CARRIAGE SERVICES, INC.

Moderator: Chris Jones
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Operator: This is Conference # 76057989

Good day, ladies and gentlemen, and welcome to the Carriage Services Second Quarter 2015 Earnings Webcast and Conference Call. At this time, all participants are in a listen-only mode. Later, we will conduct a question-and-answer session and instructions will follow at that time. If anyone should require operator assistance, please press star and then zero on your touch-tone telephone. As a remainder, this call is being recorded.

I would now like to introduce your host for today's conference, Chris Jones, representing Carriage Services. You may begin.

Chris Jones: Thank you, and good morning, everyone. We're glad you could join us, and we would like to welcome you to the Carriage Services conference call. Today, we will be discussing the company's 2015 second quarter results, which were released yesterday after the market closed.

Carriage Services has posted a press release, including supplemental financial tables and information on its website at carriageservices.com. This audio conference is being recorded and an archive will be made available on Carriage's website.

Additionally, later today, a telephone replay of this call will be made available and active through August 9. Replay information for the call can be found in the press release, which was distributed yesterday.

On the call today from management are Mel Payne, Chairman and Chief Executive Officer; Dave DeCarlo, President; and Viki Blinderman and Ben Brink, 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, management 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-Q 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 the morning's call, management will reference certain non-GAAP financial performance measures. Management's opinion regarding the usefulness of such measures, together with the reconciliation of those measures to the most directly comparable GAAP measures for historical periods, are included in the 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.

Melvin Payne: Thank you, Chris. Today, we will discuss another outstanding quarter of financial performance, but more importantly, the record results for the first six months as well as the corporate development acquisition activity and senior leadership changes that position Carriage for great success in the future.

After our last conference call, Bill Heiligbrodt gave notice of his intent to retire next March and has since transitioned out of his executive officer duties and responsibilities, although he is still active as an adviser to me and members of our OSGLT and Board of Directors. His duties and responsibilities as Principal Financial Officer and with Investor Relations have been split between two young and highly capable members of our Operations and Strategic Growth Leadership Team, Viki Blinderman and Ben Brink, as Co-CFOs. Bill, Ben and Viki are all here today, but Viki will now provide the color commentary on our second quarter and first half performance. Viki?

Viki Blinderman: Thank you, Mel, and thank all of you for joining us on the call today. We are pleased to report more record results for the second quarter of 2015. Carriage achieved second quarter adjusted diluted earnings per share of $0.34, a slight increase over 2014. For the first six months, the adjusted diluted earnings per share was $0.76, an almost 19 percent growth and the largest we have seen in years. Just to let you know, the earnings per share is impacted by 600,000 shares due to the dilutive nature of our convertible notes and outstanding option. As a reminder, with the convertible note, the actual number of new shares outstanding when settled in the future may differ materially from the current technical calculation of EPS, as we have the flexibility to settle conversion requests either with cash or shares or a combination of both.

I would like to highlight our Field performance as our managing partners continue to demonstrate the earning power of our Standards Operating Model during the first half of 2015. Our funeral home same-store operations generated 2.5 percent growth in contract volume, which translated into a 4.2 percent revenue growth and a 9.2 percent growth in Funeral Field EBITDA, which is highly accretive to our earnings with nominal additional depreciation and amortization or interest.

The performance of our funeral home acquisition portfolio, which is comprised of businesses acquired since 2011, have been rapidly improving over the first six months, which is reflected by the acquired funeral home EBITDA margin of 39.6 percent being higher than same-store margin by 120 basis points.

Our cemetery operations also leveraged an 8.4 percent growth in revenue for the first six months of 2015 into an additional 17.5 percent growth in Field EBITDA, which together with our higher funeral portfolio performance has produced a year-to-date total Field EBITDA margin of 41.7 percent, a 140 basis point increase, a historically high margin.

Next, I would like to focus on adjusted consolidated EBITDA and adjusted consolidated EBITDA margin, which we believe best defines the cash earning power of Carriage as an operating and consolidation platform for our industry.

Adjusted consolidated EBITDA for the second quarter increased $900,000 or about 5.4 percent, primarily from higher revenue and margins in our Funeral portfolio, but was up $5.4 million or 17.3 percent for the first six months, producing a historically high adjusted consolidated EBITDA margin of 30.1 percent, 210 basis points higher than last year. As a result, our adjusted free cash flow increased 31 percent to a record $25.4 million, approaching 20 percent of our revenue. These are important operational and financial milestones for Carriage, which should continue over the balance of 2015.

Along with the continued strong performance in our Field operations, our recent senior leadership reorganization has led to a downward trend in our total overhead as a percent of revenue, which has stabilized between 13 percent to 14 percent over the near term.

Our adjusted net income for the first six months increased $2.6 million or 22.1 percent to $14.4 million, equal to an adjusted net income margin of 11.8 percent, another historic high.

In summary, Carriage is currently well positioned for continued financial success because of our strong operating margins, increasing adjusted free cash flow, low cost of capital with available financing of $155 million under our credit facility, a very active pipeline of quality acquisition candidates and a management team committed more than ever before to outstanding execution of our models and strategies to enhance shareholder value. Therefore, we are increasing our rolling four-quarter outlook ending June 30, 2016, to a range of $1.57 to $1.61.

We look forward to reporting our results to you as we move through the remainder of 2015. Back to you, Mel.

Melvin Payne: Great job, Viki. I'm going to turn it over to Dave DeCarlo now. Dave has been very active since joining the company full-time in March '14 initially with me. We spent a lot of time traveling the country together over six to nine months last year to then take a fresh look at where we focused strategically and profile the kinds of businesses that would best fit into our company. So I'm very honored to turn this over to Dave and let him explain what he and his team have been doing. Dave?

David DeCarlo: Thank you, Mel. As you know, our corporate development activity continued at a high level. We continue to develop relationships with those who we feel are the best independent firms in the nation. Our list is now over 50 firms, and many of them now realize that the best-kept secret in the industry is our decentralized partnership model, which is the perfect solution for their succession planning.

Please note, as you know, Mel, as well, that these firms were not for sale when we knocked on their doors. But I can tell you, they are now thinking about it. And let me tell you why. As I've said before, funeral home and cemetery owners are very proud group, caring about their community. And when it comes to selling their business, they want to make sure they can protect their own legacy, their employees and maintain and grow the heritage of the families they serve.

In fact, three of the four firms we visited last week voiced these same three concerns to us because to them, their biggest concern is what happens to their reputation in the community after the sale. And I can tell you, once I started explaining the model, I can see their eyes light up when I explain our decentralized model because it is the perfect solution for their concern.

Think about it. Once they partner with Carriage as the managing partner, they keep their name on their signs, not Carriage. They continue to run the business as owners. They are still the boss. They set their own prices, choose their own vendors and basically determine their own destiny. And another key item in the model that they love is that Carriage takes care of the back-office work, IT, HR, legal, et cetera, things that distracts them from what they do best, and that is serving families. Because they realize by removing these distractions, their life is better and it allows them more time to serve their families, which means they can grow their business and get rewarded through Carriage's two incentive plans – one, an annual plan for all their employees, including the management partners; and a very good five-year plan for the managing partner himself.

So with this said, you might be wondering if the model is so great, why aren't we making more acquisition. Well, the reasons are simple. First, we are very selective in who we want to partner with. Second, the price has to be fair and reasonable. Third, there has to be opportunity for the partners to grow their business. And lastly, we want to make sure that the owners and employees would thrive in our decentralized culture.

We have had our share of opportunities to partner with firms but decided not to or were simply outbid. But now we are seeing that once these potential partners understand the model, they are starting to realize that what really matters to them is what happens after the sale. And choosing the highest bidder may not be the best choice for them as a result, especially if they want to stay and continue to run their own business.

In summary, we have worked hard over the past year to develop these relationships that we have today, and we are optimistic that our efforts will be producing results. And that's why we have included acquisitions in our rolling four-quarter outlook. And we are going to continue knocking on doors, attending state conventions, participating in a speaker circuit and also launching a marketing campaign to expose the best-kept secret in the industry, our decentralized model.

We are also pleased to announce that we have added a true industry veteran to our team, Ken Stephens, who spent 20 years with Stewart Enterprises in senior executive roles in operation and sales, and who SCI appointed to manage and work with the FDC in divesting the firms they had to sell in 2014. I've known Ken and his family for over 30 years, and we are pleased to have him as a part of our corporate development team.

He will be joining another seasoned veteran, Michael Cumby, whose firm we purchased in 2012. Thank you.

Melvin Payne: Thank you, Dave. I will only say that I've been doing this a long time. And I've been out with Dave and his entire team over the last six to nine months. And it's a dream team. And I expect great, not only activity, but results over the next – not just short term, but for the next three to five years.

When we launched the Carriage Good To Great Journey 3.five years ago at the beginning of 2012, it literally would have been impossible to predict the amazing industry and company-specific, attractive position that we find ourselves in today. Some of what happened was not under our control. For example, SCI buying Stewart Enterprises, leaving SCI and Carriage as the two similar-profile funeral versus cemetery companies that are in the consolidation and operation business today.

To better educate and inform investors on why Carriage has become, in addition, a superior value creation investment platform, we are updating our investor presentation and company investment profile, which would be filed later this month, after which Viki, Ben and I will be selectively traveling to personally visit with and update our largest institutional investors and others interested in Carriage as an investment with little downside risk and much upside reward over the next five years.

Speaking personally, I saw 100,000 shares in the second quarter, with the proceeds used to pay off all of my margin debt for the first time. I do not plan to sell shares anytime soon. And frankly, wish I owned a lot more especially right now. We have created a wonderfully efficient operating and consolidation platform for the best funeral homes and cemeteries in the country and are now positioned to grow more rapidly, but as Dave said, very selectively by acquisition over the remaining 1.five years of our first five-year phase of the Carriage Good To Great Journey, which will then continue into a second five-year phase and should create huge amounts of shareholder value over time.

With that, I'd like to get into questions. Chris?

Operator: Thank you. Ladies and gentlemen, if you have a question at this time, please press star then one on your touchtone telephone. If your question has been answered or you wish to remove yourself from the queue, please press the pound key.

And our first question comes from James Fronda from Sidoti & Company. Your line is now open. Please go ahead.

James Fronda: I guess I just had a question on the gross margin for the quarter. Is it the scenario where if you don't have enough, I guess, same-store sales growth that margin won't expand as much as we think? Or are there other issues going on just specifically this quarter that dragged that down a bit?

Melvin Payne: Are you looking at the GAAP margin?

James Fronda: Yes, I am.

Melvin Payne: I don't know what the GAAP margin even is because I don't know how we look at it. But if you'll spend more time – I don't think I've met you. Spend more time with me, Viki and Ben, you'll learn that we didn't have a problem in the second quarter. I'm not exactly sure what you're talking about, but I don't see a problem. And the way I look at this in our trend reports over five quarters and five years, it is completely different than GAAP numbers.

James Fronda: Right. OK, that’s fine.

Melvin Payne: And unless you can understand how we think about it, operate it and report it internally, you and I won't be on the same page.

James Fronda: OK, thank you.

Melvin Payne: And I look forward to that.

Operator: Thank you. Once again, ladies and gentlemen, if you have a question at this time, please press star then one on your touchtone telephone.

And our next question comes from Joe Janssen from Barrington Research. Your line is now open. Please go ahead.

Joseph Janssen: Thank you. Mel, how are you doing?

Melvin Payne: I'm doing fantastic. How are you, Joe?

Joseph Janssen: Good. Listen, I apologize, I missed all the prepared remarks. I was dealing with multiple calls here. But I'm assuming Dave maybe talked about the – maybe just a quick commentary on the acquisition pipeline. I know you've been financially disciplined. Anything you see there that kind of piques your interest? Any color on that would be helpful from my perspective.

Melvin Payne: There was a lot of color you missed, Joe. All I can tell you it's good and it's getting better, and Dave went over quite a bit of that.

David DeCarlo: Yes. I mentioned that over the past year, we have developed relationships with over 50, what we think, some of the best firms in the nation and that we're pretty optimistic about the next 6 to 12 months. And that's why we have put some acquisitions into the rolling four quarters. So these are relationships that people now understand our decentralized model, and most of them can't believe it.

Melvin Payne: One of the other things – and I'll give Dave a little more immodest kudos than he's willing to give himself and his team. I've spend a lot of time in this industry over the last 24 years doing corporate development. Certainly, the first 10 years, I was pretty much gone all the time learning it and doing it and have done selectively quite a bit from that time. In 2007, we started growing again by strategic acquisitions, and I did seven personal in that year. So this is an area that I have a lot of love for, a lot of passion about. And I've been out with Dave and his team, Ken Stephens now, who he talked about, a long-time better under Stewart, Michael Cumby, who was on his team. But there are – they're a dream team.

And I've been with them a lot with individual candidates over the last three to six months. They're going around to state conventions. They're presenting the company directly to candidates who are not for sale, but who may have a succession issue at some point in the near term, if not now. And the activity has been deep, very selective and – with quality businesses and what we consider strategic areas and markets. The activity is beginning to bear fruit. These seeds are growing in lots of places, so I don't think you're going to have long to wait to see some of the fruits being harvested. And we look forward to reporting that, but I don't think you'll be disappointed.

Joseph Janssen: Great, I appreciate that. And then this is more just a comment, not really a question. And just looking at the stock today, given it's down and I think it's a bit of an over-reaction, I think you're doing all the right things. You're focusing on the business. You're improving the margin. You're going to make the acquisitions. You're going to make them at the right price, and you've maintain financial discipline. So I think in the long run, shareholders will give be rewarded here. So congrats, and I'll go back in queue.

Melvin Payne: Well, I haven't looked at the stock price recently. But as you know, I'm a student of Warren Buffett. And I remember the famous article he wrote, Mr. Market, in 1986. I'm fine with that because I have an inner scorecard, 100 percent. I don't let other people put scores on what we're doing in the company or how I feel about it. I'll only tell you that in my comments – and I don't know if you were on the call. I said I sold 100,000 shares in the second quarter to pay off my remaining margin debt. But at this point, right now, I wish I owned a lot more Carriage and nothing else. It's a dangerous world out there. So thank you for your comments. We'll do the right thing, don't worry.

Operator: Thank you. And your next question comes from Matt Sherwood from Cooper Creek Partners. Your line is now open. Please go ahead.

Matthew Sherwood: Hey guys.

Melvin Payne: Hi, Matt.

Matthew Sherwood: Congrats on the succession plans and for the – Bill's role. Just had a quick question on the outlook. So just trying to understand. So the previous outlook did not – the rolling four quarters did not include acquisitions? And if …

(Crosstalk)

Melvin Payne: Yes, it did.

Matthew Sherwood: OK.

Melvin Payne: We didn't put any more in there, but it did, yes.

Matthew Sherwood: So what – so you – so what was the delta in terms of acquisition? Did the rolling four-quarter outlook change, excluding the change in acquisitions included in it?

Melvin Payne: It did a little bit. All we did was just put in there a little bit of overhead savings on this recent reorganization, but we didn't change the revenue – we may have changed it a little bit. Same-store up a little bit, yes. But it really – we didn't change anything. We didn't add any more acquisitions. I've had some in there. We'd rather harvest the fruit and show it and close it and then talk about it more. And I think as we go along, and Dave's team gets more of these pipeline activity really surfacing with LOIs and more predictability on timing, quarterly, annually, we will the revisit the outlook and make that more clear for you.

Matthew Sherwood: OK. So just broad brushes there sort of the range of EBITDA maybe because you don't know what the …

Melvin Payne: Well, I'd say we're certainly going to be adding revenue in the $12 million to $16 million range. It's like that because we have …

Matthew Sherwood: Do we assume like mid-30s EBITDA or like 30 percent of that (number)?

Melvin Payne: No. I think – I mean, we're buying bigger, better places than that. Field EBITDA will be higher than that. So yes, it'll be higher than that. If you look at our Field EBITDA now in the acquisition portfolio, it's almost 40 percent six months. And we're buying bigger, higher-margin places. So over time, that acquisition portfolio, that's why we show it for five years, will have a higher revenue growth profile and margin profile, which should follow that right down through the overhead transparency on our reporting to adjusted consolidated EBITDA, adjusted consolidated free cash flow and EPS. We're in a sweet spot right now, and it's about to get sweeter.

Matthew Sherwood: That's great. So it sounds like you're suggesting like $3 million or $4 million of EBITDA from acquisitions in the – as you said 12 (months).

Melvin Payne: Yes, yes. It's probably right. And at this point, Dave and his team have been doing this for pretty short amount of time. And it takes time to build these relationships. So what I would say, and this is how I feel, I can't tell you exactly how it's going to roll out by quarter, even by year. But I can tell you what's going to happen in my view over three to five years and why I'm more excited than ever about our future.

We're going to – my anticipation is that once, as Dave said, this best-kept secret in the framework, in the models, are presented directly to owners, not through brokers, they get excited because it's the best of both worlds. They have financial security, and they have the ability to run their business. We're just looking at a business right now, I won’t say where it is, but we'll probably buy this business pretty soon. And they were ready. But they didn't have a managing partner, and they were tired. So it took us literally one day after meeting with that family to find the right managing partner, which they approved along with us. And so it's that kind of collaboration on the front end that leads to a very good, long-term outcome. And that kind of reputation, that's the kind of company we are, will lead to other people wanting to join the company without being auctioned off by an intermediary. That's where we want to be, much like Warren Buffet did with Berkshire Hathaway, and that's about where we are.

Matthew Sherwood: That's great. Now it seems like, obviously, since you're more focused on the long term, but the stock sort of reacted to a short-term difference with – Street expectations? I mean, as you look at the past 12 months and the flu seasons you had and all that, I guess, just how are you modeling things going forward just so there is less discrepancy between …

Melvin Payne: OK. You asked and I'm going to tell you. And your questions are the right kind of questions. I don't look at it quarterly. I never have. I made that mistake in the '90s. I got on a treadmill, and I learned to regret it because this is not a quarterly business. You don't build a great company and have some kind of a scorecard at the end of every quarter.

So if you look at the last five years, which is the way I look at the company in the past and the way I look at it in the future, let's just take 2011. We did a major transformation of our board and leadership on November 4, 2011, because I was very unhappy that the framework in the models were not being properly executed or understood by the board or the team I had in place at the time. So I swept them out.

Now what has happened since then? We've gone from $182 million in revenue for 2011 to $236.5 million in the rolling four quarters ending June 30. That's about 7.5 percent, 7.7 percent compounded revenue growth.

Now what has happened in the Funeral Field EBITDA margin? We'd gone from 35 percent in '11, this is acquisitions and same-store, to 37.8 percent in the 12 – the four quarters ending June 30. And if you come – it's the same in the cemetery. It's been getting better over the last five years. It will continue to get better, not every quarter, but over time. We're getting better talent, sales managers, product. And we have much higher financial revenue because we made some unbelievable moves during the '08-'09 crisis. But we can't keep growing it extraordinarily, but it keeps recurring. That earning power is not going anywhere, and it won't go down, even if we have another black swan event.

And then you come down to the adjusted consolidated EBITDA, which is the right way to look at it. Because when you have a dynamic, transformative, high-performance culture, you change out what is not high-performance in the leadership. So there's been a lot of noise.

I will tell you, as of right now, we have the best field leadership across the portfolio, the best regional leadership and the best home office leadership we've ever had. It will only get better on execution as we go forward.

So what has happened to the adjusted consolidated EBITDA margin over the last five years? It went from 25.2 percent – and I adjusted that because we had $4.5 million withdrawable trust income. We were so overfunded with our cemeteries in California. We still have that. We pull it out every year. We went from 25.2 percent on an adjusted basis to 26.5 percent in '12, to 26.3 percent, we dropped a little bit, to 27.3 percent, 100 basis points, to 28.4 percent for the last four quarters. We are headed toward a normalized adjusted consolidated EBITDA margin of 30 percent, which we already achieved in the first six months.

This company is wired as a platform to create shareholder value with revenue growth from new acquisitions, same-store, and to add a lot of value for shareholders who see this other than a quarterly business. It cannot get better than what it is right now, and I've been doing this kind of thing for a very long time.

Sorry for the prolonged answer to your question, but I did it because it was such a good question.

Matthew Sherwood: I guess, I'm just wondering, do you think these EBITDA margins are …

(Off-mike)

Melvin Payne: I can't hear you.

Matthew Sherwood: So I was asking – sorry. So do you think these EBITDA margins are good on a go-forward basis and could go up even in light of the fact that the flu season was pretty favorable?

Melvin Payne: We don't look at the flu season. This is all noise. And other people might want to talk about it. It's an excuse for somebody either doing bad or when they do good, they give it some credit. Look, we're in the business of getting more business from somebody else who's got it and not requiring something we cannot control to lead to higher deaths. Whenever that shows up with the demographic boom bubble, I hear it's going to happen someday, we'll benefit from it. And then everybody will say, "Oh, that's great." But we don't – our same-store contracts in Funeral are the same in the last four quarters through June 30 as they were in 2011. No one else can say that, factually. No one. Now we're focused on getting the average revenue per contract same-store up, which you saw in the first six months. You will continue to see that.

Matthew Sherwood: Great. Well, thanks so much for your answers here.

Melvin Payne: Thank you.

Operator: Thank you. Once again, if you do have a question, please press star then one on your touchtone telephone.

And our next question comes from David Woodyatt from Keeley Asset Management. Your line is now open. Please go ahead.

Melvin Payne: Hi, David.

David Woodyatt: Hi. It seems to me the nature of your business is such that it should be much more predictable and controllable than most (appearing) in businesses.

Melvin Payne: That is absolutely true.

David Woodyatt: And yet we have these high level of volatility in the year-over-year earnings with 35 percent or whatever it was in the first quarter gain and then only a 3 percent this year – this quarter. Isn't there something more you can do internally to produce more consistent earnings because that influences the valuation investors are willing to put on the stock? When they see this inconsistency in earnings per share, they tend to put a lower valuation on it, and that has implications on how you can finance your growth going forward. Can you use …

Melvin Payne: Well, I don't know how long you've been …

David Woodyatt: Can your accounting people talk to you about using more standardized costs or something to produce more consistent year-over-year gains?

Melvin Payne: What I would say, David, and I look forward to getting to know you personally, which I have not been able to do. But we're coming to the Chicago market soon, and I look forward to a visit.

David Woodyatt: Yes. I will be meeting with you, but I have met with you about three times in the past.

Melvin Payne: No, you haven't met with me. I promise you it will be a different experience. I hope it'll be a good one because we appreciate your investment in our company.

The first quarter is – I mean, when we got into this business in 1991, I thought it was highly predictable and all that. Well, it is on an annual basis, but it's not on a quarterly basis. The seasonality is much more extreme than you would imagine. And you can't cause people to die to make more predictable quarters. What that does is when you try to manage it to more predictable performance on a quarterly basis, it leads to pretty dangerous thinking and behavior that can have negative consequences on the underlying health of your business. I don't know another company that has the same long-term volume – same-store volume in the funeral business history that we do with our models.

I would say the same thing about the margins that we're getting. The Field EBITDA margins are very transparent. But the first quarter was the best quarter we ever had in the history of the company, and it was influenced by the flu season. But I remember, famously in 2007, the first quarter was similar. And an analyst asked me on the call, "I think – well, I guess, if we can assume that the first quarter will be annualized on the Funeral results." I said, "Well, you can assume that, but believe me, it will be wrong." But the way to look at this, and we can go over this when we visit, is more long term and not quarterly. We didn't have a bad quarter. We had a good second quarter last year, and we had a fantastic first quarter.

So if you look at the six months or the last 12 months, I don't know – I don't understand why people would react the way apparently they are reacting today because it is a wonderful business. It's highly predictable on an annual basis, but not so much quarterly.

And it's an amazing thing. You will see a market – and I've been doing this a long time. One out of every five years in every market is either up materially or down materially on death rate, and there's no reason for it. And it could be very different in California that is in – that it is in Connecticut. But on a consolidated basis, throughout the entire portfolio, it's very consistent. So I look forward to exploring that and having that discussion with you.

David Woodyatt: OK.

Melvin Payne: Do you any others, David?

David Woodyatt: No. I will let someone else ask the question.

Melvin Payne: OK, thank you.

Operator: Thank you. And our last question comes from Alan Weber from Robotti & Company. Your line is now open. Please go ahead.

Alan Weber: From the previous comments, I gather you're still bullish on the company.

Melvin Payne: I've never been more bullish.

Alan Weber: I know.

Melvin Payne: Look, I can't change the market. I've learned hard way. Mr. Market has a mind of his own.

Alan Weber: Just kind of a little bit – a different question. The capital spending in the quarter was substantially higher than normal. Can you remind us what it was on when you hope to get returns from that spending?

Melvin Payne: Yes. We have completions of two major new funeral homes, about one in College Station and one is – which is a really rapidly growing market, and we already had a great business and brand. Another one is in Katy, Texas at west of Houston, which is the fastest-growing community, at least it was in America. I'm assuming that's still the case with the decline in energy prices. And then we're building two new places, one up in – near Middletown, Ohio. This has been a fabulous business. Demographics change. We have a great managing partner. And we're building a new one down on – near Destin called the Emerald Coast. It's a fabulous business. So a lot of capital expenditures in the second quarter on these projects that are funeral home expansions to grow those businesses with great leadership and a lot of great demographics. And then we had some cemetery product – projects that we completed in the second quarter as well.

It should bear some earnings – recognize revenue and earnings fruit in the third quarter and fourth quarter of the year. So it was a heavy quarter.

Alan Weber: And how do you view kind of the return compared to acquisitions?

Melvin Payne: Well, in a lot of ways, where you have a great business, it's a little different. The two businesses, let's say, the one in Middletown and the one in – on Emerald Coast near Destin, were both facilities that had grown old. One was in a shopping center, one was downtown Middleton. And the demographics had moved out to another area. If you do not make strategic moves in this business, you will lose the great business that you have, and these were businesses producing amazing amounts of revenue, Field EBITDA and free cash flow. So we had to do those both to get in front of a growing market with great leadership and a great brand, but also from a defensive point of view.

The Katy – and so the return on that may not be as high as the return on Katy and the one in College Station because those markets are just so rapidly growing. And we look at that over a 5- or 10-year period. If you get out in front of those kind of markets, you're going to dominate it. And the demographics are really awesome. It's kind of a no-brainer. You have to do that kind of thing plus acquisitions – or you start making acquisitions to make up losses from businesses you didn't grow in, then you start to shrink.

Operator: Thank you. I'm not showing any further questions at this time. I would now like to turn the call back to Mr. Payne for any closing remarks.

Melvin Payne: It's been an interesting call. A little different. I want to end like we always do. We had second quarter performance heroes. Even though we don't try to manage our company on a quarterly basis for a specific outcome, we, nevertheless, recognize performance by quarter of what we call high-performance heroes.

In the Eastern region – Ken Duffy with Sidun Group and John E. Day Funeral Home in Red Bank, New Jersey; Chad Woody, Watson-King Funeral Homes, Rockingham, North Carolina; Chris Chetsas, Cataudella Funeral Home, Methuen, Massachusetts.

And then in the East, we have three managing partners from the SCI divestiture packages after the acquisition of Stewart – Scott Sanderford, Everly-Wheatley Funeral Home in Alexandria Virginia; Patrick Schoen, Jacob Schoen & Son, New Orleans; David Rogers, Garden of Memories Funeral Home, Metairie, Louisiana.

In the Central region – Roger Allen, LaGrone-Blackburn-Shaw Funeral Directors, Amarillo, Texas; Andy Shemwell, Maddux-Fuqua-Hinton Funeral Home, Hopkinsville, Kentucky; Bob Thomas, Malone Funeral Home, Grayson, Kentucky; and Cyndi Hoots, Schmidt Funeral Home, Katy, Texas. Cyndi is also in a relatively new acquisition in Katy, Texas, and that's where we're building one of the premier places that I mentioned earlier as far as CapEx.

In the West region – Dorn Rademacher, Relyea Funeral Chapel, Boise, Idaho; Matt Simpson, Deegan Funeral Chapel, Escalon, California; Justin Luyben, Evans Brown Mortuary, Sun City, California; Steve Mora, Conejo Mountain Memorial Park, Camarillo, California; and Adam Mills, Austin Funeral Home, Columbia Mortuary in Kalispell, Montana.

Four of these high-performance heroes in the second quarter were also high-performance heroes in the first quarter. That's Chris Chetsas, Patrick Schoen, Andy Shemwell and Steve Mora. We also have and we're starting to recognize how important the people here in our home office support teams are to the success of our people, as Dave mentioned. Acquisition candidates cannot believe the support they get from the home office support teams because we view them as our customers.

And I'd just like to mention three high-performance heroes here in our home office for the second quarter. For legal, Whitney Fibich; HR Payroll and Risk Management, Anna Trejo; and IT, Jeff Parker.

And with that, I want to thank everyone for their attention and support, and we look forward to reporting our future success, which we anticipate will be very good. Thank you.

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

END