guess, the last question is over to Dave. Obviously, with regard to rolling four quarter guidance there were no LOIs in place with acquisitions expected to close in 60 days. But you still say you're optimistic to close one or more between now and the end of the year.

Can you discuss or give us a little bit more color with regard to pipeline, how many -- you've done it before. How many conversations you're having? And why one would be optimistic that there would be another transaction or two before year end?

Mel Payne - ***Carriage Services Inc. - Chief Executive Officer and Chairman of the Board***

Alex, I'm sorry. We're not going to do that. There was somebody here once who said when some of those questions were asked, we need to better define our pipeline. I knew then we needed to quit putting the acquisitions in the forecast. We're not going to do that. That's a game we don't want to play. We got spreading reputation. Dave and his team are doing a great job, online, conferences.

I know the people he is talking to, I'm excited about it. I'm involved in it, so is the operating team. You'll know about it when it happens, but we're going to grow over the next five years like we said we would. I just don't want to get into short-term expectations. Not going to do it, all right.

Alex Paris - *Barrington Research - Analyst*

Fair enough. Thank you. Good luck. And I will be watching closely.

Mel Payne - *Carriage Services Inc. - Chief Executive Officer and Chairman of the Board*

We'll take luck. We're not counting on it.

Operator

(Operator Instructions) Greg Charpentier with Oppenheimer

Greg Charpentier - *Oppenheimer - Analyst*

Thank you. Hi everyone, this is Greg on for Scott. It looks like you guys had some nice acquisition activity in the quarter and maintained a strong pipeline which is good. In your opinion, what would be a good quantity of acquisitions over the coming five years to fit in your strategic plan, not so much of a short-term outlook, but over the longer-term?

Mel Payne - *Carriage Services Inc. - Chief Executive Officer and Chairman of the Board*

Scott, it's Mel. We're looking at that right now. If you've been looking at what we've been saying. We think in five year timeframes. We launched Good To Great at the beginning of 2012. That five year timeframe is coming to an end at the end of 2016. Our entire leadership team is doing an analysis of our portfolio along with corporate development. And we will be profiling what we think we will do in terms of number, the quality, the size, the earning power and be coming up with a new five year roughly right scenario.

It won't be dramatically different from the one that we have in our Company Investment Profile. But it will be revised to get a little more of everybody on the same page with where we're going with our vision and strategy over the next five years. And we will roll that new roughly right scenario out when we report full year 2016 results.

Greg Charpentier - *Oppenheimer - Analyst*

Great, thank you.

Mel Payne - *Carriage Services Inc. - Chief Executive Officer and Chairman of the Board*

But we're going to have mid- to high-single-digit revenue growth with higher consolidated EBITDA and higher earnings per share. That's the idea of leveraging the consolidation platform. That idea has not changed. It's all there. You read the Company Investment Profile?

Greg Charpentier - *Oppenheimer - Analyst*

Yes

Mel Payne - ***Carriage Services Inc. - Chief Executive Officer and Chairman of the Board***

There is not another Company that will put themselves out there specifically, like we do over five years going forward and also trend reporting five years in the past. So you get a full ten-year picture of our Company consolidating and operating within this industry. I don't know another Company that's that transparent. And all the lawyers told me not to do it. And none of them are very good investors.

Greg Charpentier - ***Oppenheimer - Analyst***

Great.

Mel Payne - ***Carriage Services Inc. - Chief Executive Officer and Chairman of the Board***

And forget about operations. I hope that helps.

Greg Charpentier - ***Oppenheimer - Analyst***

Yes, definitely very helpful. Mel, you also told us on your fourth quarter 2015 call, you intended to take advantage in your trust funds of buying the mining and mineral sector cheap. Is there any update there? Do you still like the strategy? And are there any overall thoughts in your outlook regarding some investments in your trust funds?

Ben Brink - ***Carriage Services Inc. - Co-Chief Financial Officer and Treasurer***

Yes. I mean, to what I spoke about on the call and in my comments. We were very active in January, February and March in our trust fund portfolio. As the markets have recovered and as prices within the fixed income market, whether the mills and mining sector or others have appreciated. We slowed down our activity, been much more selective.

We feel really good about the credit quality and the quality of the overall fixed income portfolio. We've increased the recurring income year over year by over $2 million. And like I said, with the securities we purchased this year, the net total return of those on average has been 19%. So we've had a lot of success so far in our repositioning strategy and feel really good about kind of where the portfolio is.

Mel Payne - ***Carriage Services Inc. - Chief Executive Officer and Chairman of the Board***

At that time when we had that call, around mid-February or so, the market was in turmoil and everybody was freaking out. That is actually when we like to be buying. That's when we do our best work, is when there's stress and panic and some freaking out going on.

And I think somebody on the call asked me, give them a name, I think I mentioned Freeport McMoran. So we bought $4 million face amount of Freeport around, I forgot, $0.63 on the $1. I forgot the coupon on that, but it's 6.5% or so. And I think that's selling now for, what, Ben?

Ben Brink - ***Carriage Services Inc. - Co-Chief Financial Officer and Treasurer***

At par, so we made $1.5 million or so.

Mel Payne - ***Carriage Services Inc. - Chief Executive Officer and Chairman of the Board***

On the gain, plus they had the recurring income. So when you do stuff like that you get 19% returns in a short amount of time.

Greg Charpentier - *Oppenheimer - Analyst*

Definitely it makes sense. Thank you for that. I'll hop back in the queue.

Operator

Alan Weber with Robotti & Company. Your line is now open.

Alan Weber – *Robotti & Company - Analyst*

Good morning.

Mel Payne - *Carriage Services Inc. - Chief Executive Officer and Chairman of the Board*

Hi, Alan.

Alan Weber – *Robotti & Company - Analyst*

Hi, first question, Ben, is since you're talking about the fixed income, what is the current yield on the portfolio?

Ben Brink - *Carriage Services Inc. - Co-Chief Financial Officer and Treasurer*

Our current yield on the portfolio is right around 8%.

Alan Weber – *Robotti & Company - Analyst*

Okay. And then, I guess, Mel or Dave, this is for you. You talk a lot about the operating principles. Just can you talk about from the seller's perspective, how that's changed in terms of wanting to sell to Carriage? And then combining with how much is valuation of what you're willing to pay enter into not getting some -- not closing some of the deals given a lower interest rate environment and higher multiples?

Mel Payne - *Carriage Services Inc. - Chief Executive Officer and Chairman of the Board*

Well, Alan, you've been around a long time. And you always ask great questions. Dave and Michael Cumby, who have been out along with others, but in particular, telling the story, and he's had me on the speaker circuit, different conferences over the last two or three years, telling the story. So I think we're much better known than ever.

And the Standards Operating Model, it may have been kind of goofy to institutional investors or before they've really studied it and saw what it was. It's very attractive to people in the industry. And so we get a lot of comments about it. And because it's really how they -- the best ones, it's really how they operate, because it's focused on market share, focused on volume growth, it's focused on high-value services.

So fundamentally and culturally, they can relate to it, Alan, versus a pure financial thing. And the bigger, better operators, who want to still hang around, they just want to be relieved of the ownership stuff and burden. They care a lot about whether their business will maintain its reputation and the franchise itself will maintain its prosperity and growth.
We even had a business join us few years ago, it is Michael Cumby's business, North Carolina and the family got together. And this is the reputation out there for consolidators over the last 60 years. They wanted a succession planning solution for the family, father and two sons. And they were willing at the end of the day to sacrifice a certain number of calls for the right solution.

But as it turned out with us, they've grown their market share, and not lost market share. When you have a reputation and people willing to vouch for you like that, who are really top-notch in their area and state, you begin to get a lot of credibility from operating owners about what the solution can be and even better than they ever dreamed, because consolidation has been given a bad name, because of the worship of quarterly results on Wall Street among a lot of owners.

And so, we have to convince them that we don't worship the altar of quarterly results, and then take it out on their business. And when you get that reputation, it spreads. And then other people when they do have an issue, and everybody sooner or later will probably have one, they are going to be welcoming your participation without putting their business on the market through an auction process.

Now, if that comes to bear and we have lost a couple I can think of over the last couple of years, three, always through brokers or pretty much always. There are people who will pay more. And we're not going to do that. We don't have to do that.

And we're patient. Patience is a virtue when you're investing and in acquisitions. So I think increasingly none of the people that Dave is talking about that we hope to partner within the last half of the year have a broker. They're dealing exclusively with us. There's trust and there's mutual benefit to a long-term relationship. That's what we're trying to achieve. Now it's been -- it takes time, it takes time.

And we are getting there. And I'm not worried about the growth over the next five years. In terms of valuations, for sure valuations have increased over the last few years. And I don't -- we are willing to differentiate between -- we are taking a fresh look at our portfolio, a fresh look at how we value and differentiate among acquisition candidates. And we are willing to differentiate pretty materially between a business that we know is bigger, better, bigger market and can grow market share, because there are three ways to grow revenues. And that's what this industry lacks, is revenues.

You can grow market share, you can grow pricing power and you can grow because of demographics and death rate being in your favor. So we're looking at those three revenue enhancing things to know when to differentiate on valuation the most. It's not cookie-cutter and purely financial, ROIC or EPS, not that. And I don't know if that answers your question. But we're learning, Alan. We are learning more and we're getting better on every front, since you first invested in our Company.

Alan Weber – *Robotti & Company - Analyst*

Thanks, Mel. Just a quick follow-up --

Dave DeCarlo - *Carriage Services Inc. – President*

This is Dave. In terms of relationships, one of the firms we're talking to right now, we've started a relationship with them three years ago. And we initiate these relationships or meeting. And then, they are not for sale at that time, but then once we meet with them and build a relationship, they see in us the perfect solution. In fact, this person that we are talking to right now, he has called three different Managing Partners that work, that are a part of Carriage. And he told me the other day, he said, Dave, I just can't find anyone who is saying even a bad word about Carriage.

Mel Payne - *Carriage Services Inc. - Chief Executive Officer and Chairman of the Board*

I know one that he called. And the guy said you better rush to do this sooner rather than later, because it will be the best thing to ever happen.

Dave DeCarlo - *Carriage Services Inc. – President*

That's right, so it's taken time. But our pipeline, the majority of these, for sure is people we initiated relationships with.

Mel Payne - *Carriage Services Inc. - Chief Executive Officer and Chairman of the Board*

Yes

Alan Weber – ***Robotti & Company - Analyst***

Okay, great. Thank you very much.

Mel Payne - ***Carriage Services Inc. - Chief Executive Officer and Chairman of the Board***

Okay.

Operator

Our next question comes from the line of Barry Mendel with Mendel Money Management. Your line is now open.

Barry Mendel – ***Mendel Money Management – Analyst***

Thanks. Can you talk about the cremation rate trend, which was up by 150 basis points in the quarter, and where do you see it going, how is it affecting the Company and how is it affecting the Company's acquisitions spend?

Mel Payne - ***Carriage Services Inc. - Chief Executive Officer and Chairman of the Board***

That's a good question. I thought that would get people's attention. When I co-founded the Company in 1991, I think we were around 20%, 25%, so maybe a little less 20% to 25%. So it's gone up a point or-so a year. That was actually the prediction at the time, but the other prediction at the time is that the number of deaths would go up to offset it. That hasn't happened. People are living longer, medicine, blah, blah, blah, fitness, whatever. They are living longer. So we have had to -- it's an interesting point.

And the way I look at it, it might be different than you look at it or other people it's already at 50.3%. It's sort of like when our stock went from $29.25 in January 1999 to $1 in December 2000, people said, oh, my god, Mel, you must be depressed. And I'm going, no, actually I'm pretty excited, it can only fall another $1. Well, the cremation rate is already up to 50.3%, and it's not going to go to 100%.
But it hasn't really hurt our ability to improve earnings over time, because we're getting better at dealing with cremation families. And the average revenue per cremation is going up at a much higher rate than the burial average; five points or so? Six points higher growth rate in the average revenue per cremation.

We were focused on it through better people, not these centralized ideas, pushed down from above that people don't buy into. And we're getting better and better at it. But I can tell you we're really focused on that as a glass half-full. That is a huge earning opportunity for our Company over the next five years.

I just got back from Japan. I mean, their cremations over there average $20,000. I'm thinking about sending some of our people over to Japan to do a little study over there. I mean, they know how to do cremations.

Barry Mendel – ***Mendel Money Management – Analyst***

And what's the –

Mel Payne - ***Carriage Services Inc. - Chief Executive Officer and Chairman of the Board***

So it's all the mindset here. But I view it as not a danger. The danger is already shown up and we've proven we can maneuver through it and earn through it, and it's an opportunity. So if everybody wants to think about it as a negative headwind or whatever, that's their right. At some point, God knows when it will be, the death rate will pick up and baby-boomers will start to die, I just don't want to be one of them.

Barry Mendel – *Mendel Money Management – Analyst*

What's your average revenue per cremation?

Mel Payne - *Carriage Services Inc. - Chief Executive Officer and Chairman of the Board*

About $3,400.

Barry Mendel – *Mendel Money Management – Analyst*

Wow, okay.

Mel Payne - *Carriage Services Inc. - Chief Executive Officer and Chairman of the Board*

Yes, lot of upside. Lot of upside. Just think about that. That gets me excited, not depressed.

Barry Mendel – *Mendel Money Management – Analyst*

Got it.

Mel Payne - *Carriage Services Inc. - Chief Executive Officer and Chairman of the Board*

Okay.

Operator

Thank you. I'm showing no further questions in queue at this time. I would now like to turn the call back over to Mel Payne for any further remarks.

Mel Payne - *Carriage Services Inc. - Chief Executive Officer and Chairman of the Board*

Thank you for the wonderful questions on this call. We'll talk to you in the next quarter. Bye.

Operator

Ladies and gentlemen, thank you for participating in today's conference. This does conclude the program and you may all disconnect. Everyone have a great day.