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CSV - Carriage Services, Inc. - Special Call

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CORPORATE PARTICIPANTS

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

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

Viki King Blinderman *Carriage Services, Inc. - Principal Financial Officer, CAO, Senior VP & Secretary*

CONFERENCE CALL PARTICIPANTS

Barry Mendel

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

Huang Howe *Barrington Research Associates, Inc., Research Division - Research Analyst*

PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Carriage Services Balance Sheet Recapitalization Conference Call. (Operator Instructions) As a reminder, today's conference is being recorded. I'd now like to introduce your host for today's conference, Ms. Viki Blinderman, Senior Vice President and Principal Financial Officer. Ma'am, please go ahead.

Viki King Blinderman - *Carriage Services, Inc. - Principal Financial Officer, CAO, Senior VP & Secretary*

Thank you, and good morning, everyone. Like to welcome everyone to our conference call regarding our balance sheet recapitalization, and more specifically, the press release that we released yesterday after the market close and is posted on our website. This audio conference is being recorded and an archive will be made available on our website later today through June 11. On the call today for management are Mel Payne, Chairman and Chief Executive Officer; and Ben Brink, Chief Financial Officer.

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

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, we will reference certain non-GAAP financial performance measures. Management's opinion regarding usefulness of such measures together with the reconciliation of such measures to the most directly comparable measure for historical periods are included on our website and other company filings.

Now I'd like to turn the call over to Mel.

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

Thank you, Viki. The Carriage team has been living with this balance sheet mistake, I called it unforced error, that we made for years ago. We've now been living with it for years, and we've heard from many of you, just how dumb it was. As time went on, it became dumber and dumber, and became finally dumbest. So we knew we had to do something about it. We've been looking to do something for at least 2 years. We looked hard and then we pulled back. And more recently we said, let's go ahead and put this behind us, we have now. The press release is comprehensive that I -- that we put out yesterday. And Ben, Viki and I are here to take any questions you might have. Getting this behind us is a big deal. It puts in place

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a balance sheet that will support a more rapid growth in the future. And there should be nothing like -- something like this that will hold us back from here on. So we're very excited about it. And I'd like to hear what you think. Any questions?

QUESTIONS AND ANSWERS

Operator

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

Huang Howe - Barrington Research Associates, Inc., Research Division - Research Analyst

This is Chris Howe sitting in for Alex Paris. Just congratulations first off on putting this behind you. You're going to definitely improve the outlook going forward. And I guess, on a high level, can you talk about the teamwork and the high level of execution that led to these successful moves for the company?

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

Yes. This is Mel, Chris. We went through -- I mean, we went through a series of meetings over 2 years with different parties. We got a lot of input from, of course, from equity investors. But we started meeting with specialist and converts. The problem with us was we didn't have any flexibility or leverage to negotiate. We had no early call feature on the converts. Don't get me started on that. It was just a fact we had to deal with. And so we had no leverage, and we had all these shorts move in. So we had to have somebody that we had trust could execute privately, rather than have a public tender. And we met a lot of really good people, really smart people, specialist and some of your regular relationship investment bankers, they were all good. At the end of the day, we picked Goldman to lead it. I think they did an extraordinary job on the convert side. That was the one we were worried about the most. We'd done a high yield before. And there was a chance, we wouldn't get it done. And so they were very savvy, the way they executed it. But we had a lot of support. Our team, I'm telling you, the amount of documentation related to the series of transaction was over the top. Our internal team did a fabulous job. External lawyers did a fabulous job. Everybody involved on the team, including those that were in support [be it they] our lead bank, fabulous job supporting all these moves. And it was very complex and technical in sequence. And to pull it off was a big relief, that we did pull it off without hitting a big bump in the road anywhere along the way. And the high yield part was great, to get back out and talk to world-class investors. I really enjoyed that personally having a credit background. And Ben and I went out. The team here, they were up all night. I mean, this was a major undertaking for about 5 weeks, and of course, Barrington was involved. We support -- we really appreciate all the support everybody gave us. And now we're out to the races, and it's very exciting. Everybody here is just pumped.

Huang Howe - Barrington Research Associates, Inc., Research Division - Research Analyst

That's great to hear. We're excited over here too. And had a few more questions. As it relates to the LOI that's in the press release, can you add some more color as to the positive demographic and population trends that you're seeing at this -- at its back? Is this a new strategic market? And I guess, any color around this LOI would be helpful.

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

Yes. I think that's the right place to focus because this new balance sheet does give us a more permanent capital structure with a lot of flexibility and capacity. Having said that, I think we do want to navigate faster growth. It'll come in spurts and then we might have a little slow down here and there, but I do expect it to be faster than we've had over the last 5 or 6 years. And this LOI is just an indication of that. I wrote extensively in the shareholder letter of '17 about geographic -- the evolution of our geographic strategic profile today. And this is in one of the newer strategic markets that we went into over the last few years. So we have a presence, but not a big one, and we want a much bigger one. This is a market that is a fabulous market. It's a big market. The demographics are such that you have dense population in a lot of places, you have people moving there,

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you have high relative incomes. And -- so you get 3 ways you can grow revenue, and this particular business has been growing revenue very fast over the last 10, 15 years. It's big business. It will be bigger in 5 or 10 years, and we're looking for more like that. And we have the -- we do have some in our pipeline, not quite this big, but several of more than normal big size, and the pipeline is really active. It's really pretty full. And we expect it to -- some of those to come to fruition, turn into LOIs. We expect more closings this year, and we just think the whole thing will accelerate because the team has been out telling the story, I've been writing about it, of course, in the '16 and '17 shareholder letters. When people read that who are in the industry, they have an "ah ha" moment and then our team can explain the details. And we're finding this is a very stark choice for these bigger better players who know the other players. And it's not a difficult persuasion, if they have the right motivations to do something where their business, and in this case, they do. So I hope that's the kind of color you are hoping for. I don't want to give you any more than that.

Huang Howe - *Barrington Research Associates, Inc., Research Division - Research Analyst*

No, that's helpful. It's a...

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

It's a meter mover. It's a pretty big meter mover.

Huang Howe - *Barrington Research Associates, Inc., Research Division - Research Analyst*

So it sounds like with the 5% to 7% compounded growth rate that's expected from acquisitions that, whether it's shifting dynamics or consistent dynamics, that the consolidation market or the -- is playing in the favor of your company and it's something to definitely look forward to...

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

There is no doubt. We're finding more and more -- there are lot of these high-quality businesses of size, and you find them in major markets, and there might -- [if I'd not be the] whole major market, let's just -- I mean, there are lot of big markets, LA, Houston. We can't just say that's a market. You have to go find an area of the market that's really growing. And some mature markets have growth areas. And if you can find a business position to exploit growth areas in a big market, even though other parts of that market may not be attractive, then that's the kind of -- these -- that's what these criteria -- these 10 criteria really vett. You put a business through those 10 criteria and you practice out on every candidate and pretty soon you get it down. And that way that leads us to our valuation what we can pay.

Huang Howe - *Barrington Research Associates, Inc., Research Division - Research Analyst*

Okay. And one last question from me. The -- you mentioned lowering the leverage ratio to 4x over time. That's definitely good news. And just wanted to see looking further out what the free cash flow implications are, given the more flexible balance sheet and the -- putting this behind you?

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

I'm going let Ben speak to that, Chris. But since Ben and I just got off the roadshow of the high yield, this came up a lot. And we made this decision a while back. We didn't make this decision because we were going to issue high yield. We made it because so many of the equity investors, and I'm sure this is what you've heard, want to take a big position in Carriage, but the 5x that we were running at made it little dicier for them to accept. And the reason we did that, we did it quietly over the last 4 years. We knew we were going to have to take out these converts. And as the short interest built up to over 3 million shares, we knew we were going to have to issue quite a few shares to get them to accept a private negotiated takeout to cover their short. And at the same time, we decided to buy n shares when we didn't have a lot of acquisition activity to try to offset that



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additional dilution and as it turned out, we had bought in over the last 4, 5 years then, about the same number of shares as we issued or maybe even a little bit more...

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

Yes, a little more about 2.9 million.

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

And Ben can speak to the...

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

Yes. Chris, I think given where our rolling four quarter outlook is, I would expect free cash -- adjusted free cash flow to come in between \$42 million and \$45 million, still be very consistent with where we've been over the last 4 or 5 years, even with the higher interest expense.

Operator

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

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

(inaudible) congratulations on (inaudible). I guess, just one more kind of follow-up in relation to, how does this change the conversion when you talk to perspective acquisition target? Can you maybe just expand on that a little bit?

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

I don't know that -- this is Mel. I don't know that this comes into play other than I told Shawn Phillips, who heads our -- I will send this out -- we will send this out -- Shawn and his team will send this out. And it's not meant to let somebody know, okay, now we have a lot of money, we can overpay for your business. That's not the point. The point is that if you go over or down to where it says, we believe the balance sheet has positioned us for a period of more rapid growth and then I talk about the nature of Carriage, where people join in rather than sell out and the business gets better, not worse. We don't over management -- over manage it for short term maximum profits, we grow it over the long term. This is what they want to hear.

And so, I think they want to be with the company that's got a great secure financial footing, is doing something, is growing and yet they still would be considered an important part of it. They make a difference when they join our company. And we can point to this as, we've been there and done that. We've been around a long time. Come on in and join the team, and let's continue our Good to Great Journey. It's a great thing for us now not to have to worry about anymore, more than anything else.

Operator

(Operator Instructions) Our next question comes from the line of Barry Mendel with Mendel Money Management.



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Barry Mendel

Yes. Couple of things. One, you increased in forward guidance, next 12 months guidance, but you have revenue and EBITDA. Is that solely due to the LOA that was just signed?

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

Yes, the majority of it was, all of it pretty much.

Barry Mendel

All of it. Okay. Secondly, there's still 20% of that convertible out there. Why didn't you not buy back the rest of that convertible?

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

Yes. Due to the nature of the transaction, it being privately negotiated, we felt the most we could purchase at that time was up to 80%. The remaining 20% will remain outstanding and we'll address it down the road. Again, it matures in March of 2021.

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

Yes. In order to put that in a public tender where we would have been probably a little less leveraged to negotiate a takeout price, the attorney said, look, you could -- because it's so concentrated, you could negotiate with the top 8 or 9. We're -- in pick up 80%, and that's what they recommended, and that's what we did. And it worked like a charm. At some point, we'll have to deal with that, but it's not something that -- it's not big enough tail to be wagging the dog.

Barry Mendel

Yes. Another question with the LOIs. Lot of -- I would say, most companies don't include in their guidance copies of LOIs (inaudible) actually closed the deal. So in your case, there was an LOI that didn't close and you had to cut that guidance last quarter, I believe, it was. What percent of LOIs over the last 5 or 10 years have not closed?

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

Probably that one.

Viki King Blinderman - *Carriage Services, Inc. - Principal Financial Officer, CAO, Senior VP & Secretary*

Yes. Barry, that's happened -- really the only one that we had in our guidance that did not close.

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

Yes. I think that your question is a good one. And we had to pull back from the group that used to be doing this work, because they were even more aggressive about that. And we decided not to include anything that didn't have an LOI, and we were not 90% certain it would close or more. But I think our team is -- that time was new, they were learning. They got an LOI. They got one ready. I asked about it yesterday, it's still out there and it might come back to us. But yes, we're going to look at them carefully from now, Barry. I didn't like that at all. And it won't happen again. You lose reputation and credibility when you do that.

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Operator

I'm not showing any further questions in queue at this time. Let's turn the call back to Mr. Payne for closing remarks.

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

Thank you all for tuning in and getting the update. We'll just speak for the team, both Ben and Viki here, our board and our entire leadership. We have a great little company getting better every day. And the outlook has been -- never been this bright. I've said this many times. The next -- people ask me what's been the best 10 years of your life, I say the next 10 years, and I can look at this company right now and know that for certain. So if you're not acquainted with us, get acquainted with us. If you want to come to visit us, we'd love to have you, be honored to show you what goes on beneath the covers. Thank you very much.

Operator

Ladies and gentlemen, thank you for your participation in today's conference. This concludes the program, and you may now disconnect. Everyone, have a great day.

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