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Full Year 2020 Carriage Services Inc Earnings Call

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PRESENTATION

Operator

Ladies and gentlemen, welcome to the fourth quarter and year-end 2020 results conference call. (Operator Instructions) As a reminder, this conference call is being recorded.

I would now like to turn the call over to your host today, Mr. Steve Metzger, from the management. Sir, please go ahead.

Steve Metzger ***Carriage Services, Inc. - Senior VP, Secretary & General Counsel***

Thank you, operator, and good morning, everyone. This is Steve Metzger, Senior Vice President and General Counsel for the company.

Today, we'll be discussing our fourth quarter and year-end results for 2020. Our related earnings release was made public yesterday after the market closed. We have posted the press release, including supplemental financial tables and information on the Investors page of our website. This audio conference is being recorded, and an archive will be made available on our website later today through February 23.

In addition to myself, on the call this morning from the management team are Mel Payne, Chairman and Chief Executive Officer; Ben Brink, Senior Vice President and Chief Financial Officer; Carlos Quezada, Senior Vice President of Sales and Marketing; Peggy Schappaugh, Vice President of Operations and Acquisitions Analysis; and Jason Buchbinder, Director of Talent Acquisition. Today's call will begin with formal remarks from management 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 press release as well as on our website.

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

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

Thank you, Steve. It's hard to describe in words what this last year has meant when the world is in crisis, with a once-in-a-lifetime, hopefully, pandemic called COVID, with new variants around the world popping up even now. And yet, the shock of that hit the world and hit the U.S., state by state, area by area. Then it hit our industry, and our company, and our people, and it was a year of great tragedy for many individuals, companies, families. And yet, we are in the business of death.

And death has been around, essentially human species has been around, and so we have a mission and a vision of our company of being the best at serving families when they're most in need. And there were many more of them in 2020 than ever before in need.

For that reason, this earnings release of the fourth quarter and the year was not really just an earnings release. It was a story about our people. It was a story about courageous, heroic service overcoming adversity and obstacles, both nature-made and man-made, with government restrictions and mandates.

And our people rose to the occasion after initial shock, an adaptation period, an innovation period, an entrepreneurial period, and it is impossible to put in words what our people achieved business-by-business, community-by-community throughout 2020.

In the process, they absolutely were, what I call, a proof of concept of how we operate and consolidate a highly fragmented industry called the funeral and cemetery industry. I wrote about this at the end of the '16 shareholder letter. It's at the end of this one.

So this release is more like a shareholder letter. It's a story of love toward our people and their love towards their client, families and communities. It's a story of support of those of here of us in the Houston office and across the country that have the privilege and honor of supporting such courageous service by so many high-performance heroes.

I've waited for this kind of moment, as a co-Founder, almost 30 years ago, to use this description that I'm about to read you. I'm a big fan. I'm a big fan of investing. After losing everything on October 19, 1987, I committed to become a great investor. I studied all the masters available then in sense, and I wound up studying the very simple but wonderful investment ideas and philosophies about human nature from Warren Buffett and Charlie Munger.

So I'm going to read you a page from a snowball that could really be a page about me and about this company. So this is a quote from Warren Buffett. "I feel like I'm on my back. And there's the Sistine Chapel." He's talking about Berkshire Hathaway. "And I'm painting away. I like it when people say, "Gee, that's a pretty good looking painting. But it's my painting. And when somebody says, "Why don't you use red instead of blue, goodbye. It's my painting. I don't care what they sell it for. He's talking about the share price, Berkshire Hathaway. "The painting itself will never be finished. That's one of the great things about it."

A big question about how people behave is whether they've got an inner scorecard or an outer scorecard. It helps if you can be satisfied with an inner scorecard. I always pose it this way. I say, "Look it. Would you rather be the world's greatest lover, but have everyone think you the world's worst lover? Or would you rather be the world's worse lover, but have everyone think you the world's greatest lover?"

Now that's an interesting question. Here's another one. "If the world couldn't see your results, would you rather be thought of as the world's greatest investor but, in reality, have the world's worst record or be thought of as the world's worst investor when you actually were the best."

In teaching your kids, I think the lesson they're learning at a very, very early age is what their parents put the emphasis on. If all the emphasis is on what the world is going to think about you, forgetting about how you really behave, you'll wind up with an outer scorecard. Now my dad, he was 100% inner scorecard guy. He was really a Maverick, but he wasn't a Maverick for the sake of a being Maverick. He just didn't care what other people thought. My dad taught me how life should be lived. I've never seen anybody quite like it."

That's the end of my quote, but I editorialized. I used this a lot inside our company. And where he's talking about the Sistine Chapel and somebody coming along and say, "Oh, you should use this or use that to make it better, I put that is a founder's view of the world, and it captures my thinking perfectly." And when it comes to finding people who have an inner versus outer scorecard, I have editorialized the following: how do we measure and then quantify this behavioral characteristic? Because we need more people that have an inner scorecard and are not looking at the scorecard, rather than being on the playing field making plays to win the game.

And then at the bottom, I say, "I finally arrived here talking about his dad didn't care what other people thought. Rather late in life, and I'm a better person and leader because of this confidence in my self-identity.

So that's how I would do an analogy of Carriage today. For those who don't do enough studying about how we actually are and how we actually behave, you would not want to buy our shares. For those who do, and there's a lot of meat on the bone in this release and in every release we've made, there's a lot of meat on the bone in the '16 shareholder letter and the '17 shareholder letter and the '18 shareholder letter.

If you want to see what it looks like for a company to go through a transformation in a short amount of time, put side-by-side the '18 shareholder letter in this release, and you will be shocked. Read the 18th one first and then read this release.

You will find that Jim Collins had it right, First who, Then What. All the companies who subsequently failed to sustain greatness, and there only 11 of them who had made the cut did it because they picked the wrong who, either the Board or the CEO, sometimes both. First Who, Then What, you got to get the who right most of the time to really have the what be the kind of performance this company showed in 2020 in the middle of a pandemic.

Now there are those out there, and I've heard these theories, they think this was a COVID lift only. You could not be further from wrong. And to prove it, I'm going to introduce one of the right first whos, and we've never had a first who like this in our company, Carlos Quezada.

Carlos Quezada ***Carriage Services Inc - VP, Cemetery Sales and Marketing***

Thank you, Mel, and thank you all for being with us today.

When I came on board with Carriage, I was leaving behind a very successful, almost 11-year career, an outstanding record of accomplishment with SCI, where through creativity, innovation and cultural transformation, I was able to exceed expectations constantly over both sales and operations.

When I met with Mel for the first time during my interview process, I was able to conclude very quickly why Carriage would be a perfect fit for me. Concepts like Good To Great, Flywheel Effect drive people on the right seat of a high-performance POS. They focus on people and their development, all while the same leadership concepts and ideas that I have been implementing during my whole career and in great measure, the main reason for my success.

I joined Carriage on June 26, 2020, and I've spent some time understanding the dynamics of the cemetery sales teams across the portfolio. And while nothing is broken, we are not yet maximizing our true high-performance potential, and I can see the vast blue sky that Carriage has to offer.

Mel said it perfectly when he wrote on the 2020 second quarter earnings release, and I quote. "While in the past we have had spurts of broad high property sale performance in our 10 largest cemeteries, we have never been able to sustain such performances over the long term under our centralized decision-making business model designed originally for a standalone funeral business portfolio. Carlos will have the primary responsibility of building high-performance sales teams and standardized sales systems across our portfolio of cemeteries, as we believe that his leadership and past successes at building high-performance winning teams will finally unleash the broad and sustainable performance power within our Cemetery portfolio."

With that mission in mind, I went to work and introduce to the executive team the plan for the creation of high-performance sales teams across the Cemetery portfolio. The plan, while ambitious and aggressive in respect to goals and time lines, inspired excitement, possibility and full support towards its execution.

In summary, the plan is made of 6 main high-performance sales drivers. Number one, leverage technology as an enabler of sales acceleration; number two, introduction of performance-based rewards and incentives; number three, a strategic capital allocation to high-yield cemetery products and offerings; number four, sales growth through advanced planning strategies and robust marketing; number five, deployment of lead generation programs while improving conversion ratios; and number six, a standardization of cemetery sales processes, policies and systems.

Over the past 7 months, we have experienced incredible progress through the execution of our transformational high-performance plan. Traveling were permitted to visit the Cemetery portfolio, meet the team, build new relationships and understand and identify possibilities. Moreover, while it was difficult to do in a challenging pandemic environment, we're able to get things done.

For example, we recruited 2 new sales leaders that now complete our sales leadership team made of 3 top talented, high-performance Director of sales support, Tulio Bertello, Shane Pudenz and Paula Harris. We're also able to bring on board a sales development partner, Erin Embry. Erin is now the leader owner of our new learning platform where she will focus on instilling the sales skills conducive of a top sales team across our sales organization.

We have also selected a new customer relationship management system, and we're in the process of customization through our implementation partner. We created a compensation committee to review and evaluate our current rewards and incentive programs and transform it into a performance-based, high-reward compensation program.

We deployed the communication management system that displays multiple types of content in the forefront of our sales teams instantly, enabling quick, direct and effective communication across the portfolio.

We developed an internal campaign promoting our core values and what it means to be part of a high-performance sales organization. We call it Care Edge. And it means that when you join Carriage, you're joining more than a member -- being a member of the sales team. You're part of a high-performance culture driven by people who truly care for our client families while being inspired and energized by incredible passion for self-success and excellence. Care Edge defines the 3 pillars of our sales DNA, who we are, what we do and how we do it.

We also had record-breaking months on total pre-need property sales during Q4 of 2020. And this past January 2021, we had an exceptional total sales performance of 152.2% over January of last year.

As I share all of the progress made thus far, I realize how much we have achieved in such little time, and all of it because of the amazing partnership and support from everyone here at Carriage. Our good sales to great sales journey has begun. Moreover, our updated 2-year Roughly Right Scenario set high expectations on pre-need property sales that we plan on meeting and exceeding, as we are a high-performance team that is highly inspired, totally driven, very passionate and fully committed to success.

This is just the beginning on our quest of being the best at sales and reach our true potential, and there is a lot more to come. But for now, I can say that Carriage Services' future is very bright and will become even brighter as we capitalize on every blue sky opportunity and continue to build up an effective, agile and very successful high-performance sales organization across the portfolio of businesses.

In closing, I want to highlight that this company is primed for a remarkable success. And as we accelerate execution and continue to gain momentum on our Flywheel Effect, we will become a predictable and sustainable, high-performance sales organization. There has never been a better time to be with Carriage, and the best is yet to come.

Thank you, everyone, and I now pass it to Ben.

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

Thank you, Carlos. I appreciate your comments, and I'm excited for the opportunities that we have for our cemetery performance going forward.

Before I dive into an explanation of our record operating and financial results for the year, I would like to make the following 2 points. For any current or curious investor, prospective acquisition candidate, someone thinking about joining our high-performance teams or any other deeply interested party, I would highly recommend you take the requisite time to read our year-end 2020 earnings press release, as it will certainly do a much better job at encapsulating our record-setting results and our clear vision for the future success of Carriage than I could in my remarks.

Combined with the previous 2020 quarterly earnings releases, these documents tell in striking detail and clarity the story of Carriage's remarkable transformation over the course of the past 12 months, and should be a required reading for all that are truly interested.

Secondly, the results I will discuss are a direct result of the incredible dedication, passion and professionalism of every member of Carriage's high-performance teams across the country. As the coronavirus pandemic has persisted, and measures to limit the spread have become a way of life, our funeral and cemetery professionals have overcome previously unimaginable obstacles to answer the bell every single day to provide a high-value personal service to every family who has lost a loved one that we have the privileged opportunity to serve. They are supported 24/7 by another amazing group of dedicated professionals here in our Houston support center. To all of our employees here at Carriage, it's with tremendous pride and admiration that I simply say thank you for all of your incredible efforts over the course of the past year.

Now on to our results. For the full year 2020, our total revenue increased 20.2% to $329.4 million. Our total Field EBITDA increased 29.3% to $141.9 million. Total Field EBITDA margin increased 310 basis points to 43.1%.

Adjusted consolidated EBITDA increased 36.1% to $104.3 million. Adjusted consolidated EBITDA margin increased an incredible 370 basis points to 31.6%. And our adjusted earnings -- diluted earnings per share increased 48.8% to $1.86, all of which were records.

In the fourth quarter, our record results resulted in total revenue increasing 26.6% to $90.1 million, total Field EBITDA increasing 44.4% to $41.3 million, total Field EBITDA margin increasing 570 basis points to 45.9%, adjusted consolidated EBITDA increasing 47.5% to $28.3 million and our adjusted consolidated EBITDA margin increasing 440 basis points to $31.4 million. Our record adjusted diluted EPS for the quarter increased 103.6% to $0.57 per share.

In our year-end press release, we included our preliminary unaudited January operating and financial results in order to present the most up-to-date information regarding our business, much as we did with our first quarter 2020 results when we include the full month of April performance.

The performance we experienced in the latter weeks of the fourth quarter persisted into January, with revenue increasing 30.4% to $34.7 million, adjusted consolidated EBITDA increasing 99.1% to $13.6 million, adjusted consolidated EBITDA margin increasing an incredible 1,350 basis points to 39.2% and adjusted diluted EPS accelerating 288.9% to $0.35 per share, equaling our total adjusted diluted EPS for the entire first quarter in 2020.

For the full year 2020, our same-store Funeral Home revenue grew 6.5% to $179.8 million. Same-store Funeral Field EBITDA grew 14.9% to $74.8 million, while the Field EBITDA margin expanded 300 basis points to 41.6%.

We experienced an incredibly strong finish to the year as the elevated death rate caused by the coronavirus pandemic, combined with our continued ability to grow market share broadly across our portfolio, led to our fourth quarter same-store funeral revenue increasing 22.6% to $14.8 million, same-store Field EBITDA increasing 30.2% to $21.8 million and Field EBITDA margins expanding 500 basis points to 44%.

The ability of our Funeral Home managing partners and their teams to be able to continue to safely serve their communities throughout this past year has been nothing short of remarkable. They have worked tirelessly to leverage new technology, reconfigure their physical space and provide unique and creative service and celebration of life moments to our client families. We know we have gained market share broadly across our portfolio because of all of these efforts, and we believe this increased market share in 2020 will lead to even more opportunities to serve those families again for many years to come.

While there remains uncertainty about the impact of the coronavirus pandemic and the pace of the vaccination programs that will have on death rate this year, I know our Funeral Home managing partners and their teams are intently focused on maintaining the momentum and high-performance results experienced in 2020 throughout the rest of this year and beyond.

In 2020, our same-store Cemetery revenue increased 5% to $51.7 million, while our same-store Field EBITDA increased 13.7% to $19.5

million and Cemetery -- same-store Cemetery Field EBITDA margins expanded 290 basis points to 37.7%.

Similar to our Funeral Home segment, we had a strong finish to the year in our cemeteries, with fourth quarter revenue increasing 22.6% to $14.8 million, Field EBITDA increasing 55.6% to $6.5 million and same-store Cemetery Field EBITDA margins expanding 930 basis points to 43.8%. This performance by our Cemetery sales managers and counselors is extraordinary, as a testament to their ability throughout the year to adapt to the challenging restrictions brought on by the coronavirus pandemic in order to continue to serve both existing and many new families within our cemeteries.

Additional momentum was experienced in the second half of the year at the very early stages of the implementation of our enhanced pre-need cemetery property program led by Carlos and his team took hold. As he outlined in his comments, Carlos and his team have an incredible plan to drive our cemetery pre-need property sales to levels never experienced here before at Carriage. We're all incredibly excited about the future performance of our Cemetery businesses and view the performance in the second half of the year as an indicative of great things to come.

Our acquired Funeral Home and Cemetery portfolio, as evidenced in our press release where we outlined our 5-quarter trend reports, you can see in there, in 2020, a sustained quarter-over-quarter improvement in both Field revenue, Field EBITDA and Field EBITDA margins of our acquired Funeral Home and Cemetery portfolio. This is due to the work -- incredible work done by all in those portfolios, especially as we integrated the 4 large strategic acquisitions we made at the end of 2019.

All 4 have made tremendous progress in their integration plans, even as we had to adjust with the effects of COVID and are well ahead of our expectations for their performance in the first year under Carriage's ownership and on our high-performance platform. We're excited about the opportunities we have within those 4 acquisitions to continue improvements going forward and expect great things to come.

Our 2020 financial revenue increased 24.5% to $19.7 million, financial EBITDA increased 29.3% to $4.2 million and financial EBITDA margin increased 340 basis points to 93.3%. The majority of the increase we experienced in our 2020 financial revenue and EBITDA occurred in the second half of the year and was a direct result of our trust fund repositioning strategy executed at the depths of the coronavirus market crisis. For a more in-depth explanation of the execution of our strategy, please refer to the 4 2020 earnings press releases for more detail.

In total, we deployed approximately $90 million of new capital under our repositioning strategy, the majority of which was deployed at the depths of the coronavirus market crisis, within 4 weeks in late March and early April. As a result of these strategic decisions, that $90 million of newly deployed capital has resulted a new $8.3 million of recurring annual income, an increase of 108% to a total of $16 million of annual recurring income in our trust fund portfolio.

It also resulted in $36.3 million of capital gains, the majority of which remains unrealized. We view the recurring income on our trust fund portfolio as locked in for the next 5 years, while the portfolio remains positioned for further upside capital appreciation.

The significant increases in financial revenue and EBITDA in 2020 was driven by the increases in earned income through our cemetery perpetual care trust accounts as a result of the higher amount of recurring annual income. In 2021 and 2022, we expect financial revenue to be between $22 million and $23 million, at a 94% to 95% financial EBITDA margin, all of which will add an additional $0.10 of earnings per share in 2021 compared to full year 2020. The current unrealized capital appreciation and overfunded status in our trust fund portfolio provides upside potential to our future financial revenue and EBITDA.

Overhead for the year grew 7.9% to $40.5 million, while our overhead as a percentage of revenue, the metric we use to judge the effectiveness of our overhead platform, fell to 12.3%. This included approximately $2.8 million of nonrecurring non-GAAP add-backs in our performance. Overhead for the fourth quarter was higher than the rest of the year as we were forced to accrue more for variable field compensation as a result of improved performance as we went through the fourth quarter. Here at Carriage, we believe in paying for performance, and those are accruals we're happy to put on our books.

Our record operating performance in 2020 led to a record adjusted free cash flow of $70 million and an adjusted free cash flow margin of

21.2%, incredible increases of 80.3% and 700 basis points, respectively. We introduced the free cash flow margin metric in the first quarter as yet another transparent data point for investors to gauge our success at converting an ever-increasing percentage of revenue into cash capital available to allocate to increase the intrinsic value of Carriage.

Capital expenditures totaled $15.2 million in 2020, split approximately $9 million in maintenance CapEx and $6 million in growth CapEx. We expect to have total capital expenditures between $18 million and $20 million in 2021, which will be evenly split between growth and maintenance CapEx. The increase of our growth capital expenditures will be in support of our increased development of high-quality, differentiated cemetery inventory across our Cemetery portfolio.

Over the foreseeable future, our growth capital will be targeted towards cemetery inventory development, along with evolutionary funeral home remodels and new build funeral homes in select high-growth markets. We remain excited about the opportunities to invest in our businesses across our portfolio, in complete alignment with our commitment to being the best owners and operators of funeral homes and cemeteries, while being disciplined stewards of our precious capital.

Our 2020 adjusted free cash flow benefited from tax relief passed as part of the CARES Act as well as tax methodology changes we instituted over the past year to enable Carriage to defer cash taxes in 2020. Given our strong 2020 operating performance, we expect to be a full cash taxpayer in 2021 at approximately 70% of our GAAP effective tax rate.

We expect adjusted free cash flow to be lower in 2021 between $63 million and $67 million compared to 2020, almost entirely due to the increase in cash taxes to be paid this year.

When we made the decision to deploy $172 million of capital in 4 high-quality large acquisitions at the end of 2019 and early 2020, we made the commitment to allocate the majority of our capital to paying down debt and reducing our total debt to adjusted consolidated EBITDA ratio from a high of 6x over the course of 2020.

The strong free cash flow generation, combined with the tremendous operating performance, allowed Carriage to pay down our total debt by $72.9 million or 13.7% from our peak debt of $534 million after the closing of Oakmont on January 3, 2020, and allowed us to reduce our total debt to EBITDA leverage ratio an outstanding 1.6x to just under 4.4x at year-end.

We currently expect our debt to EBITDA ratio to fall to approximately 4x by the end of the first quarter, ahead of our expected refinancing transaction in the second quarter of this year. Our ability to quickly pay down debt was aided by $8.5 million in divestitures we closed in 2020. We are working diligently to divest or have under contract to sell another $10 million to $11 million in divestitures by the end of the second quarter.

Year-over-year total revenue growth will be lower in 2021 due to divested revenue declining as we execute these transactions, while long-term organic growth rates and overall Field EBITDA margin will benefit from these divestitures.

Our continued intention is to execute a refinancing transaction of our $400 million, 6.625% unsecured senior notes when they become callable at just under 105 on June 1. Given the continued low interest rate environment and attractiveness of the high-yield bond market, we are currently in a position to refinance the $400 million of notes with a new 8- to 10-year unsecured senior note, with a coupon approximately 250 basis points lower than our current rate. Based on our targeted reduction on our coupon rate, this transaction will be accretive to annual earnings per share by $0.34 to $0.38 and annual adjusted free cash flow by reducing cash interest expense by $9 million to $10 million.

We believe Carriage will have the necessary financial flexibility to allocate capital in a disciplined and strategic manner to grow the intrinsic value per share of Carriage. Moreover, this reduction in our interest rate on our senior notes will lead to an almost 100 basis point reduction in Carriage's overall cost of capital to approximately 6.5%. As such, we view this transaction as the final piece of our capital structure renewal that will set up Carriage to be in a value creation sweet spot over the next 5 to 10 years.

We view our future where we will have more attractive investment opportunities that have higher rates of return on invested capital than ever before in our history. This capital allocation will primarily be funded by our own internally generated recurring and growing free cash flow that will allow us to maintain a more moderate total debt to adjusted and consolidated EBITDA leverage profile than we have in our recent past. What investors should be excited about is the continued high-performance execution of our core models, combined with savvy capital allocation, will lead to a significant improvement in our overall return on invested capital beginning this year.

Over the past 3 weeks, we released 2 8-Ks detailing a cybersecurity incident we experienced here at Carriage. Our IT team has worked diligently, and with the help of outside experts, to quickly restore our systems and greatly enhance our cybersecurity posture. All costs associated with this incident will be covered under an insurance policy, and any investments we make to continue to improve our network environment will not impact any of our published Roughly Right forecast performance ranges. We take seriously the security of our client family and employee data. We have and will continue to take the necessary steps to mitigate the risk of similar events occurring in the future.

And now finally, I will turn our attention to our future. We are excited to announce an updated what is now a Roughly Right 2-year performance scenario. Given the uncertain nature of the impact of the continued coronavirus pandemic, we have presented slightly wider ranges for our performance, particularly in 2021, compared to previous versions.

We do view these ranges as achievable targets, with numerous areas for upside potential that are well within our control over the next 2 years. These Roughly Right ranges do not include any potential acquisition activity and includes conservative estimates, particularly in our Cemetery segment, given the strong performance we have witnessed in the second half of 2020 and into the first part of this year.

We expect our 2021 and future earnings per share growth will be driven by a combination of the following factors: continuation of local market share gains in both our at-need Funeral Home and at-need Cemetery businesses as our amazing teams continue to provide high-value personal service to their client families; accelerated growth of our Cemetery pre-need property sales revenue at sustainably higher Field EBITDA margins as we demonstrate a more consistent operating leverage within our Cemetery portfolio; continued integration and performance improvements of our 4 recent strategic acquisitions; a full year impact of the financial revenue and financial EBITDA performance from the higher amount of recurring investment income generated in our pre-need Funeral and Cemetery trusts; successful execution of our planned senior note refinancing on June 1 by lowering our interest expense and improving our cost of capital; growth in our funeral cremation average revenue per contract as we continue to focus on cremation conversions and offerings of differentiated, personal, unique service opportunities; and increased growth capital investments across our portfolio with more of a focus and velocity on cemetery inventory development.

We expect 2021 adjusted consolidated EBITDA to grow to a midpoint of $107 million and adjusted diluted earnings per share to grow to a midpoint of $2.30. For 2022, we forecast adjusted consolidated EBITDA growing to a midpoint of $111 million and adjusted diluted EPS growing to approximately $2.55 or higher.

Thank you all for participating on our call today. Please continue to reach out if you have any questions regarding Carriage. And with that, I'll turn the call back over to Mel.

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

Thank you, Ben. Starting in 2001, after Jim Collins published his great book, Good To Great, we did an analysis of what it would take to take Carriage from a good company to a great company. The conclusion was we were not yet good. This was sometime in 2001.

It was another 10 years before we revisited the book, Good To Great, in October, November of 2011. And I had everybody read the book, everybody that was still left in the company. We had to do a major reorganization back then. And I asked them what they've done. And so the consensus -- unanimous consensus was we are good and we want to go towards the direction of great.

So we launched our first Good To Great journey starting January 1, 2012. Over the next 5 years, and we think, in terms of 5-year time frames, our performance went up. Our share price compounded from a beginning price of $5.60 at the end of '11 to $28.64 at the end of '16.

That was our 25th year. I wrote the '16 shareholder letter, which was 40-some pages long, and we focused on First Who, Then What as being the primary reason we were able to have a Good To Great journey that successful over an entire 5 years.

I made a decision at the end of '16 to back out of operations, and I made some First Who, Then What mistakes. I caused the company morale. It caused the company, at a later point, a declining performance in all of our areas and trends. And so I had to step back in to operations in September of '18, and we began to make a lot of trends -- a lot of changes to get the company back on that journey.

And so I began to replace a lot of people who no longer had the followship across the portfolio, whether it was in support teams or operating teams and businesses or whatnot. A lot of change came very fast and continued all the way through first quarter of 2020. But in turning -- for health, where are we going to find A Players to take these seats on the bus? These are important seats on the Carriage bus.

I was told Jason Buchbinder. I met Jason the day he started at Carriage. I couldn't believe that 6 months later, I was turning to him to be my biggest savior from my mistake. And once I had Jason and the team that I had put together back then and I said, "Look. I don't know where you're going to find this talent because, I mean, we need quite a few of these A Players in these spots. Can you do it? And how much time will it take, 6 months to 1 year?" Jason said, "I can do it. I have a pipeline of talent, and I will do it."

What you're seeing today is, to a very large degree, our performance in 2020 and continuing, a function of Jason Buchbinder quickly figuring out what Carriage was all about and then finding the talent that fits the company, culturally and skill-wise. And if you ever wanted to say first to then what, you get it right, it's magical.

I will now turn it over to the real magician when it comes to A player of talent, Jason Buchbinder.

Jason Buchbinder ***Carriage Services Inc - Talent Acquisition Manager***

Thank you, Mel, and good morning. It is a tremendous honor to have this opportunity to be on the call today. As an ambassador for Carriage Services and our 210 partner businesses, I have the distinct privilege of sharing the Carriage Services story to talented men and women across the country.

I'd like to begin this morning with a brief quote from our very own CEO, Mel Payne, from the 2016 shareholder letter aptly named, The Evolution of our Learning Journey. "Yes, Carriage is unique and unorthodox in an otherwise black and white, predictable, conservative industry." I would certainly agree. However, I would argue that there's a word missing from the statement. That word is special, unique, unorthodox and special. You can, as I did, learn to understand and appreciate the foundation of this unique and unorthodox business model with its 5 guiding principles, decentralized concept, high-performance culture framework and Good to Great methodology by looking no further than the 2016 shareholder letter. This 43-page missive born out of heart and soul, body and mind and brutal honesty reads much more like a love letter than does a shareholder document.

Carriage Services has so thoughtfully designed and crafted itself to be a sustainable, decentralized business model that is firmly rooted in being a people-based, people-focused partnership. As we have learned from the Jim Collins' book, Good To Great, First Who, Then What is at the very core of any business in the Good To Great journey.

Executing now at the highest level, with the collaborative support of our partners across the country and placing the right people in the right seats, we are at just the beginning stage of our newfound success, shattering the norm and delivering on amazing results. The first to then what concept allow us here at Carriage Services to better prospective candidates, both heart and head, and determine their true expectations, while aligning them with a perfect environment for success.

In doing so, we learned what was important to them both professionally and personally. And as we bring them into the Carriage family, we, too, learn about their own. We seek and make the real connection.

In fact, it's first to then what that drives our people-focused success here at Carriage Services and across the country with the amazing men and women in the funeral homes and cemetery that we, here in Houston, are fortunate enough to call partner.

We've moved away from the traditional interviewing and hiring practices and have engaged entirely into a first to then what methodology. Coupled with the concept exercised from Jack Welch's 4E Leadership, our leaders across the country are seeing greater results in their hiring and team dynamics, resulting in high-value personal service and guest experience.

Further results in our higher success can be seen by the reduction of additional hiring needs, an attrition rate lower than 10% and greater tenure in all employment categories across the portfolio. Simply, our right whose in the right seats philosophy has allowed Carriage Services to hire better people and achieve greater results.

The First Who, Then What concept and execution thereof is a value creator that can and will continue to pay dividends, as you've heard today, and we'll do so in further earnings release call.

In a tight labor market specific to our industry, where strong talent is scarce, Carriage Services continues to attract and onboard the most talented professionals in our industry. We have found that there is a plethora of industry-based individuals seeking their opportunity to join the Carriage Services network. Only time will tell when the next seat on the bus will become available.

In 2020, prior to the COVID-19 outbreak to hit the newswires, Carriage Services was aggressively focused on our successful recruitment efforts, seeking talent to top rate in several key markets. The momentum coming out of 2019 did not stop once the pandemic was fully recognized.

While other firms took a watch-and-learn approach, subsequently reducing their requisition activity, sidelining their internal talent departments and seeking ways to reduce expenses, Carriage Services soldiered on, doubled down and produced higher results not seen in years prior. The 2020 year success cannot be highlighted without the mention of those A-plus leaders, who joined this past year and made a significant impact alongside their peers.

I'd like to thank a few of those amazing leaders now who have come to join the Carriage family in 2020: Salvador Orozco at Oakmont Mortry and Memorial Park; Bridgette Oester at Dieterle Funeral Home; Chris Karn at Carlson & Kirby-Morris Funeral Homes; Russell Marshall at Memory Garden Cemetery and LaGrone Blackburn-Shaw Funeral Homes; Clarke Thomson at Alsip & Persons Funeral Home; Michelle Callahan at Fuller East Funeral Home; Daisy Bordeau at Allison Funeral Services; Amanda Gittelman at Hillier Funeral Homes; Tara Steininger at Becker Ritter Funeral Home; Courtney Mourey at Baker-Stevens-Parramore Funeral Homes; John Winstead at Seaside Funeral Home and Memorial Park; and Kevin Sandoval at White's Funeral Home. This is just a short list of the newly aligned leaders we are fortunate to bring into the Carriage fold in 2020.

I would certainly be remiss if I did not make a very special mention to our new Senior Vice President of Sales and Marketing, Mr. Carlos Quezada, who joined Carriage in June of 2020 during the zenith of the pandemic, getting right to work, placing the building blocks for a very new and exciting high-performance sales organization.

Carlos certainly cannot do this alone. Joining Paula Harris already on board, I'm pleased again to welcome Mr. Tulio Bertello and Mr. Shane Pudenz, 2 tenured sales mentors in our industry who have joined the Carriage family, in addition to Erin Embry, Sales Development Partner, who support our training platform nationwide. As Carlos has stated before, the best is yet to come.

Carriage Services, both our managing partners and sales vendors, do not require a handbook to lead their local business, as it is in their internal DNA, their entrepreneurial competitive mindset and people-first focus that drives at the very heart of their respective business. We here in Houston as partners support their drive to success.

Carriage Services and its partners have successfully built relationships through true collaboration and partnership. We've eliminated the layers of management, removed the hierarchy and have through First Who, Then What successfully onboarded the best talent in the industry.

We have removed the bulky talent acquisition technology, extracting unnecessary policies, spending less time mauling over questionable statistics and brought back the human in human resources. Conference calls and a full e-mail inbox are nonexistent, so that we may focus entirely on peer-to-peer connection, innovation and family services. Here at Carriage Services, doors remain open for learning, growth and development.

Carriage Services and its partners continue to move the goalpost and push back boundaries, unselfishly supporting social causes in their respective communities and have been for years. Whether it's supporting the local food bank, sponsoring a pancake breakfast for the local Girls and Boys Scout, a toy drive, a food drive or a collection of back-to-school items for children in the community, our team has been there out in front. And when COVID came, we're more than ready.

Those business partners who have come to join the Carriage Services network over the past 29 years enjoy our special connection and back-office support services while employing the same, hometown, independent, local business relationships with the community that has made them the go-to funeral home for families time and time again.

In my capacity, I'm often asked, what is the Carriage difference. Truly, there are many. However, I simply respond with this comment. For 29 years and counting, Carriage Services has had one mission, to be the best people-based operating organization in the funeral and cemetery industry. Our goal has never been to be the biggest, but to be the best. Our core principles and values have never wavered. We stay true to the families we serve and continue to be a local family-run market operation with an entrepreneurial spirit, who just happens to be a publicly traded company.

I'm profoundly thankful that I have the honor every day to align myself with 2,727 of the most unbelievable hard-working, caring, compassionate group of A-plus leaders in my chosen industry. I know I speak for all of us here in Houston when I say thank you to each and every one of you for serving our community families. You're heroes before COVID and will always be.

Mel has in his theme letters dating back to 2012 signed off with this thought coming from author Jim Collins, "Greatness is not a function of circumstance. Greatness, it turns out, is largely a matter of conscious choice. We choose great." Mel, I would add, we are truly unique, unorthodox and special. And I too have chosen great. Thank you.

Operator, I'll now return the call back to you, so you may open the call for Q&A.

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

Sorry. I think I will have a few closing remarks. I just want to thank Jason for that wonderful presentation on First Who, Then What and the importance it is to Carriage.

In his section, in the release, I think it's on Page 12, high-performance talent acquisition program, First Who, Then What, in the second paragraph, I referenced the most recent example of just how valid and powerful the First Who, Then What concept is in relation to Tom Brady leaving the New England Patriots and joining the Tampa Bay Buccaneers.

Anybody who knows me well knows that they can compare coaching, whether it's baseball, Tony La Russa; whether it's Bill Belichick, the New England Patriots; and all the players that make up winning teams and winning legacies. That's how I view our company as a public holding company, full of winning teams supported by all the people at the holding company level, being the best that they can be in the world at supporting the best in every community locally.

It's a simple concept. It's a very difficult concept to pull off and sustain. You got to get the first who, then ride at every seat on that bus. So what's interesting about this is that I mentioned in the second paragraph, Tampa Bay had a losing team. They had a losing franchise. They had a losing mindset. They had a losing culture. It was acceptable to lose. But when time came, it was unacceptable or he wouldn't have come there if he thought they were going to continue to have that mindset of losing being acceptable.

And I heard during the Super Bowl, many times by the various people, that when he came, took a while, but he changed the culture, change the mindset of the players who already had the talent. They had the coach. They had the talent. They added some, okay. Ron came out retirement. They got Antonio Brown. But I mean, they had the talent. What they didn't have was the culture and the mindset of winning, being the only option.

And I can promise you. I know I've gotten a bad reputation over the years of turnover. You can't win Super Bowls and win every year, unless you have the talent, and that's the way it will always be at Carriage. That's our competitive advantage, as I wrote in the last section.

And I do want to mention this. Jason mentioned, great. Tom Brady is known as the greatest of all time. Maybe Patrick Mahomes will one day get there, not yet. Tom still got it. He doesn't want to be anything less than great at 43 years old. At 78 years old, I don't want to be anything less than great. Great is the only option. Winning is the only option. And I have a winning company that wins in the performance locally, and you have all that performance being shared with the people who create it and so much left over for the rest of us and shareholders, I mean, this is fun. This is so much fun, and it's going to continue to be fun after COVID is diminished.

And so I want to simply say it is a true blessing to be here at this company, having reached a point, after almost 30 years, and right in front of us, we have the refinancing, where Carriage will be in a position we've never been in before, which is to allocate a lot of free cash flow more than any other company for every dollar of revenue, as Ben pointed out, to maximize and optimize over a long period of time the intrinsic value per share. And to have 47 of our great people involved in the Good to Great II Shareholder Value Creation Incentive Plan is such an exciting thing. That means we have to compound our shares at a minimum of 20% to 40% through 2024.

Now I've told every one of them, I've educated them. I'm pouring my heart out with passion and energy that, look, 20% and 25% is nothing. That was a gift Mr. Market gave us during the pandemic crash. 30% only gets us to $53 and change. That's kind of a ridiculous low-hanging fruit. Let's go for the 40%. 35% would be second place. That's not super bullish. Let's go for the 40% compounding category. That gets us to $77 and change.

Now that is more like what? A real player and a real team of winning teams can and will do. That's what every one of them believe we will do. And so we look forward to that journey hopefully with you on this call because we will not let you down.

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

QUESTIONS AND ANSWERS

Operator

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

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

I wanted to say congratulations on the beat and raise, the strong finish to a very strong year. And then Mel, specifically to you, a belated happy birthday and congratulations on an extension of your employment contract for another 7 years. I think that's well placed confidence in your leadership.

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

Thank you, Alex. I might be technically 78, but I feel 28. You cannot be here where I am right now and not be having fun because of all the talent we have in the company. It's not like I have a whole lot to do, except cheer them on.

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

Well, keep doing what you're doing because it's working. Great. I have a number of questions. The first one related to, this is probably for Ben, quarterly cadence in 2021.

Obviously, you've raised your guidance for the full year revenue, adjusted EBITDA, free cash flow and EPS. And January has started off very, very strong. How should we think about the quarterly cadence of revenue in 2021?

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

Yes. Alex, I think you can certainly say that the first half of this year, our expectation is for, much like the second half of 2020, higher revenue growth year-over-year compared to where we were last year. And hopefully, as we see vaccinations continue to take hold and the coronavirus pandemic become less of a part of our lives, that the death rates would come to a higher -- probably a higher elevated level than "normal" as we move into the back half of this year.

Cemetery performance, we expect to be strong and continuing to build on the momentum throughout the year. And really, you have the full impact of that financial revenue that we didn't have last year, so you see a strong year-over-year comparison in the first half on the financial revenue side certainly compared to last year. That's how we're kind of thinking about the cadence right now.

Yes. And for that, I'll turn it over to Peggy Schappaugh with some additional comments.

Peggy Schappaugh ***Carriage Services, Inc. - VP of Operations & Acquisition Analysis***

Yes. And just to add to that -- sorry. Just to add to that, we've seen great improvements on our average as well. So even, in addition to what Ben has said, we've got averages working in our favor. We've got our cremation average conversion being very strong in the fourth quarter and really leading into January, and we're seeing that into February.

So even as the volume may settle down a little bit, we have -- all of our funeral homes are serving families. They're actually getting families thanking them for taking the time to serve their families, where other funeral homes may not be doing so or may not be having services. So we continue to see improvement in our average, and that will also go up as the year goes along.

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

Great. That's helpful. And I was going to ask about that. So you had a spike in the death rate in December and January because of COVID, tragic and unfortunate, but this is the impact on your financials. Has that settled down in February? Or halfway through February, are we still dealing with this, like in depth, particularly in places like California?

Peggy Schappaugh ***Carriage Services, Inc. - VP of Operations & Acquisition Analysis***

California has been really busy. We have a lot of businesses in Central California and Southern California, and they've definitely been very busy.

We do see that continuing into February. We -- maybe a slight slowdown, but it's been really busy. And again, with -- even with some restrictions out there, they're still able to have those services. So it's -- we think the first quarter, just January alone will be better -- as Ben said earlier, better than Q1 of last year. So we expect that to continue.

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

Yes. Alex, this is Mel. We see strong momentum continuing in February, which has 28 days this year versus 29 last year. But it will be -- it will probably be our second highest revenue month after January in the history of the company. And the margins, we expect will continue to be this ridiculous. It's hard to believe.

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

Got you. And then, Ben, you mentioned that you're going to be a full taxpayer in 2021. What rate -- what's the GAAP tax rate we ought to be using for our models?

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

We're starting off the year at 30%. As you saw last year, it ended up being a little higher, and that's really driven by divestiture activity. As we sell businesses that potentially have good will on the books, and we have to write that off as we sell these assets, that can drive the effective tax rate higher.

We'll continue to update that as we go through the year. Some of that's obviously really unknown. But for right now, we're going to start at 30% for the year.

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

So Alex, let me add a little more color to your first question. It's out there, and we're getting this from some investors and about pull forward, push down later performance because of COVID. We don't see that, okay?

I don't agree with that. I don't agree with the speculation and prediction that somehow our performance in the second half will be lower or '22 will be lower. We've got all these other things going on.

This company is good. Our people know they're good. And we have updates every Thursday across the country, so we get to hear what's going on business by business, area by area. And we have a Standards Council Update meeting, those are 10 of our best 2 days ago. And I will tell you, California hasn't started to slide yet. They had a little slow few days, but now it's back to where it were -- was, and our people are doing unbelievable things.

But there are other markets, too. I mean, so it's an unusual thing, and I think I've reached out to people who probably have the best data, the best sense of what the future might bring in terms of death rates returning to normal. And I don't know that anybody actually believes that's going to be the case.

The baby boomer population has been building up forever. I won't say they've been living the best lives when they get up into the high 80s and 90s, and that's evident by all the assisted living and nursing desks. And so you really can't say whether this will turn out to be an endemic problem with COVID that you need booster shots, various variants, adapting and the medicine trying to keep up with it.

No one knows the unknowable right now. And anybody who says they do, that in the opposite direction, and you probably have a chance of making some money.

Well, right now, I would say, what is expected is probably an elevated death rate compared to the past, if this is not a pandemic that reaches finish. In other words, it will be around like the flu forever or for at least years.

And this is not coming from me. This is coming from people who have done a lot more work on this, with a lot of different modeling all over the world. And so I think it's too early for anybody who's an investor to be viewing our shares as overpriced or underpriced because of COVID.

I think you have to look at what the company is and what we're going to be doing in the future because we have a lot of drivers. You get $70 million of free cash flow here, and you go, "Wow, let's go to work." Mr. Market doesn't take highly of it. We're a buyer. Mr. Market is a seller. We're buying.

We know our company is getting better, and we know that the next 4 years will be better than the last 4 years. Otherwise, we wouldn't have created this -- integrate it to shareholder value creation and incentive plan, which we fully expect to execute in a way that gets the higher compounded share returns. If people don't believe that, it's a free world. You believe whatever you want. Anyway, I wanted to add that.

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

I appreciate that. And then I'll just finish with one question, and this one for Carlos, since I had the opportunity to speak to him on today's call.

The -- Carlos, your primary responsibility is to build the high-performance sales team and sales systems across the cemeteries. As I recall, you have more than 30 cemeteries in 12 states. What does the sales organization look like before you got there? And are there 1 or 2 people in each location out there selling pre-need cemetery?

And then what changes should we expect from you? In your prepared comments, you touched on some of this, but sales, maybe a little bit more centralized than the funeral services side. Interested to hear your thoughts there.

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

Let me tee that up for you, Alex. I had it wrong. This decentralized decision-making model, I put it out in '07 for the cemeteries. We did it in '04 for the Funeral Homes. And my concept was if you get the right managing partner and then you get the right sales manager, that whole function can remain decentralized.

That is wrong, and I proved it over and over. But I never could find anybody else who knew how to get it right until I met Carlos. So I knew that we had an overreliance on a couple of big cemeteries in California, Rolling Hills and Los Gatos, Northern California.

When they got a cold, my entire cemetery portfolio performance got a really bad flu. And it didn't look like they were going to get over at any time soon. Carlos' first job was to do diagnostics, what have we been doing wrong that you now can get right. So Carlos, I teed it up for you.

Carlos Quezada ***Carriage Services Inc - VP, Cemetery Sales and Marketing***

Thank you, Mel. And thank you, Alex, for the question. So when I came aboard, so decentralized model, the local decision is made upon the managing partner, right? And so what happens is that the visibility between sales teams -- local sales teams amongst other peers within the company is not really there.

The competition is just within the 3 to 5, 10 counselors in the cemetery, rather than higher competition. Also the previous compensation plan, in some cases, would not incentivize higher performance or would not have an expectation to make specific targets for specific positions.

Some of that is that we're testing right now and also changing in some other areas, and that will create higher expectations with higher awards. That's part of the comments that I made regarding the creation of performance-based incentives and rewards.

But also training, training has been decentralized at Carriage since its creation. And by creating a sustainable and well-robust training program that includes all the different components for inside sales positions, like family services, in addition to advanced planning positions that are most than anything generating leads outside the cemetery, will create a significant impact, which, by the way, there was only one formal team of EAP counselors at Carriage when I came on board, with a few exceptions with an EAP counselor reporting to a family service manager here and there or a couple. And so part of the plan is creating 12 to 14 EAP teams in the top 14 cemeteries, where we could now double up our sales force through the means of outside sales.

The communication system, CRM, all of that is providing an additional platform for sales learning, sales progression and, of course, sales success.

I hope that's some of the answer that you were looking for Alex.

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

Yes. No, that's great, Carlos. And Carlos, you came from Service Corp. What was your role there? And then the people that you've recruited since, where did they come from? Are they from -- in the industry or people you've worked with in the past?

Carlos Quezada ***Carriage Services Inc - VP, Cemetery Sales and Marketing***

Yes. So I've spent almost 11 years with SCI, started as leading sales for one of the divisions that SCI called Hispana, which about the size of Carriage, leading sales from all the South of the United States and then moving to operations as a Managing Director for the same division, leading now operations.

And so through that time, of course, I met a lot of people, developed a lot of good relationships and worked with some very incredible people that wanted to continue to work with us. One of those, Tulio Bertello, who was not at SCI at the time that he was brought up, he went from SCI to another funeral cemetery consolidator, and he came on board from that company. and then Shane Pudenz, who was, in fact, working for SCI when he came on board.

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

So Alex, if you want to ever be inspired,by someone's life story, spend some one-on-one time with Carlos.

Operator

Our next question comes from the line of Dan Ison from Columbia Threadneedle.

Daniel Lee Ison ***Threadneedle International Limited - Head of the Pan-European Equities Team and Portfolio Manager***

First, I hope everyone is healthy and doing well. I have 2 questions, and perhaps I maybe joined at the hip here.

The first one, I understand maybe somewhat harder to answer at times given the highly decentralized nature of the portfolio, but if you guys had to boil it down, and perhaps Carlos, maybe this question is for you, what are the 1 or 2 most impactful common threads that have changed from a customer value proposition that you're now offering customers that you weren't before?

And then Mel, I know how much you love Munger. My favorite Munger-ism is show me the incentives, and I'll show you the outcome. What do you think are the most impactful changes in the incentive structure that's driven the operating team in such a different way? And how does that extend beyond the top managing partners that are highly incentivized in very tangible cash payouts?

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

Yes. I mean -- I mean, Dan, thank you. I mean, I can't thank you enough for those 2 questions. There is a section here, I'll start with the incentives first, but they are linked, the answers are linked.

I'll just start with when we've got shocked the last 2 weeks of March, and it continued into the first 2 weeks of April, we had to adapt quickly. And one of the things about Carriage is we're very flat. We don't have layers of management. There really are no layers of management in Carriage. That's why we call our -- we call them the managing partners. They're like the owners of each business.

And that's one of the -- if you go to the fifth bullet point back on the observations, the fifth bullet point, we talked about that. And I'll just read it to you because it goes to the question you just asked. The fifth bullet point is, I'll get there, our high-performance culture framework is more cost effective organizationally.

As the corporate organizational overhead does not eat up, a substantial amount of the incremental financial performance of our field businesses, especially as we leverage our consolidation platform, with growth of highly selective acquisitions, enabling more of the value creation to be shared with both those who created locally and with public shareholders.

Now in the prior section, Good to Great II 5-year shareholder value creation incentive plan, there are 4 paragraphs in the middle of that section that go directly to your question about incentives. And I agree with Charlie.

In order to have our organizational structure be more effective and efficient, to creating more EBITDA per dollar of revenue, to create more free cash flow per dollar revenue, we eliminated many layers and unnecessary processes and stuff we've rung out what I call all the bureaucratic stupidity, perks and privileges and cost. And we made the most important jobs in the company, those of the managing partners, in charge of every business.

And that's where the management occurs, and it's a pretty simple concept. If you buy a good franchise at a fair price, this is another Charlie Munger-ism, and then that good business becomes better by joining a company like Carriage that provides all the support so that the people in the business could focus only on what makes the business grow and compete better than anybody else in the market.

And this comes to your first question. I've had many people tell me you should do best practices and push it down -- what you learn, push you down. We tried that many times. It doesn't work. The best practices are bubbling up, and we make those available now on technology tools.

But when the coronavirus mandates hit, our people went -- after getting over a shock and knowing that our support teams were there in their foxhole, and believe me, it was battlefield conditions. And it still lives, and -- especially in California.

And we've had so many of our people tell us, including the Standards Council 2 days ago, that without all the support and the people in the foxhole with them, day and night, 24/7, they could not have innovated.

They came up with ideas, Dan, that you can put a brain trust together, and you couldn't come up with an idea like our people came up with. I don't know where they come up with all these ideas. All I know is you talk about entrepreneurs and competitors, and they want to win when their competitors are in shock, turning down business, saying they won't do any embalming services or this or that. Most of it is we can't do this, we can't do that. And our people are we can do this, and we can do that because what you want to do may have been your best idea of what was best, but this is what we can do.

And in almost every case, our people came up with better ideas than the original idea the family would have had in the first place. And then the families have such incredible appreciation and respect. The word of mouth from that is priceless in the community.

I mean, we've had Christmases outside in July, everything decorated, family is driving by their cars. We've had -- I don't know at all. I can't even remember them all. I don't -- one of these days, and I'm looking at Peggy now and Ben, we should make access to some of our websites where our people put these ideas on there.

So I mean, I don't have a problem with it, but competitors stealing these ideas, but I don't think they're good enough to do it. But this would -- it's hard for an investor like Dan or anyone else to imagine just how this happens, and it's kind of magical.

We're shaking our heads here, too, Dan, how they come up. We hear this every Thursday. We get these stories. And it makes us honored and proud to have a company where people are empowered to do things, just do it. If it seems right to you and it's in line with the guiding principle, do it. It's the right thing to do. Let them, the power of people through individual initiative and teamwork.

When you turn them loose and you have the right people, they come up with ideas that win, hearts and minds, locally, and this is what has happened. And the incentives, I really tried to lay it out and put a little more meat on the bone in the Good to Great II section, but we had more high performance.

Now what you didn't see, and what I haven't made public, was the meat of my 2020 theme letter that went out on February 18, 2020, just before COVID. 2019 might have looked like a big turnaround year. That's not how we viewed it. And so I wrote this theme letter, and I didn't make it public. I just showed you the last paragraph in this release.

But the theme letter was about a tale of 2 companies, a tale of high-performance Carriage in 2019 and a tale of low-performance Carriage in 2019, using the analogy of A Tale of Two Cities by Charles Dickens, most popular book ever written a lot of people say, during the period 1775, 1792. And it was about the difference between living in London at the height of the British Empire, primarily because of lots of colonial possessions that were very productive, versus living in Paris, which was beginning to go into a revolutionary period, the Reign of Terror.

And so I made that analogy, and it was tough. I outlined all the businesses that had low performance, especially declining revenue compounded and low margins. And we changed some things to incentivize people to get in the margin range and to get their revenue positive or else.

When you have NRLs that's pretty brutal, that's also an incentive. Failure is often a highly motivated thing or are not wanting to fail or not wanting to be solved. And so it just happened to be very timely that we did all this before COVID shows up.

And you can ask Peggy if you want a follow-up question on this. This is one of the better pairs of questions we ever got. And I just can't thank you enough because you're right. Our people are highly incentivized, both to be successful and not to fail, not to fail.

We have lead tables every month. If you're below 50%, you're failing. They know what they have to do, and they've got a lot of support doing it. You don't want to fail in this company because you're being subsidized by a winner.

And it's a very Darwinian thing. That's why I like the book Seeking Wisdom: From Darwin to Munger, natural selection. Jason knows how to naturally select winners. You put the winners in charge of a business, you get higher value per event, higher revenue per event, higher customer satisfaction. You grow your market share.

And I'm sorry, I got on my soapbox here because of the quality of your question, and I hope that you get an answer in there. But we share the profit with no limit, and there's some big payments that went out. I mean, we had to load up the fourth quarter after December with incentive comp accruals or we would have had an EBITDA margin, I don't know, 35%,like we did in January, and we'll have in February.

We're loading it up. These numbers are after big accruals for paying our people. And believe me, once they've got the payments, for '20, they don't want to get anything less than that. That's Peggy. She's already telling us all. Man, they're hooked now.

So anyway, it's an exciting thing, Dan. And we appreciate very much all your support and all the skin in the game that you have in our company. We will not let you down.

Daniel Lee Ison ***Threadneedle International Limited - Head of the Pan-European Equities Team and Portfolio Manager***

Terrific. As I said to Ben recently, I think I picked the right party, and it certainly turned into a really fun one. I just arrived a little too early, so patience was important here. But happy to be along for the ride, and I hope you guys continue to do well.

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

And any day you want to compare me to a Japanese CEO, just pick Chihiro Kanagawa, and I'll be glad to be -- I'm his student, by the way. He was my mentor. Look him up, Chihiro Kanagawa. You'll be blown away.

Unfortunately, I can't make our reunion every year. He got to an age, still the Executive Chair -- not Chairman of this company, Shin-Etsu Chemical. And we had a reunion every year, a lunch, until last year. But I hope he's still around. I hope to do it again. He's a wonderful man, and I've learned a lot from him.

Operator

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

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

And again, congrats on the full year. Putting up the numbers on the top here, Carlos, I just had one kind of question.

I guess, just starting over in some respect at Carriage, how did you approach this business coming differently than the way it was operated at your prior employer and maybe setting that up for success as you go forward?

Carlos Quezada ***Carriage Services Inc - VP, Cemetery Sales and Marketing***

Thank you very much, Chris, for your question. So it's -- there's a few steps to that, right? And everything starts with understanding what the opportunity is and really recognizing the possibility for each one of the properties and, of course, within a very restrictive environment with COVID-19, traveling around every single property has been quite a challenging task, even though I have been able to visit some of those properties.

And the second piece to that is creating a plan that takes care or solve each one of those possibilities in blue sky opportunities, as I call them in my previous comments.

And then the third piece is also making sure that we have the support, right, so having senior leadership involved in building those relationships and having full understanding of what the plan entails and the level of commitment that it takes in the collaboration partnership and support needed in order to make that happen.

And then the final step to that would be building those local managing partners, manager, counselor's relationships to make things work. It is a complete change of mindset from a decentralized to standardized approach, and it is new. It is changed, and change is sometimes difficult.

But I got to tell you, in the cases that I've been able to visit the cemeteries and meet the team and be involved with the managing partners, I have received nothing but support and welcome arms to the change in adopting what we're trying to achieve.

So a lot of phenomenal things are coming up our way. This is really just the beginning. And I feel very strong about the future for pre-need cemetery sales out of Carriage Services.

Operator

And at this time, I would now like to turn the call over back to Mr. Mel Payne for the closing remarks.

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

Thank you very much. It's been a great call after a challenging and wonderful year for our company in terms of what our people were able to achieve in the face of adversity that we've never seen before.

And because of the continuing epidemic and the peak period of deaths that we're experiencing in our portfolio, it causes you, as a human being, to be reflective of what really matters, and that's the last part of this release.

I put that in there for a reason because we really do, in dealing with death, we also deal with life and how to live a life that matters. And I reflected on that and went back to the end of my '17 shareholder letter. And I do want to end this call with a quote from that end, and it starts as follows.

As I was finishing my 2016 shareholder letter, I have tried to remember how Good to Great ended the book, but through a blank. So I retrieved my well-worn generously highlighted and tabbed copy from my office and turned to the last paragraph on Page 210, which reads as follows. "When all of these pieces come together, not only does your work move toward greatness, but so does your life. And it is very difficult to have a meaningful life without meaningful work. Perhaps, then you might gain that rare tranquility that comes from knowing that you've had a hand in creating something of intrinsic excellence that makes a contribution. Indeed, you might even gain the deepest of all satisfactions knowing that your short time here on this earth has been well spent and that it mattered."

And then I continued. On March 5, 2018, I sent our annual theme letter to all employees and will share with you the ending, which also comes -- becomes the end of the shareholder letter. "Recently, a new friend of the Carriage family sent me the poem, What Will Matter, by Michael Josephson, and I will share a few thoughts, which are perfectly aligned with how we think about our Good to Great Journey, and which may provide you with inspiration as well."

What -- and this is the quote from the poem that was sent to me, and I'll tell you who that was in a minute. "What will matter is not what you brought, but what you built, not what you've got, but what you gave. What will matter is not your success, but your significance. Living a life that matters doesn't happen by accident. It's not a matter of circumstance, but of choice. Choose to live a life that matters."

So this guy wrote this in '03. Jim Collins wrote Greatness is a Choice -- a Conscious Choice. Now this poem was sent to me, and I'm going to mention the name for the first time, by Prem Watsa. Prem Watsa is the founder of Fairfax Financial out of Toronto. He's known as the Warren Buffett of Canada.

And he sent someone to meet me. I met them in New York. I had dinner with them. I'm wondering, is this real, why are they here. And I found out quickly that it was real. And so I went to Toronto with my wife. I met Prem Watsa and his team. They wanted to invest in Carriage back when we had an issue with our convertible notes. He wanted to be the solution. He really liked what the company had become, what it stood for.

And yet, Prem is a very clever guy like Warren Buffett. He wanted to do a subordinated convertible piece with no downside risk. I said, "Prem, I appreciate you wanting to do that, but I've got a better idea. Let's do a vanilla chocolate balance sheet, just buy a bunch of the common."

So we agreed to be friends, and we still are. And that's a real complement to this company because this goes back a couple, 3 years ago, before we then had our slide, and then we've made this comeback. And this comeback is going to have legs.

There is no way that what happened in '18 will happen again with this team. They all know it. We all know it. Our team is talented. They're inspired. They're motivated with the right incentives. We're all aligned. And I can only imagine what this company will look like in 5 years, but I can't imagine what the share price will look like. I hope you are there to enjoy it with Dan.

So thank you, and we look forward to reporting our progress in the future.

Operator

And ladies and gentlemen, this concludes today's conference call. Thank you for your participation. You may now disconnect.