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## Q2 2022 Carriage Services Inc Earnings Call

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## PRESENTATION

**Operator**

Thank you for standing by, and welcome to the Carriage Services Second Quarter 2022 Earnings Call. (Operator Instructions) Thank you.

It is now my pleasure to turn the conference over to Steve Metzger, Executive Vice President, General Counsel and Chief Administrative Officer. Mr. Metzger, please go ahead.

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

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

In addition to myself, on the call this morning from management are Mel Payne, Chairman of the Board and Chief Executive Officer; Carlos Quezada, President and Chief Operating Officer; and Ben Brink, Executive Vice President and Chief Financial Officer. Today's call will begin with formal remarks from Mel, Carlos, Ben, and myself, and will be followed by a question-and-answer period.

Before we begin, I'd like to remind everyone that during this call, we'll make some forward-looking statements. Any comments made by our management team that state our plans, beliefs, expectations or projections for the future are forward-looking. These forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially from those contemplated in such statements. These risks and uncertainties include, but are not limited to, both factors identified in our earnings release and in our filings with the SEC, both of which are available on our website.

During this call, we'll also discuss certain non-GAAP financial measures. A reconciliation of these non-GAAP measures to the appropriate GAAP measures can also be found in our earnings release, as well as on our website. Thank you all for joining us this morning.

And now I'd like to turn the call over to Mel.

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

Thank you, Steve. Yesterday, we had our best Board meeting ever prior to our second quarter earnings release yesterday afternoon. This morning, we're having the largest decline in our share price, which was about $8 a share last time I looked or 18% in the history of our Company as a public Company since August of '96, 26 years ago.

Why this disconnect? Not sure you never can be with Mr. market, but I would like to provide my personal perspective as a Co-Founder, Chairman and only CEO, Carriage has ever had. My family and I also now own 12% of the Company, and we own nothing else.

It has been an incredible journey of ups and downs since founding Carriage in 1991 with a mission/vision of being the best operating and consolidation Company in our industry. I started at 48 with no history, no knowledge, but only some money and an idea. The money was borrowed. So it had to be paid back with interest in upside equity. It was only in the last 10 years that the Company reached a third element of being the best, which was a good to great journey, where we would become the best value creation Company, as well through operations and consolidation and capital allocation, always guided in this journey by 5 guiding principles that have never changed.

This journey starting when I was 48 was never a short-term idea, and it was never equivalent to a race to some made-up finish line right in front of us. It has always been more akin to a marathon, where we get better in different areas at different times, sometimes over long periods of time, sometimes over short periods of times, always focused on the high-performance culture concept highlighted in Jim Collins' book Good to Great of First Who, Then What.

We no doubt accelerated our long-term good-to-great journey over the last 2.5 years by optimizing our historical performance in 2021 throughout our portfolio. However, given the changes in the world and our domestic economy and markets since the beginning of the year everything seems to have gone upside down with world and domestic uncertainties that I have never seen in my time in the public markets and in finance, and as an investor. Every company, regardless of the industry they're in, are facing these uncertainties and revising their outlooks, many have foggy outlooks and really don't know what the future brings in the near to intermediate term, much less in the long term.

So given all these uncertainties as we begin this year, we made a decision early in the year, which has only grown in conviction over the last few months since Russia invaded Ukraine, that rather than continuing to optimize short to intermediate-term performance. We would instead use this environment to get better faster in the specific areas that were highlighted in our release, which brings me back to our Board meeting yesterday. Historically, since I founded the company, [01, '91] I have chaired every meeting, I've run every meeting. I created the agenda for every meeting. I've decided who presents and what they present and how long they present throughout the history of the Company for better or worse.

However, a little over a year ago, I created the Strategic Vision and Principles Group comprised of Carlos Quezada, who is now our President and COO; Ben Brink, Chief Financial Officer and many other things; Steve Metzger, General Counsel and many other things, including Head of acquisitions now as the Strategic Vision and Principles Group and out of this Group, the succession plan of Carriage has emerged. And my biggest job, best job ever had is to allocate my time among other few things, acquisitions, the trust fund portfolio [with] 2 others [so mentoring] them to be better executive leaders, the best that they could possibly be in the future for the benefit of Carriage when I'm not here.

And that -- that led to me rotating the Chairmanship. I opened the meeting yesterday. Carlos chair -- ran the meeting. The agenda was made up by these 3 leaders, not me. I didn't change one thing. I didn't pick anybody, who presented and yesterday, thank goodness, I sat back and watched along with our other Board members, as all of this unfolded and it was a beautiful thing to witness.

We opened with an operations update by Carlos, and he and (inaudible) Shawn Phillips, our Central and Eastern region partner; then, Paul Elliott, our Western region partner, Peggy Schappaugh, our operation support and analysis and planning, and then, Shane Pudenz, Vice President of Sales and Marketing. And then we had 2 new people since the beginning of the year, Alfred White, otherwise known as A.J., who has created the marketing department, followed by Rob Franch, our new Chief Investment and Technology Officer on our IT strategy and update.

Now I have never seen in 26 years, as a public Company, so much talent focused so much in a short amount of time on doing all the right things in their areas of responsibility and how it all fit together and the puzzle came together as a beautiful thing, and I talked about this in the shareholder letter of '21, as Carriage being like the Sistine Chapel. And other people outside the company come along and say, use a little red here, use a green there.

Let me tell you, the people in our Board meeting yesterday are painting away, and they're painting away at a time when most people don't have the financial flexibility to do it. It might look like an accounting expense, but I will tell you, as a 12% owner, I'm looking out 2.5 years, 7.5 years to where we will be then, and I would like to own more of the Company not less.

And with that, I would like to turn it over to Carlos.

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

Thank you very much, Mel. Good morning, everybody. We are very glad to be here this morning to share our second quarter performance for 2022. First, I would like to express my gratitude to all of our Carriage family in the field and our Houston support center, your dedication and commitment to being the best regardless of the challenges that you face each day, pandemic or not is the reason why Carriage is a high-performance culture Company. From the bottom of our heart, thank you very much.

For today's call, we will provide an operations update, marketing, IT and sales. [Followed to] my remarks, Steve will provide an update on acquisitions, and then, we will follow with financial updates. And after that, Mel will close with his remarks.

As Mel mentioned in his commentary on our earnings release, over the last 2 years, Carriage has been working very hard on what we call a high-performance culture transformation. We started a year before the pandemic even began. By the time COVID-19 hit, the team was ready to serve. The outcome of this transformation has continued to impact our operations and financial performance in alignment with our vision and mission of being the best, which simply put, it means a never-ending journey of always striving to be better than we were before.

Now to the results and highlights for our second quarter of 2022. For the second quarter, we had total revenue of $19.6 million, an increase of $2.3 million or 2.6%. Total field EBITDA of $38.6 million, a decrease of $1.4 million or 3.4%. Total field EBITDA margin of 42.6%, a decrease of 270 basis points.

Adjusted consolidated EBITDA of $25.3 million, a decrease of $3.4 million or 11.8%. Adjusted consolidated EBITDA margin of 27.9%, a decrease of 460 basis points and adjusted diluted EPS of $0.58, a decrease of $0.06 or 9.4%.

Our revenue growth shows that even after a huge COVID in Q2, 2021, we're able to grow revenues, mainly coming from funeral, which was up our volume by [217] contracts or 2%, and our funeral sales average was also up by $366 or 6.6%. Having achieved this growth on our funeral volume sales average is a significant milestone after having such a huge comparable.

While we still have some of our highest margins in the industry, a decrease of 270 basis points in total field EBITDA margin is related to 2 main things. One is increased pay to full-time and part-time hourly employees, which after [2.5] years of pandemic stress and overwork heroes, we believe the right thing to do is to recognize the commitment of our employees and support them with some -- what they may be experiencing themselves with record inflation levels around the country. Number two is an increase in merchandise cost, transportation cost and ancillary.

What we have done to get our field EBITDA margins back to performance standards ranges are the following. As a decentralized organization, we believe that having the [rightful] leaders as managing partners and making them the best decision they can for their community, their businesses and employees, it is key. However, we did sent a letter asking them for their support to take a look at what those increases and how they may be impacting their businesses, but not only that, we were able to rally up all of the margin partner ranks in addition to a Standards Council members, which came very strong with some very great ideas about how to improve overall. We believe that peer-to-peer support from our Standards Council members, who are the best of the best at Carriage and aligning them with those that may be struggling, they may be able to help them come up with the best value creation ideas and decisions to really improve their performances and get those performance standards back into the right ranges.

Number two is that we're going to create some webinars also led by the Standards Council members, which we thank them for their support, where they're going to be able to teach some best practice and great ideas that having worked for them and really been able to showcase what the potential truly is for each business across our portfolio businesses at Carriage.

As it relates to the decrease in adjusted consolidated EBITDA margin, which is not a surprise, in fact, it is a plan we announced back in February of this year, where we shared our plans to increase Carriage services moat through investments to marketing and IT that will result in an increase to revenue, productivity and other efficiencies, but also an increase to overhead expense in the short-term. We at

Carriage believe that savvy capital allocation, value creation in all that we do, it is critical. Mel just mentioned that we don't take this as a 1 mile sprint, but a marathon. We think in 5 year to 10-year interval, we believe long-term investment and value creation ideas is what's the right thing to do at the right time. We believe this is the right time, and at the end of these uncertainty times that we see based on the global environment, we will come out very strong ahead of everybody else within this industry.

With that in mind, here are some of the benefits of these investments that we have made on marketing, improving branding and digital guest experience, modernize online presence and engage families to social media, improve organic growth in search engines, maximize marketing best practices, getting market share through marketing campaigns and track the return on investment in all marketing expenses.

From an information technology perspective, we're focusing on improving our infrastructure, cybersecurity, business intelligence and creating a new end-to-end customer-centric system that will cover the customer journey and incredible guest experience. Our current system, which is owned by Carriage and created by Carriage is almost 20 years old. It is not built to current standards and its expansion capacity is nearly 0. To make a value creation company, we need to [further up] with best-in-class systems that enable value creation and can accelerate it. This new technology led by Rob Franch will capitalize on opportunities like we never had before.

Decreased manual work, also paper, we streamline operations through automation, improving efficiencies. Also, if we are funeral directors and in many hours, so that they can focus on delivering excellent in-service to the families that they serve, genuinely differentiating us from anyone else. Customize the unique needs that each of the business has, simplify operational and financial support and reduce human error. Our value creation investments in marketing and IT will accelerate our capacity to integrate new businesses into our ecosystem. At the same time, we will gain market share by delivering our customer-centric service excellence journey like we never had before and probably no comparison to anyone else out there right now.

Now moving into sales, Shane Pudenz and his team continue to show that organic growth is very possible within a record growth already have over the [past 1.5 years]. To put things in perspective, since the beginning of the cemetery transformation, we started at the beginning of 2020 -- 2020 with the new acquisitions in 2021, in 2022, since the beginning of these 2.5 years, we grew from $9.2 million to $19.3 million or 109.7%. On top of that growth on Q2 2022, our sales team were still able to grow by $1.2 million in preneed production for cemetery or 6.5% in Q2.

Our teams are now getting the full benefits for self edge, our CRM and continue to focus on the 3 areas that delivers our success: number one, the selection of the best rightful leaders for sales; number two, the development of their sales skill set; and number three, creating preneed engagement opportunities throughout our cemetery portfolio. Cemetery sales continue to be an opportunity for Carriage, and we will continue to work hard to maximize our cemetery portfolio to the best that we can.

In closing, everyone at Carriage is excited about our future. We are all working towards being the best. Our investment in our future are the right thing at the right time. Death care historically has been a very resilient business, and we believe that because of all of the work we have done over the past few years, in addition to what we are doing this year, we will come up way ahead than most after all uncertainties are settled. If you were able to experience what is like to be at Carriage in the field or Houston Support Center, you would know, why we continue to say that it's a great time to be with Carriage and that the best is yet to come. Thank you.

And I will pass it to Steve.

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

Thank you, Carlos. As it relates to our growth through acquisition outlook, we continue to be encouraged by the activity we see involving high-quality businesses looking for succession plans. During our last call, we mentioned that we expected the back half of the year to feature some new additions to the Carriage family, and we're pleased to report that continues to be the case.

We previously highlighted a letter of intent with a business located near the growing Orlando market, and we're now under a definitive agreement with that business and expect that acquisition to close in the next couple of weeks. This business consists of 2 funeral homes that served more than 800 families last year. We had the chance to spend some time with the team last week, as the owner announced the decision to partner with Carriage. As we were able to visit with the employees, we were taken by the passion they all have for their business and the families and the community that they serve. We're excited to welcome them to the Carriage family and support and build upon the great foundation they've created.

We're also excited to announce we're under a letter of intent with a fantastic business in a large, high-growth market, where we previously not had a presence. This business, which served more than 1,200 families last year, has built a first-class reputation and demonstrated a thoughtful growth plan featuring funeral homes in desirable areas, cemetery and a crematory. We look forward to providing more detail about this acquisition next quarter.

These 2 pending acquisitions represent more than 2,000 additional funeral calls each year. So to put that in perspective as it relates to overall impact, these 2 acquisitions alone will represent approximately 4% of the total number of funeral home calls we currently serve annually. These businesses are great examples of our selective and patient approach to growth and represent the types of businesses we believe fit well within the Carriage high-performance portfolio. Specifically, they both possess strong reputations, a history of growth and are all well positioned in large growing markets. As importantly, they present strong future expansion opportunities within their respective markets, as well as revenue growth potential. So in other words, as good as these businesses are today, they also present very intriguing upside.

As we mentioned before, we're not interested in growing just for the sake of getting bigger, but rather we view Carriage as an elite club of the very best businesses, where top performers don't have to subsidize low performers. And with that mentality and objective, we recognize that we must remain disciplined and patient, as we to -- as we continue to wait for the no-brainers that we described in our last call. We also recognize that if we believe a business is a no-brainer, it's very likely that others are going to feel the same way. So we have to make sure that the Carriage story, which we know to be differentiated and compelling is well told. To that end, we continue to find ways to highlight those distinctions, one of which simply put is our people.

So I'd like to wrap up my remarks by reading 2 brief e-mails that I received in the past couple of weeks regarding members of our HR team. The first is from Lesli Johnson, who is a long-time employee of a business we acquired in 2019, and who now leads that business, as the managing partner. Lesli wrote, Steve, I want to let you know that I love Abby Durham and Oludare Awotesu. They make my job so much easier. They're quick to respond, which is extremely helpful in this crazy and quick hiring world. They keep everything organized, too. Their customer service is A++++. Lesli, if you're listening, I think I got all the pluses there, but there are a few. Please share this with anyone who needs to know how great they are. Thank you.

And then also recently, Adam Zalesny, the sales manager for our Las Vegas location wrote, I just wanted to reach out and give my compliments on the outstanding service that Jason Buchbinder and Christine Ngo have given over these past couple of months, as I've been recruiting for a new position and dealt with a few employee issues. Both have been excellent at follow-up, follow through and fantastic professionalism, as they've assisted me with these items that have needed to be accomplished here in the Las Vegas market. We all work in stressful times, and I know that not everyone has the opportunity to be acknowledged when they excel. So I felt it is important to reach out and do so, while it's fresh in my mind.

Now these 2 e-mails are certainly not the exception, but they're particularly timely, as I was preparing my remarks for our release and as we continue to share our story with acquisition candidates. Carlos just highlighted our strategic investments in top talent, particularly talent geared and making sure our managing partners and their businesses have the best and most current tools, as well as top-notch support to help them continue to serve families at the highest level, which ultimately leads to gains in market share, creating more value for our shareholders.

At the end of the day, we have great conviction that our most important competitive advantage is our people. And as we continue to identify premier businesses to invite to join the Carriage family, we want to make sure they understand that they will have equally passionate and talented people waiting to welcome and support them with the goal of growing and reaching new heights together.

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

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

Thank you, Steve. Year-to-date, our total revenue has increased 2.1% to $188.8 million. Our adjusted consolidated EBITDA has decreased 8.8% to $57.8 million. The adjusted consolidated EBITDA margin decreased 370 basis points to 30.6%, and our adjusted diluted earnings per share has increased 4.1% or $0.06 to $1.51.

Our discretionary preneed trust fund portfolio continued to outperform the major indices during the second quarter. Year-to-date, our discretionary preneed trust fund portfolio had a total return of negative 5.9% compared to a negative 20% return for the S&P 500 and a negative 29.2% return for the NASDAQ Index. We have positioned the portfolio to outperform in the current market environment that has many different crosscurrents of inflation, rising interest rates, strong dollar, the risk of recession and a rapidly changing geopolitical landscape.

We took the opportunity in the second quarter to lock in an additional $9.7 million of long-term capital gains, which brought our total realized capital gain since March of 2020 to $42 million in the portfolio. These capital gains will increase the value of our maturing preneed contracts and will be additive to earn financial revenue and EBITDA for the foreseeable future.

We currently have approximately $30 million of cash in the portfolio, as we look to redeploy that capital into better relative value opportunities. We plan to focus on increasing the [recurring] annual income in the portfolio by adding to existing positions of dividend paying stocks and by selectively adding to our high-yield fixed income portfolio with good credits that have the ability to pay their principal and interest when due. The additional recurring income we add to the portfolio will add approximately $1 million annually to our earnings from our perpetual care trust accounts and will be accretive to financial revenue and EBITDA.

Our adjusted free cash flow declined by $300,000 to $12 million in the second quarter, and our adjusted free cash flow margin declined 60 basis points to 13.3%. For the first half of 2022, our adjusted free cash flow declined $15.1 million, our adjusted free cash flow margin declined 840 basis points to 12.9%. The first half decline in our adjusted free cash flow was the result of lower adjusted consolidated EBITDA, higher cash incentive payments in the first quarter and higher maintenance CapEx, as we continue to invest in our businesses.

Our total debt to adjusted consolidated EBITDA ratio increased to 5 -- 4.85x at the end of the second quarter compared to 4.71x at the end of the first quarter.

In the second quarter, we repurchased approximately 205,000 shares for an average purchase price of $40.02. since we began to execute our share repurchase program in the second quarter of last year, we've invested $176.7 million to repurchase approximately 3.6 million shares for an average purchase price of $49.05. The 3.6 million shares repurchased represents a reduction of approximately 20% of our diluted shares outstanding, as of the end of the first quarter last year.

As we outlined in our second quarter earnings release, we intend to prioritize our capital allocation over the next 18 months, first towards closing the 2 high-quality acquisitions in the next 90 days, as Steve mentioned, and then, towards continued development of our differentiated cemetery inventory and debt repayment with the goal of reducing our pro forma debt to adjusted consolidated EBITDA ratio to approximately 4.5x by the end of next year.

Our lower leverage profile closer to 4x over the long term will provide us the necessary financial flexibility to pursue the best possible capital allocation decisions to grow the intrinsic value per share of Carriage.

As Steve mentioned, the landscape -- the acquisition landscape remains active and highly favorable to Carriage, as independent owners look for the best succession planning solution for their business. We also view our lower leverage profile over time, enhancing the valuation multiples of our equity, as investors view Carriage, as a less risky investment that has the ability to self-finance the majority of value creation, capital allocation through internally generated free cash flow.

Given our changing capital allocation priorities over the next 18 months, we have made the decision to no longer update our roughly right 3-year performance scenario or our opinion of the range of intrinsic value per share. We will continue to provide an updated rolling

4-quarter outlook, which is our best view of the next 12 months of performance. We believe it is best to provide a rolling 4-quarter outlook given the changing nature of our portfolio, as we execute on our strategic acquisition model over the coming years. This updated rolling 4-quarter outlook includes the full impact of the overhead investments we have outlined in marketing, technology and corporate development, a small increase in our effective tax rate to 27.5%, the increase in short-term interest rates and the pro forma performance of the 2 acquisitions we expect to close in the next 90 days.

The outlook is as follows: revenue $380 million to $390 million, adjusted consolidated EBITDA $115 million to $119 million, adjusted consolidated EBITDA margin 30% to 31%, adjusted diluted earnings per share of $2.85 to $3; adjusted free cash flow of $68 million to $72 million; and adjusted free cash flow margin of 18% to 19%.

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

## QUESTIONS AND ANSWERS

**Operator**

(Operator Instructions) Our first question comes from the line of Alex Paris with Barrington Research.

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

I have a couple. Starting first with the P&L. In the quarter just reported revenues were roughly in line with expectations, maybe slightly below, earnings were significantly below estimates, and again, that's due primarily to deliberate increases in your fixed overhead to fuel future growth and profitability. Can you expand a little bit on those investments? So you have higher overhead investments, which include marketing, technology, people? And are you done now, so to speak? And is it a matter of just anniversary-ing the higher cost level, as we go forward? Or are there more step change function changes to come?

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

Great question. This is Carlos. So at the beginning of the year, we hired Alfred White on January 3rd. And the idea was we never had marketing department at Carriage ever, not one member of a marketing team ever before. As a public company and to the size of business that we have right now and the volume of businesses that we have, we thought it was the right time to start building and somewhat centralize the marketing function within Carriage.

Before just to set up some -- some of the perspective here, our managing partner would go out and hired a third party for design, video, social media management, Google AdWords management and anything related to marketing for that matter. And so we believe that through the function of our new marketing team, which is new and we have about 6 people in it right now, that we will be able to consolidate a lot of those expenses that over time, we'll start to see some -- some significant efficiencies from that perspective because now we have the resources in-house.

We are focusing significantly on Google reviews, social media platforms, website, presence, online presence and of course, all related to digital marketing, creating opportunities for market share gains, and of course, building value, as it relates to the guest experience online in each business. And so we believe the amount of people we have right now is the right amount for the plan that we have. I believe that over the next few months, we will be able to then replace some of those costs that right now see it at the field level, which will not be additive to what we have here at the overhead right now.

And as we continue to execute on our strategy from a marketing perspective, we feel pretty certain that then we'll show the efficiencies, productivity and growth from a market gain perspective, as we planned. So we feel very excited about it because we never had this before. We believe it is the right time. Even though some people think about uncertainty, we believe long-term, and we believe, we will come out way ahead than anybody else because of our strategies that we're executing right now. I hope that answers your question, [Liam].

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

So Alex, this is Mel. Look, as the mad scientist here, the Company's grown, and I had to figure out a different idea, business model and basically turn the old one upside down traditional way to consolidate and operate a highly fragmented industry. And it took a long time in evolution and lots of trial and error, and I've covered that in a lot of things I've written. But the core idea was always solid, and even though there were different times, where I would try this, I would try that, and there was always a stress between growth, by acquisition, blah, blah, blah or if you grow rapidly like we did at the end of '19, early '20, catching up with the support, the overhead information systems, technology and also operating leadership.

So there was always this stress. And even though, I could imagine that we could keep doing what we were doing, the way we were doing it without centralized marketing, there were lots of symptoms that popped up during COVID, and our Standards Council tends to have some of the most innovative people on it. And they began to give feedback that we were deficient in important areas, even though the performance looked optimal, and we were gaining market share, no doubt through COVID across the portfolio, and we have a lot of evidence of that, and we've not yet seen the death rate plummet like everybody thought it would. And yet we've seen COVID deaths go plummet.

And so when Carlos came and started talking about his ideas and particularly as we entered this year, the marketing thing, and I'm going, well, I don't know how much our people will need that and use that. I knew we needed technology. That was a no-brainer. I just never dreamed we could find somebody like Rob Franch. And so these ideas began to be seeded by Carlos and supported tremendously by the Standards Council members and others. And so they've taken on a bigger size. And you could say, look, why don't you just sort of do it a little bit at a time, but we could have done that, and maybe that would have been more accepted in the short-term by investors.

But as a big owner and seeing these ideas by Carlos that I never had -- I never had these ideas. I mean, I had a lot of other ideas, but I never had the ideas he has and he's put meat on the bone. And I sort of questioned it and the pace of it at the time. But I will tell you, there's no doubt and the response we're getting from our people, and I hear from them. I mean, I know most of them for many, many decades, if they've been here that long, if not, and I'm hearing from them. And this is -- they're all saying this is the best thing that's ever happened to our Company.

And now these new ideas to get better in marketing and the response from our people who need it, the social media thing, okay, I don't use it, but it's here, it's not going away. I never could have had these ideas, same with information technology. And so I know it's kind of a shock and sudden, the size of it, but we could have tried to let everybody know in advance. I don't know how you do that anymore, but it is good. I mean I am so excited.

I told my wife last night, I've never been so excited in the whole history of the Company about where we're going and what it will look like, what it will actually look like organically with what we already own and acquisitions that we will make and the reputation across the industry of what we bring to the table in terms of support to these independent mom and pops, who don't have all this stuff in their business. And so we're resetting the expectations.

I don't think there's a lot more overhead increase here. And I know it's a lot, it's quick. It surprised some people. I apologize for that. But as a big owner, I can tell you the allocation of capital to our existing businesses in these areas. We're going to look back in 5 years and always do, [go on] damn, why didn't we do that 5 years before. We weren't ready for it. Now we are. And I hope everybody gets the message.

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

I certainly understand and agree with everything you said, we're long-term focused in our investment. But as you said, too, it was kind of a shock and sudden in terms of the variance on earnings, as a result of these deliberate investments.

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

Yes. The thing about it, Alex, and this is interesting, I think, for people who are fairly new to our story to know. Historically, no company had been able to get to an adjusted consolidated EBITDA margin of 30%. I wrote about that in '16, where we hit 29.7%. And we tried to get back to close to 30% in '19, we didn't get there. And then in '20, you had everything happened, and we had those acquisitions, and we blew passed 30% up to, I don't know, 33% something. And then people wanted to know, who were fairly new to the story, well, when are you going to get to 35%. It's never good enough. We want more. We want more. And so you have to -- you have to guard against that as a CEO and a big owner of trying to optimize short-term performance at the sacrifice of long-term organic growth and performance and more value creation.

And this is what we're doing. I will end this -- I'll go ahead and do it now. You asked a wonderful question, and I want to let everybody know right now, just how good it is to be me. How good is it to be me? Starting with nothing, but an idea and guaranteeing the [debt]. This is how good it is to be me. I am now mentoring Carlos, Ben and Steve on a lifelong learning journey curriculum. And I have a collection in my office. If anybody were to come here, I'd give you one of each of the 5 books, I will mention 4 of them: Poor Charlie's Almanack by Charlie Munger. Charlie is what, 99 now, 98, 99. He's updated it a bunch of times. It's unbelievable, the thinking, the psychology of human misjudgment by Charlie Munger. It's an unbelievable talk he gave, reduced to writing.

Seeking Wisdom: From Darwin to Munger by Peter Bevelin. I mentioned that as my favorite book of all time on human nature and investing. And then finally, a Few Lessons for Investors and Managers by Warren Buffett. It's a short book, but it's full of wisdom, including wisdom about what we're talking about here. And then there are also 3 volumes of The Great Mental Models by Shane Parrish. I have a big collection in my office. Anybody is welcome to come in and get a copy because I'll just have them order more.

But these 3 Great Mental Models by Shane Parrish, the founder of Farnam Street Media are volumes, they're simply awesome distillations of the general thinking concepts of Charlie Munger and Warren Buffett. And they each open with this quote, the quality of a person's thinking is a function of the mental models in their head. My job right now, at Carriage is the best job I've ever had, and it's growing and improving the mental models in the head of Carlos Quezada, Ben Brink and Steve Metzger, also my kids. Well, that's all I have to say about that, Alex.

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

Well, thank you, Mel. I'll definitely check out those books.

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

Come [then] soon, you can get a copy free.

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

All right. We'll do. I'm due for a visit down there anyway. So the last question, I'll ask is probably for Ben, with regard to the rolling 4-quarter outlook. While I'm on board with a longer-term orientation to running the company, investors are looking at the next quarter and the next year. And just to be clear, Ben, is it includes all the strategic overhead investments that you've made to-date, it includes the performance assumption of the 2 pending acquisitions. With all that said, the revenue outlook is essentially the same, as it was when you gave it for the rolling 4 quarters last quarter comments.

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

No. I think each -- each time we put those out, Alex, right, we go back and kind of look at where we are, look at how the operations and everything has been trending. And I think that's what we felt most comfortable with that range to give for this next 4 quarters, right, even including when these acquisitions come in and reacquire them over these next couple of months so.

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

And then orders of magnitude, just as a rule of thumb, in terms of projecting what sort of revenue impact these acquisitions would have? Is it the appropriate methodology to take 800 families and multiply it by a $5,500 average revenue per call, a little less than that, a little more than that.

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

I don't -- Alex, right, at this time, I don't think we're ready to say exactly that with that specificity because we haven't really closed these yet, right? But as we see, these are great businesses with a lot of opportunities, whether it be on averages, continue to grow the brands in those markets. It's very exciting for us.

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

And then in your rolling 4-quarter outlook, obviously, reflecting these increased level of overhead expenses, that's where we see the variance between your last 4 quarter outlook and your current 4 quarter outlook in adjusted EBITDA and adjusted EPS midpoint to midpoint. All right. I'll leave it there. I'll have a few follow-up questions for you offline, but thank you very much.

**Operator**

Our next question comes from the line of Liam Burke with B. Riley.

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

I guess, Carlos, I wanted to ask you, you do have purchase agreements with a lot of your vendors. How much did that help offset the higher merchandising cost in either funeral home or cemetery?

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

Well, there are -- I mean, it does. It does help us get some -- some more certainty. However, the -- more than one, I told you actually several came up with surcharge letters, where they didn't do an increase as per the agreement, but there's a surcharge that they're currently charging due to, of course, high inflation and supply chain challenges that they have. A lot of these vendors may bring in some of their merchandise or materials from outside the United States, and so they have had an increase on transportation cost and others. And we expect some of those charges to go away at some point in time soon. But if not, we are taking all of the measures to make sure that those -- we don't absorb the cost, but we pass on some of those increases.

We always want to make sure we do what's right for the family. There is a very fine balance between not gaining market share by serving families the right way, which we never want to do. We always want to gain market share and passing on cost. And so is that very fine balance that we're dealing with right now and making the right decisions to support of our analysts here at the Houston Support Center, and, of course, the conversations that are taking place with managing partners. And I can tell you that we feel very confident that we will be able to get back on track with our field EBITDA margins, as a consequence to the efforts that are taking place right now.

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

I hear you that. I understand the pricing piece of the business is difficult, especially when you're dealing with families. But I would think if it's surcharge related on the merchandise cost, did you factor in any kind of relief there as -- or are you presuming okay, these charges are going to stick until we actually see the price decline or these -- the input costs come down on the vendor end?

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

It's really specific to the business in -- I would say that probably in most cases, not all cases, but in most cases, we were able to pass on the surcharge to the family, but some misunderstand (inaudible) cost. Gas is going up. Surcharges from vendors are going up, and we've been able to capture that. We would be weighted a little bit just to see if that was going to be permanent. But in May, we noticed that was more here to stay than not, and then we started to make some significant changes,

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

And then on the marketing front, I mean, Mel mentioned in his comments that you had been taking share, COVID passed, you saw deficiencies. Do you need to overhaul your marketing program? Or how -- does it go down to the individual property level? And what would change along that line? Is it the property level? Or is it the branding strategy? Or can you give us a little color on that.

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

Yes. I want to -- I'll kick it off on that. Yes. We never had -- I had a lot of people wanting to bring marketing into the -- what we call the Houston Support Center, as a centralized function. But because the -- on the funeral side, the stand-alone funeral idea was decentralized decision-making against centralized performance standards created by our Standards Council, not easy to achieve, and the marketing was all done locally.

So the decision was to do whatever they did locally, as long as they were hitting their performance standards, which growing volumes over time, revenues compounding over time, which have been really great over the last 2.5 years, you say, we don't fix something if ain't broke. But we began to see deficiencies after '19 and -- and there was a lot of fragmentation in how it was done locally, the quality wasn't always there, the vendors they use were not always top-notch, the messaging.

We actually had a great acquisition candidate who's still around tell me when he came down for a visit, why should I join a company Mel, when I went and looked online at this other business you own and their online presence is so inferior to mine, why would I join a company with -- that's not as good as I am. And I'm [going], well, that was an arrow to the heart, and that's what we're talking about. We've had website design decentralized. We've had [disnet] decentralized.

Carlos had a different idea about it. Our Standards Council was already complaining about it. They were volunteering to go around and help those, who have terrible online presence, Google stuff. And so I mean we -- he's talked about all this, an innovation and creative committee, and that's the future. And if we don't go to the future and be disruptive, we will sit here and get disrupted. And so Carlos had ideas to do that centrally, knowing it would cost. I didn't know how much it would cost. It's costing quite a bit. But the response we're getting has been overwhelming, and I've just been like, wow, this was just a real shock to me and how our people are reaching out, as a customer wanting help from A.J. and members of his team.

And when he presented all this yesterday, I was so proud, I was so proud to be a big owner of Carriage, and I know it's going to even get better. As much as we focused on getting the market share from the leadership, and the team of employees locally, getting those 4E leaders, the hunters and being creative. This will accelerate market share gains on top of what we were already doing. And that's why I call it, I'm reading a lot of Charlie, a lot of Warren expanding the competitive advantage moat of each business and each market through the support services we bring and now that will be marketing and IT as well. And they've been wanting IT, our best places. Over the last 31 years, this what -- this is what has happened.

When I created this idea in '03, I thought the best way to do it would be to have seasoned managers in charge of each business, managing partners and younger support people having 15 or 20 places. Well, I was wrong. As it has evolved, the younger talent, the talent in charge of our businesses at each unit is growing younger, more female and much more acceptance of rapid change in the consumer and the use of digital tools, online marketing and things like that. And they're demanding that we provide -- they're not upset, but now that they see what Carlos has done and what the quality of the services are, they're excited.

And I have never been in a position, where I have seen so much bottom-up energy and excitement bubbling up from our individual businesses through every layer of leadership. And that's why I'm going wow. I wasn't good enough to have these ideas. I could have had them, but I wouldn't known how to execute them. And that's not true with Carlos. Steve's added an amazing amount of good thinking and strategy to acquisitions. Ben's done a lot of wonderful things in our trust department. So I mean I can't think of a single part of Carriage right now that is in need of an overhaul. It's certainly not broken or injured.

Now we're always, I will tell you this, we have continued to upgrade and top grade our talent and leadership at individual business regions, cemeteries, funeral homes. There's a lot of that going on right now. That's not cheap, but it bears fruit fast. And so this is what --

this is what we're looking at in this period of uncertainty. It's not a better time in my case, to think about an investment. I can't think of one. I'd want to own 12% other than our Company right now.

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

And Liam, this is Carlos. If you want to -- I'll give you some specificity related to marketing. So to put things in perspective, Alfred White, who leads our marketing team. He's our Marketing Director. He started January 3rd. That's just a little bit over 6 months. In 6 months, he's been able to put a full marketing team together, and we're currently managing 39 business social media accounts, 86 businesses that are working on projects and online guest -- and guest experience. We have designed 2 new websites, which will be now the foundation for all new websites across the portfolio businesses.

There is a tremendous amount of video and content being created for social media platforms. We currently manage 125 [goal], as accounts, and there's tremendous collaboration internally with all the different departments between marketing and benefits, investor relationships, business development, wellness groups, internal projects, et cetera. And so we're very excited because this is just the beginning and his level of execution in such short little amount of time is just very impressive.

So that makes us feel very hopeful about the level of efficiencies, productivity and of course, increased revenue that's going to happen. Our improvement on reputation at the business level, the local level, Google reviews, the reviews that are coming in, our stars, the amount of reviews that are coming in have just exponentially grown over the last couple of months just because of the effort and emphasis that marketing team are putting in, in these 125 businesses. We have way more over 200 businesses and eventually, we'll get all of them, but that grows market share gains, that grows reputation, that grows business and that grows revenue. And so we're highly focused on that, and it is very impressive what he's been able to achieve.

On the COVID-19 front, I'll share this. June year-to-date 2021, at this point in time, we had 12.1% of all of our case volume being COVID-19 cases. This year, June today 2022, only 6.8% COVID cases, that's less than almost half -- that's an increase of 1,786 cases that were not COVID, additional the organic growth from last year. That to me, tells a huge story to the capacity of our teams in the field to gain opportunities, gain family confidence and, of course, gain the calls that are highly needed to grow our business. And so the combination between the -- where we stayed right now, where we are as a Company and how well prepared our teams are in gaining market share organically, in addition to the marketing efforts to do it digitally, it's also -- all we need to know about the future of Carriage, and we're very happy with that.

**Operator**

Your next question comes from the line of George Kelly with ROTH Capital Partners.

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

Just a couple left for you. So the first one, I understand the discussion around the corporate investments, marketing and IT, but a different sort of corporate function is your maintenance and [growth] CapEx spend. I'm just curious if you feel like you're in a good place or any sort of change of thought as far as boosting either of those as you look out over the medium term?

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

No, no expectation that it will be significantly higher than what we thought it would be, right? We're thinking it's probably in around $20 million, $22 million split evenly between growth and maintenance, and that's kind of on the pace that we're on through the second quarter. We're executing more at a higher level on cemetery inventory development on the growth side, which is great to see.

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

And then next question is on -- and you guys covered this a bit, but the pricing environment and the little dip, I understand, it's a fluid environment with your suppliers and everything and there's been a slight dip in field level EBITDA margin? So just curious sort of competitively, is it tough to take pricing? I understand you don't want to really impact the family relationships and things. But how quickly -- what's the kind of adjustment that you can make as far as pricing? And what's the competitive dynamic behind that?

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

Well, making price changes are -- in terms of execution, it's very easy. It doesn't take any moment -- any longer time to make that happen. However that -- what takes a little bit more time is the analysis and making sure that, that's the right decision for the particular business, the community. All business are different. Their community they're in, and the one they're serving is different. The demographics was different. Even the pricing increases that they have perceived or received are also different.

And so the one-on-one conversations that our analysts here led by (inaudible) and the managing partners are taking or making are related to having those conversations, how much can you increase your prices? How much could this hurt your capacity to keep that call and to continue to build relationships with the families. We have created tremendous amount of heritage. What that -- what we call that is that relationship because we serve families so well in the past, that they want to come back to us, and we earn their trust. However, price could change everything, right?

So we're very sensitive about how much we can put that back, and we have been able to put a lot back on prices, but also not big enough that then destroy trust and families end up going somewhere else because we just couldn't keep them. So is that fine balance in making sure that we're doing the right thing. Sometimes we have to test, and we go a little bit too much, then, we can decrease, and if we went below, then we can increase. But we can react pretty quick, as it relates to our pricing structure.

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

And George, this is Mel. Look, I was just reading again, the psychology of human misjudgment, [he talked] by Charlie Munger last night for a couple of hours, and it's pretty long. And it covers about 20 something different psychological tendencies that lead to miss behavior.

The first one was, by far, the longest one, it was the superpower of incentives. And I was laughing or smiling, and what my wife [could] think I was in there laughing by myself and had gone crazy. But in reading this, he's a very witty writer, very in-depth guy. But the first one was like 3 pages long, and it was on the superpower of incentives. And all I could think about was our incentives and how they changed over the last 4 years starting at the end of '18 and how we changed them again at the beginning of '20, so that our managing partners are incentivized to manage -- they manage their margin.

We don't tell them how to manage individual cost or how to price individual products and services. We have Peggy and her team like financial analysts and consultants, and then we have a layer that goes around to the businesses, helps those that are not as good at this as others. But they have -- they know that if they got the revenue, which so far, you're seeing consolidated revenue stay above, like Carlos mentioned because of increased market share, not COVID. They know that if cost are increasing, they have to manage their revenue to within a standard range. And this is what's going on right now.

Business by business, they are looking at what items, where we need price increases and absolutely, that's on the table and #1 on the list. You have to increase prices if your prices are being increased. As long as you stay competitive and you offer the value to keep getting the market share. So this is going on right now. But it's those super power of the incentives that I think most people miss because we don't have top down cost initiatives to control cost. We have bottoms-up managing partners, who are superly incentivized to keep the revenues growing through market share gains, if there's no other way to do it, price increases and to manage that revenue to a margin range, which is the same with every other business in their grouping across the portfolio.

Very simple, and they have all the support they need. You get the right talent in place. They will deliver the value and they can raise their -- we want to keep the pricing power. That's why most of our funerals, 85% of them have not been preneeded. And therefore, we have the pricing power when an environment like this comes up, That's really helpful. And then last one for me, just a quick model question. Ben, what was the share count at quarter end?

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

Great question. So basic shares outstanding of just a little over [$15] million, total diluted shares outstanding [16,33,000].

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**Operator**

Our next question comes from Barry Mendel with Mendon Money Management.

**Barry M. Mendel** ***Mendel Money Management Inc - President & Chief Compliance Officer***

Couple of questions. One, can you outline -- I mean, I guess it's shocking to me that the better than 20% decline in your forward [out] over the next 4 quarters, and I understand that the long-term outlook [on all 4 there]. But can you kind of give me an idea -- first of all, why were these not expenses thought about 3 months ago when you hired a new marketing guy January 3rd. I would have thought when you gave guidance last quarter that there would be some of this in there?

And secondly, you outlined what the exact costs are for this increase in marketing expense that you did not expect?

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

Yes. So when we heard Alfred, if you go back to our February release for 2021 full year, we announced that we are going to put these initiatives into place. Of course, at the time, we're bringing somebody new to build a marketing team, and we don't know with 100% certainty what that's going to look like, what level of cost that's going to cost. Also, we had a plan to start executing, which we have done over the last 6 months.

And what we have not seen just yet, and we should be pretty close to start seeing, these are savings at the field level, where we're going to stop spending those third-party companies helping marketing and then those becoming now the overhead expenses that you're seeing right now. As we continue to see those efficiencies, these will be diluted because we'll grow revenue from an organic perspective through our digital presence and campaigns. But then see the benefit on the centralized marketing, as we continue to see that dilution of expenses over our growth in revenue.

And so we did forecast and foresee some of these expenses, we end up putting up a team a little bit broader than we initially thought, but it is a pretty strong team, and we believe this is the right type of investment to do right now. This is the type of investment, you never want to do when things are very tough There's nothing really tough happening at Carriage. And while there is some global uncertainty, we feel pretty strong about the resiliency of the industry. And that's why we thought it was the right thing to do, and the right time to do it for the future and long-term benefit for shareholders of Carriage.

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

So Barry, this is Mel. Look -- Looking back, I acknowledge that I made a mistake. I never said have done it. I did it the first time, I put out a 3-year scenario at the beginning of '20, everybody freaked out. The stock went down. We were overleveraged. And all kinds of negative things what happen even bankruptcy. That was at the beginning of '20 and then COVID hit, that was before COVID. So we went from [high 20s] or whatever to 14 or so, maybe a little low at one point. And then, we beat the 3-year scenario through '20 and through '21 by a lot. And so coming into this year, the mistake I made was putting out another 3-year scenario and then putting some price ranges and all that on it, multiples based on the environment pre-inflation, pre-Fed, pre-Russia and all that. And then the world changed.

So I made a mistake. I shouldn't have done that. I'm reading a lot of the Charlie Munger stuff, Warren Buffett, and I'm sure if they saw what I did it and Carlos an idiot and would tell me to my face, like I think you want to right now. But I own mistake. I think this is the right thing for the Company to be doing. I'm a much bigger shareholder than anybody else out there. I'm not selling in the short-term. And I think this is a great buying opportunity for people, who see the world out the way we do.

**Barry M. Mendel** ***Mendel Money Management Inc - President & Chief Compliance Officer***

Mel, I appreciate that. Can you outline though, what the -- you've got 6 people there in marketing, as you pointed out. What is the annual expense for those 6 people?

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

You're talking about their salary? What's the total expense on from the [May 12th].

**Barry M. Mendel** ***Mendel Money Management Inc - President & Chief Compliance Officer***

Yes, it's both. Yes. The total cost of the P&L because that -- obviously, the head of marketing was a known factor. But the other people, I guess, you hire a lot more people than you thought or they cost more than you thought 3 months ago when you came out with guidance?

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

Yes. So the main expense on the overhead piece, even though it is somewhat related to their salary, we have 3 SEO experts by region -- one per region to make sure that they're focusing on really transforming our digital presence and Google AdWords reviews and strategy. But the main expense is that we're consolidating the expenses here at the overhead level and not at the field level. In doing so, we will see those margins grow at the field level, while we see those increased overhead expenses at the overhead level. And so it's not just the salaries per se is really the whole marketing strategy and execution of the strategy and plan over the last 6 months, what you see right now reflected on our overhead line, an increase.

**Barry M. Mendel** ***Mendel Money Management Inc - President & Chief Compliance Officer***

Are you assuming any benefit over the next 12 months in your 12 month outlook?

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

Right. It's not to like -- not to be getting into the weeds with this, right, Barry. But there was certainly assuming that we're going to see some of this benefit, as we go forward, right? Not exactly the exact number of what we're going to see. And then from the expenses, right, we think we have put in there what we think that step change in expenses is going to be in overhead over these next 4 quarters.

The same -- and same thing goes with our technology team. Rob started here at the 1st of April, right? So -- and it's taken the time to ramp up with him and his team to really outline what this is going to look like for us. Doing -- changing it, we didn't -- 3 months ago, we didn't have this clarity and specificity about what this is going to look like. Now we do, and now we're putting this out there.

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

Yes. I mean the way I look at it, Barry, is 31 years ago, I didn't know anything now know a lot more, but not enough and not about everything. And yet, the value of the Company, especially if you go back to the end of '11, I know you've been a big supporter for a long time. If you go back to the end of '11, we ended '11 at [5.60]. And here we are, we're down to 36%, 37% today. We got up to 60% something. But I have no doubt that these moves. I know that's a surprise in the short-term that Carlos is leading.

And if you were in the meeting yesterday or if you just came to the home office and hung around for a day or 2, and I really recommend you do that. Over time, over the next -- I'll be 80, you're not as old as I am and I'm not selling. I want to own more over the next 2.5 years and the next 7.5 years until '29. That's how I'm thinking about this through the maturity of our senior notes. I don't know how much we'll have to pay to get that on our balance sheet now, but a lot. So through then, the Company is going to be getting better, the free cash flow will go up, and we're getting smarter and smarter on how we allocate it.

Now the surprise has been that I allocated under Carlos' leadership a lot of capital that is recorded as an accounting expense. But this capital allocation category will make all the other capital allocation decisions later have more value over time. And so I -- we still are really excited here about what we can do by the next 2.5 year period, which ends in '24. All of us are incentivized on creating the performance by the end of '24, that will cause the stock price to be at [$77.34].

Now I'm not saying we're going to do it. But that's how we think about it, and that's what we're going to try to do. And we're not going to manage the stock price. We'll do the right things in the Company, and we'll do the right long-term things that may look like an accounting expense and is more than you thought, but we'll add a lot of organic revenue and margin in the future, which, in my opinion, will expand our margin -- our multiples of our metrics at that time. That's how I'm looking at it. The valuation of the Company will go up over time, not overnight, as the Company gets better and better at what we do, and we are.

**Barry M. Mendel** ***Mendel Money Management Inc - President & Chief Compliance Officer***

I understand it, and I cannot disagree with that. I think there was just a -- maybe there should have been some guidance, so there was less of a shock today, you might say.

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

Yes. I understand that. I take responsibility for that.

**Barry M. Mendel** ***Mendel Money Management Inc - President & Chief Compliance Officer***

And I think that -- the other question I had Mel, but maybe Ben can answer this is, I mean, it's great you're doing these 2 acquisitions. They sound exciting. That's how you've done a great job growing the Company. But in the forward guidance, are these companies dilutive to margins over the next 12 months? And is there an opportunity to improve those margins towards the full year margins or better?

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

Yes. I can speak to that. This is my -- as Warren would say, this is my circle of competence. I learned in the '90s, what not to do. And we started growing again January 1, of '07 using strategic criteria, not easily quantifiable. And that's straight out of a Warren Buffett shareholder letter that I've talked about before. And so both of these are in high-growth, strategic large markets, where we had no presence.

And what we've learned and Ben has a project, I hope it's concluded in my lifetime of going back and doing now (inaudible) of going back and looking at our track record, ROIC on all the acquisitions we made. since January 1 of '07 when we started to grow again using these new strategic criteria. We've made very few mistakes over the last 15 years on acquisitions.. We made a few, but they're all small and we learn from them. And these 2 are -- I mean I'm excited myself because we've never been in the Orlando market. I've always wanted to have a big presence there, and this brand is growable. And we've never been in this other market, which is to use the plan to die for, and I never was in that market.

And so both of these in the 1 year, because once you close them, you have to integrate them, and it takes a while. Our model is very unique. You have to get the managing partners right. You have to get the employees aligned. But I have no doubt, much like the ones in '19 that everybody thought we way overpaid for turned out to be no-brainer grand slam home runs with the basis in -- loaded in the bottom of the ninth, seventh game of the series. And so these will both turn out to be fantastic. And at some point, within the 5-year time frame, their margins will exceed the existing portfolio margins, but it won't be in the first year.

**Barry M. Mendel** ***Mendel Money Management Inc - President & Chief Compliance Officer***

So initially, they'll be dilutive to your margins, but long-term, do you expect them to be above your average margin.

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

Absolutely. And that's like -- that's what makes them a no-brainer. Because the revenues in these will compound over 5 year or 10 years at a much higher rate, and therefore, take advantage of the inherent high fixed cost operating leverage available in these individual businesses. And the brands are really fantastic. There's a fantastic cemetery and the second one, which we don't want to mention in the market yet. Carlos is salivating over it, what he can do with it, with his team, and I don't disagree with that.

**Operator**

(Operator Instructions) Your next question comes from the line of Chris McDonald with Kennedy Capital.

**Christian Jacobi McDonald** ***Kennedy Capital Management, Inc. - Portfolio Manager, Research Analyst & Assistant Portfolio Manager***

Can you share an estimate of what the total marketing spend is in the field today, just so we have an idea around the business case tied to the corporate level marketing investment?

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

I don't know if Carlos going to answer that. But I can tell you right now, I don't know. We've never tracked that. Again, these standards are related to margin management and all the cost, marketing and all kinds of other costs that we used to budget before we created this model, we used to know that number. And when I was first brainstorming this on a white board offsite in August of '03, I invited 17 former owners of best managers down, and we -- I entertained all ideas related to what should be a performance standard. Some of them, it was pretty funny.

I remember one managing partner, and then we have regional Standards Council said, I think we need a marketing standard, an advertising and marketing standard. Now he said that because he was losing market share, and he didn't know how to get it. So he's going to say that should be a standard. So we never made that a standard, and we made getting the right talent in doing the right things locally. So I mean, to be honest, we don't have a clue what the consolidated market spend is locally. I know it must be material, but I don't know how much offset we will get over time, as that centralization takes place business by business.

**Christian Jacobi McDonald** ***Kennedy Capital Management, Inc. - Portfolio Manager, Research Analyst & Assistant Portfolio Manager***

And then just from a very high level, if I compare overhead spend to the pre-COVID period, so just [going to roll back] to 2019, same quarter 2019 corporate as a percent of -- or overhead as a percent of revenue, up about 280 basis points growing twice as fast as revenue. Just at what point would you expect to get leverage on these overhead costs? Are we there at this point? Are there other places you can tighten the belt a little bit, attempt to balance this a little more, I mean typically overhead is something we leverage with growth and just haven't seen that here.

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

Yes. Thank you, Chris. This is Carlos. I feel pretty comfortable saying that our overhead, as it relates to marketing and the efforts we're doing to really maximize that opportunity, as a new somewhat centralized function at Carriage is pretty much, where it should be. I don't see adding more. What I do see is adding more businesses to our portfolio services at the marketing level.

I mentioned in one of the answers, how many businesses we're serving right now in the different areas. And ultimately, we're somewhere around 40% of the services we can provide to all of them. And so the added value and value creation that will come from that and the efficiencies and savings will be significant. I don't have the detail right now to tell you how much of that will be offset or not. I tend to believe that it will be just based [off] my own estimation, but we'll get those numbers ready for next release, so that you can see it.

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

Well, let me just put a vision out there for you. That's a great question, and one that I reflect upon a lot, including, as we were doing this. And I'm thinking, okay, how should I think about this over the next 2.5 years, which is our time frame. We -- our time frames are 5 years at a time, a good-to-great journey time frame, and we have certain benchmarks, roughly right benchmarks we want to achieve. And now the time frame is 2.5 years [done] another 5 years. So how should I think about overhead, as a percentage of revenue over time.

And this is how I think about it. Whether it's right or wrong, as someone, who's got a lot of stake here, it is the way I think, and it's also the way this thing has been designed over the last 18 years, 19 years. We do not allocate from our trend reports overhead that otherwise in the SEC segment format would be allocated to our field businesses. And the reason we don't do that, and there's a lot of overhead that we eat, including their incentive comp, they don't control accounting allocations. They don't control those things that we can create here, including expenses that are support to them. They don't control it. They use it. We eat it to help them grow their business faster at higher margins over time. That's the only way you can really get them to buy in to controlling their own destiny and to achieve performance at levels that really broadly speaking are unimaginable for a highly consolidated portfolio of businesses, big and small and medium sized.

Because if you looked across the portfolio performance today versus 10 years or 15 years ago, it's no comparison. Our margins have gone way, way up. And that -- they won't keep going up at the same rate. But I do think they will go up. The field level will go up gradually, as we grow organically and these fixed costs locally get leveraged. So the overhead concept is to bring in more businesses that have a higher growth profile over time and to leverage the overhead rather than to keep growing it proportionately to revenue. And this step jump up in overhead, I would think will now come down over time to between 12% and 13%, let's just say, 13% plus or minus of total overhead, looking out over time.

And that's what I think -- if we had 13% and then you put a field EBITDA margin, that -- that comes off the field EBITDA margin [and] gets you the consolidated EBITDA margin, we ought to be somewhere north of 30%. We're a little over 30% now. We're lower than that for the quarter. But looking out, I would think that's what this thing will trend. The field even [though] will gradually go up again, and the overhead will come down gradually again.

**Operator**

It is now my pleasure to turn the call back over to Mel Payne for closing remarks.

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

Well, it's been a great call. We've had some great questions. We appreciate everyone's support. We have a great Company getting better fast. And we look forward to reporting our progress each quarter, remainder of this year and into next year. Stay safe. Thank you.

**Operator**

This concludes the Carriage Services second quarter 2022 earnings call. We thank you for your participation. You may now disconnect.