CARRIAGE SERVICES
"First Quarter 2012 Earnings Conference Call"

May 2, 2012, 10:30 AM ET
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OPERATOR: Hello, and welcome to the Carriage Services first quarter 2012 earnings conference call. All participants will be in listen-only mode. There will be an opportunity to ask questions at the end of today's presentation. If you would like to ask a question, please press star, then 1 on your touchtone phone. You will hear a tone to confirm that you have entered the list. If you decide that you want to withdraw your question, please press star, then 2 to remove yourself from the list. If you should need assistance during the conference, please signal an operator by pressing star, then zero on your touchtone phone. Please note this conference is being recorded.

Now I would like to turn the conference over to Mr. Matt Steinberg of FTI Consulting. Please go ahead, sir.

MATT STEINBERG: Thank you, and good morning, everyone. I would like to welcome you to the Carriage Services conference call. We are here to discuss the company's 2012 first quarter results, which were released after the close of the market yesterday. Additionally, Carriage Services has posted supplemental financial tables and information on its website at www.carriageservices.com. If you would like to be on the email distribution list for future Carriage Services releases, or if you would like to receive a copy of the press release, please call my offices at FTI Consulting at 212-850-5600 or visit the Carriage Services website.

This conference is being recorded live over the Internet on Carriage's website, and a subsequent archive will be made available. Additionally, in a few hours a telephonic replay of this call will be made available and active through May 16. The replay information for the call can be found in the news release distributed yesterday.

With us from management are Mel Payne, Chairman and Chief Executive Officer, and Bill Heiligbrodt, Vice Chairman.

Today's call will begin with formal remarks from management, followed by a question-and-answer period. Please note that in this morning's call, management may make forward-looking statements in accordance with the safe harbor provision of the Private Securities Litigation Reform Act of 1995. I would like to call your attention to the risks associated with these statements, which are more fully described in the company's annual report filed on Form 10-K and other filings with the Securities and Exchange Commission. Forward-looking statements, assumptions, or factors stated or referred to on this conference call are based on information available to Carriage Services as of today. Carriage Services expressly disclaims any duty to provide updates to these forward-looking statements, assumptions, or other factors after the date of this call to reflect the occurrence of events, circumstances, or changes in expectations.

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

With these formalities out of the way, I would like to turn the call over to Mel Payne, Chairman and Chief Executive Officer. Mel, please go ahead.

MELVIN PAYNE: Thank you, Matt. I would like to welcome everyone on the call to our first quarter earnings release and conference call. I want to first hit on some highlights of the quarter, and there were so many that we only could list the main ones.

We had total record revenue of $52.3 million, which was an increase of 3.2 percent. The acquisition funeral field EBITDA was $2.5 million, another record, an increase of 208 percent. These are businesses that we've owned since the end of 2007, in other words, we acquired in 2008, '09, '10, '11, and the first quarter of '11]. We do it that way for long-term trends, but that same group increased their profit by triple year-over-year. Part of that was the revenue from acquisitions, but a lot of it was total acquisition. Funeral field EBITDA margin was 38.9 percent, an increase of 1,260 basis points. We've never come close to that performance with our acquisition portfolio in the history of the company. In fact, quite a few of the businesses we bought and are in that portfolio have high rents. EBITDA shown here is after rent. On an apples-to-apples basis looking at the same store portfolio and the acquisition portfolio, for the first time in the history of the company, the acquisition funeral field EBITDAR for rent margin was higher than the same store, 45 percent and change versus 44 percent and change.

The total funeral field EBITDA, which includes the acquisition and the same store, was $15.5 million, another record, an increase of 19 percent. Our total funeral revenue increase was only 4½ percent. The total funeral field EBITDA margin of 39.9 percent was an increase of 480 basis points, another record. Total field EBITDA — this includes both cemetery and financial — was $21.4 million, an increase of 11.2 percent. Total field EBITDA margin of 41 percent, another record, was an increase of 300 basis points. Total adjusted consolidated EBITDA of $16 million, another record, was an increase of 9½ percent. Total adjust consolidated EBITDA margin of 30.5 percent was an increase of 180 points and the highest in the history of the company for a quarter.

Our total GAAP EPS of 23 cents increased over last year by 28 percent, but because there were special items in there, we used adjusted EPS to measure the earnings of the company. That was 29 cents, and it was an increase of 26 percent over the prior year, another record.

To say that I am proud of what our leaders and employees accomplished with their first quarter performance would be the understatement of my life. Even in an adverse industry environment, we're told by many in the industry, our people perform like champions. If ever there was an opportunity to establish credibility of Carriage's three core models and business strategies that are designed around people and leadership to produce high and sustainable performance over time, this quarter was that opportunity; and our operating and support organization came through with a performance so differentiating that it almost looks like we were in a different industry. In fact, I can finally say that after nine years of evolutionary change, our company took a great leap forward in the fourth quarter of 2011 with transformative changes executed quickly and effectively. We then themed this year as "Carriage Services 2012, A New Beginning" and challenged our people at all levels to make 2012 a breakout performance year. And what a beginning it has been as our people are energized as — like never before, and for the first time in our history, our funeral business portfolio achieved close to its normalized and sustainable earning power potential as defined by our funeral standards operating model.

Our cemetery performance backed up a little bit, but all of that occurred in January and February. In March we made more money than the other two months combined, and the performance and the activity in the teams improved throughout the quarter, which was very encouraging as to the prospects for the rest of 2012.

Our acquisition portfolio, which is now all funerals, for the first time, as I mentioned earlier, achieved a higher field EBITDAR margin before rent than our same store funeral portfolio. Not only that, our pipeline is full of quality candidates, which Bill will cover in his remarks. Our trust funds are now positioned to do well no matter what happens in the markets. Our board of directors is new over the last three years. Each one is now highly engaged and supportive of our five-year vision of Carriage.

So, in summary, we expect to have a great performance year under the theme, "Carriage Services 2012, A New Beginning."

Now I would like to recognize the real heroes of the quarter, 20 performance individuals across the country in our field operations. In our western region, these are the funeral homes — Justin Luyben, Cesar Gutierrez, Matt Simpson, all in California; in our cemetery combo — Steve Mora and Alex Kreider and Margarita Hernandez, in California; in our central region funeral homes — Phil Zehms in Ohio, Kyndall Hale in Oklahoma; in our combo — Greg Schoonmakeer, Vince Rocha; and in our eastern region funeral homes first — Frank Forastiere in Massachusetts, Jason Cox in Georgia, Chuck Williamson in Tennessee, Tim Hauck in Florida; our cemeteries — John Banus [phonetic], Justin March, and Gerald Polite. These are all in existing businesses.

Now I'd like to specifically mention the most three recent acquisitions — Fred Bryant, New York; Jim Terry, Pennsylvania; Mike Conner in Georgia.

These are the stars of this performance, along with others too numerous to mention. I've never seen such a broad and deep performance throughout our portfolio. It would take me two days to finish talking about how great a job they did.

So that's my remarks. I will probably mention a few people every quarter. They deserve it. That's the people who do the work and create the performance. We just report it and talk to you about it.

With that, I'd like to turn it over to Bill.

L. WILLIAM HEILIGBRODT: Thank you, Mel, and in keeping with what Mel mentioned as the highlights of the first quarter, today, you know, I'd like to take you through a progression of categories of our income statement for the first quarter of 2012.

Total revenue was up $52,286,000. That is what it was. That is up $1,617,000, or 3.2 percent. Total field EBITDA was $21,436,000, up $2 million, or 11 percent, and, again, at a 41 percent margin.

Overhead was $7,174,000, up slightly under $800,000, or 12 percent. The largest component of overhead was our variable expenses reflecting accrued incentive compensation for operating performance in this quarter. This leaves EBITDA from continuing operations of $14,200,000, up almost $1,400,000, or 11 percent. Adjusting for non-recurring expenses shown as special items and adding slightly over 2 cents per share, or $694,000 from withdrawable trust income, leaves adjusted EBITDA of $15,951,000, just under $16 million. That would be non-GAAP, an increase of approximately $1,400,000, or 10 percent. The resulting margin, 31 percent.

Okay, our report card at that performance — GAAP earnings per share, 23 cents per share versus 18 cents last year, a 28 percent increase. Non-GAAP earnings per share, again after adjustments for non-recurring expenses and special items and adding withdrawable trust income, was 29 cents versus 23 [cents] last year, up 26 cents. The resulting non-GAAP net income margin is 10 percent, one comment that Mel forgot to put in there.

Let's look at a — at some of the components of our income statement. Our funeral operations were exemplary in the first quarter. Despite a low volume environment or unusual market for our industry in the first quarter, we grew same store funeral EBITDA on increasing margins by almost $800,000 - 7 percent, same store EBITDA. This allowed us to completely benefit from the over 100 percent increase in funeral acquisition revenue. Acquisition funeral field EBITDA margins increased from 26 percent in 2011 to 40 percent in 2012, leaving acquisition field EBITDA up over 200 percent, approaching $2½ million, an increase of $1,680,000. Our new acquisitions performed especially well in the first quarter, complementing the outstanding performances in our existing businesses.

Cemetery EBITDA was down slightly in the quarter. We expect improvement in this number, again, as Mel mentioned, as we move through 2012.

Now let's look at overhead or expense control. We were up 12 percent, but adjusting overhead for non-recurring expenses, again listed in special items, the increase was 2 percent, which was after incentive compensation accruals for the outstanding performance in our businesses, great expense control and what we wanted.

Cash flow from operations was up slightly at $3½ million. Free cash flow from operations increased from $2.1 million to $2.6 million, a 24 percent increase, and is in line with cash flow expectations in our outlook statement.

Our pipeline for new acquisitions remains very active, and we are currently evaluating several meaningful properties. We feel acquisition opportunities will continue to be very abundant. All acquisition prospects are evaluated on our strategic acquisition model, just as we have done in the first — fourth quarter of 2011 and the first quarter of 2012. As of today, we will close at least one new acquisition in the second quarter of 2012.

Now, looking at the rolling four quarters outlook, we adjusted our range of performance to 67 cents to 70 cents for GAAP earnings per share and 80 to 83 cents for non-GAAP earnings per share. These adjustments represent nice improvement over comparable numbers for 2011. With this range of outlook in non-GAAP earnings per share, we will be approaching 12 percent returns on equity and 4 percent returns on assets. As management, we are dedicated to improving our performance ratios as we move forward on a yearly basis.

All in all, a very good start for our new beginning in 2012. The results for the first quarter reflect the hard work of our Houston support staff, our group in acquisitions, and, of course, all our operating personnel across the U.S. In this tough business environment for the first quarter, all our employees performed at their best when the best was needed.

Thank you.

MELVIN PAYNE: With that, we'd like to open it up for questions.

OPERATOR: Thank you, sir. At this time, if you would like to ask a question, please press star, then 1 on a touchtone phone. You will hear a tone to confirm that you have entered the list. If you decide you want to withdraw your question, please press star, then 2 to remove yourself from the list.

And our first question will come from Nick Halen of Sidoti & Company. Please go ahead.

NICK HALEN: Good morning, guys.

MELVIN PAYNE: Hey, Nick.

NICK HALEN: So the first question I had was how should we look at acquisition spending going forward? I know you mentioned in the past you're looking to spend roughly $20 million a year, but the pipeline looks particularly strong right now, and I guess you guys already spent $11½ million in the first quarter, and obviously you'll be spending more in the second, so, I guess, just going forward, I mean, how should we look at that on an annual basis?

L. WILLIAM HEILIGBRODT: Well, I think — we don't set targets. We look for the right businesses that fit our model. Based on where we are today, we could easily do $30 million in acquisitions, provided, again, that we're able to negotiate transactions that complement what we've already done, and we would be willing to do more than that. I think it's a factor of what businesses are available and how soon we can get these accomplished, but certainly more than $20 [million] and probably certainly more than $30 [million].

MELVIN PAYNE: Yeah, Nick, this is Mel. I think that number you're using is kind of the one we used over the last couple of years, but with Bill coming and revising everything and looking at what we've done with the standards operating model, we're seeing a lot of interest in our company, and we're seeing a lot of — a lot of owners thinking taxes are not going down, probably will go up, how much, not quite clear, so we've seen a real increase in the amount of interest, not just in the transition or succession planning transaction, but in our company, specifically in our company. Word's getting out we're different. People who join us like it. They like once they get under the covers what they see and the value that can be added to local businesses, so it — I think we've grown into a bigger opportunity to grow without being stupid about it.

NICK HALEN: Uh-huh. Okay. Now, I guess, as that pipeline grows, and, like you said, word does get out, and, I guess, more and more opportunities present themselves, if you guys don't have the free cash flow available to fund these acquisitions, I guess, how would — I mean, have you thought about how you would approach funding these?

L. WILLIAM HEILIGBRODT: Well, we do have probably enough to fund on a free cash basis as much as $20 million. We have adequate financing that would — that is in place to more than adequately take care of the numbers that we've mentioned today for at least two years to three years, okay?0:22:33.3

MELVIN PAYNE: And the capital markets are — they keep calling us for some reason. We just keep being patient about it. They're calling us — "Come now," and we say, "Wait, wait, wait," so I don't — I think we've got plenty of opportunity to change the capital structure a little bit to get more capacity if we need it without adding a lot of additional cost.

L. WILLIAM HEILIGBRODT: And one point I'd like to add to that, every time we make an acquisition on the basis that we've been doing these transactions, our credit gets better, and our cash flow gets better, so the whole plan is designed about making Carriage better, both from a credit standpoint and an earnings standpoint.

NICK HALEN: Okay, great. And then just, lastly, I know you guys mentioned on the last call that you launched a few new programs in the cemetery business, and I know you mentioned that January and February of this year kind of struggled, in March, things seemed to pick up on that side, and I was kind of wondering what was different in March from, I guess, the first two months of the year?

MELVIN PAYNE: Well, when you change everything, which we did at year-end, in November — when I say everything, we changed everything. I suspended the cemetery standards operating model, and we're going to recreate that in the third quarter and roll it back out, just like we quickly did the funeral one in — and had it approved November 17, rolled it out by the end of November, and you'd think we had rolled it out five months before, because December looked completely different than any other month of last year, and volumes were way down, profits were up, so that's when we knew this was going to be a good quarter from a funeral point of view. On the cemetery, it's a little difficult, because we're building sales strategy, sales teams, sales leaders, and we planted a lot of seeds on how we do this systematically and activitywise and monitor it. We also rolled out a proprietary cemetery system February 1. No one else in the industry has anything like it. We're working through the bugs on that.

So I think you'll see trends. There are a lot of reasons March was the month things really began to show some fruit, where the seeds were growing into fruit, and I see more of that in April. I expect to see more of that throughout the remainder of the year as we rebuild a broader performance portfolio in our cemeteries. And we're adding some talent recently, and we'll add some key people. It's too early to talk about it. I'd rather wait till the fruit gets a little more clear, and then we'll talk about it the next call, but just know that cemetery business is not going to hold us back.

NICK HALEN: Great. Thanks, guys.

OPERATOR: And our next question will come from Clint Fendley of Davenport. Please go ahead.

CLINT FENDLEY: Thank you. Mel, Bill, good morning.

MALE SPEAKER: Hey.

CLINT FENDLEY: On these — first question on the field EBITDA, obviously, some great results there. I mean, how should we think about the sustainability of this going forward throughout the year?

MELVIN PAYNE: Let me — one of the things I've learned doing this now for 21 years is that the funeral business is kind of a weird business. I went back and looked at the first quarter. Over the last 12 years, and I had our people — and they're all in this room. If you want to know who the real stars of this quarter are, they're sitting around this table in this room supporting our field operations with analysis and planning, but I said, "Look, let's — this is a — this is really unbelievable almost, down 6.2 percent on volumes. How did we do this?" Well, we went back and looked at the first quarter and correlated volume to the margin, EBITDA — EBITDAR margin, and we did it on the businesses we only owned on December 31, '99, so that you had apples to apples to apples to apples through a 12-year cycle, and it was very interesting, fascinating.

For the first ten years, the correlation was perfect. The volumes went down, and we did have three years — six years were up, six years were down — but there were three years where the volume was down between 8 and 9 percent on that group of businesses. Now, ten years, if the volume went down, the margin went down. If the volume went up, the margin went up. The only two exceptions to the correlation, which you would think is logical, have been the last two years. Last year the volume went up and the margin went down. This year the volume went down a lot, and we hit an all time margin record.

Now, there's some reasons for that, specifically reasons. First of all, the new standards operating model incentive programs were rolled out and communicated, not only to the managing partners but to all employees at every business — hadn't been done before. Everybody has a stake in this in their standards achievement, all employees. And they came through like champions. You can see a difference in December, but we got a couple of other things we're —

CLINT FENDLEY: When you say every employee, I mean, is that at every level of the company that you had not done before?

MELVIN PAYNE: We had rolled it out at the end of last year effective 2011, but it wasn't fully understood or communicated to all employees.

CLINT FENDLEY: Okay.

MELVIN PAYNE: A fact. That's not true anymore. Now, the things that improved year over year were some things that came with the volume decline turned out to be good things. We didn't have snow removal; we didn't have utility bills in the Midwest and the Northeast like we had in prior years. That was a $450,000 savings, but the other thing that speaks to sustainability is any time I see a volume decline like this and we talk to our suppliers and we hear others, what I've found is that oftentimes it's highly concentrated, so we just started thinking, where — is there a concentration of the volume decline? There was. It turns out that less than a third of our businesses, 32 out of 98 same store businesses, is where all the volume decline occurred, less than a third. And if you look at the total contracts, same store contracts in that third, it's only 28 percent of our businesses suffered the entire loss on the volumes. Everybody else, 72 percent, were actually up. Our West was up. All the decline occurred in the Midwest, Kentucky North, and the Mid-Atlantic and Northeast, where there was no winter, no flu season, and that's where our businesses suffered. Everybody else didn't have that wind in their face.

So my conclusion on that is I don't know if we can repeat this margin. It was so good. It was also aided by a huge decline in medical claims. We rolled out a new medical program, and I have to give some kudos here to Lorie Parmeter and her team of HR people. They rolled out a new program that made our people more accountable for their spending, given all that's going on in healthcare, and it made a huge difference, a huge difference. So we had less medical claims and less utilities and less extra expense related to the strong traditional winters that offset to a large degree the volume decline in only 28 percent of our businesses.

So I do think you're going to see a sustained high performance. Will it be this good compared to the year before? I can't promise you that, Clint, but you could put it in the bank that we're not going to be volatile like we were before.

CLINT FENDLEY: Okay. That's fair enough.

L. WILLIAM HEILIGBRODT: Clint, this is Bill. Again, you know, part of our funeral field EBITDA, our acquisitions, the last three acquisitions we made were not part of our operations for the full quarter. In fact, one of them only joined us late in March, the other one late in — and one other one in — late in February. We were still up 207 percent in field EBITDA in acquisitions, so those businesses will be with us for the full quarter.

We have one additional acquisition for sure that we will close in the second quarter as well, and we did see some unusual trends relative to same store volumes in those new acquisitions as well, so we have a lot going for us in that particular category. So I'm looking for our funeral field EBITDA to be very strong moving forward, and, as Mel mentioned —

CLINT FENDLEY: And, I guess, when you — when you say unusual trends in same store, you mean they were much better than —

L. WILLIAM HEILIGBRODT: Favorable. Favorable, right. They were favorable. And, as you know —

CLINT FENDLEY: And —

L. WILLIAM HEILIGBRODT: As you know, we have conditioned some of these acquisitions and looked at them in that regard, so we're looking for that.

CLINT FENDLEY: Should we expect the deal that you're — that you are anticipating closing in the second quarter to contribute about, on a comparable basis, to the Georgia deal that you recently completed?

L. WILLIAM HEILIGBRODT: It won't be quite as much as the Georgia deal, but it is a very good acquisition.

CLINT FENDLEY: Okay.

L. WILLIAM HEILIGBRODT: And it's not — it's not that much smaller.

CLINT FENDLEY: And, I guess, the second quarter is also — you know, it's always a big quarter for the cemetery, and, Mel, I know you spoke to that just a second ago, but I'm just wondering, as you sort of rebuild your business there, I mean, how do you expect that to impact your results in this upcoming quarter?

MELVIN PAYNE: Well, April was pretty good on our cemetery sales, pre-need sales, the best so far this year. May, of course, Memorial Day, I would expect to be a good month. And we've got a lot of momentum going in the cemeteries, and, you know, the seeds have been planted and teams put together. It takes a little time, along with product, but I'm encouraged, very encouraged by what I see there, and I think — I don't think we'll back up on the second quarter a little bit like we did in the first quarter, but I think it will be additive by the time we get through the end of the year, and it will get better during the year.

L. WILLIAM HEILIGBRODT: Clint, this is Bill again. The second quarter offers some tough comparisons. We've got to perform and stay on our game in the second quarter. When we reach the third and fourth quarters, the comparisons become very much easier, and we're highly confident as we look out for the whole year.

CLINT FENDLEY: Okay, good deal. And the last question here, I know the run rate for your withdrawable trust income appears as if it would be a bit higher than the $1½ [million] to $2 million that you've projected in your guidance. I mean, are you all expecting it to be less in the next few quarters?

MELVIN PAYNE: What we've done there, Clint, is we made this rotation starting August 8 of last year, and we had to realize $7 [million] or $8 million of losses in the equities to get them over to fixed income. Now, I will tell you, we've more than made up that — those losses by gains in what we bought in the fixed income. Now we have the gains, because we bought them so cheaply at the time. We've done some more rotation here in April. We're doing a little bit more in early May, getting out of our remaining cyclicals, and it's not much, but they do have some losses, so that might temporarily show a slight decline in the — in the withdrawable trust income, but it won't stay that way, and then it will normalize and be very predictable, and we're still growing the fixed income portfolio. It's — you know, we're about 80 percent now, 17 percent equities — I think at quarter end we were 19 percent equities, so — and the equities we have are — we have seven core equities, and we have a small but, you know, a substantial portfolio in these long-term bank warrants, TARP warrants, just in a couple of banks, the best banks. So they're already in the black, so we think — we think our portfolio is uniquely designed to benefit our company and our field operations going forward. No matter what happens in Europe or anywhere else, to be honest, because our credits are good. We've never had a default.

CLINT FENDLEY: Okay. Thank you, guys. I appreciate it.

MALE SPEAKER: You bet.

OPERATOR: And our next question will come from Nicholas Jansen of Raymond James. Please go ahead, sir.

NICHOLAS JANSEN: Yeah, just a few quick questions. First on cash flow, obviously, you had a very good consolidated EBITDA performance in the quarter, but cash flow as perhaps a little bit lighter than what we were looking for, so maybe any commentary on cash flow? And the, secondly, as you guys have updated the standards model in the funeral side, what's kind of the one thing that you think has really made the biggest change under the new standards model versus the other? Thanks.

MALE SPEAKER: You can handle that [inaudible].

MELVIN PAYNE: Yeah, let me take your last question first. What we did — the — it had not been updated, really, since '07, and it had been gunked up a little bit. I'd been out of operations since then, and there had been a few little things thrown in there, little wrinkles here and there, conditions on that standard, on this one, and I just think over time it became a little bit too complicated, and people were focusing on one or two and not looking at the big picture. And so what we did was take a step back, and, you know, your portfolio changes over that period of time too. And the way this works is the standards of certain businesses are the same across the country, no matter what geography, but the two criteria that now — we changed the groupings, so we put everybody in a group, depending on their size — that's the number of funerals a year, only the funerals they perform, not pre-need sales or anything like that, and then the other criteria is the average revenue per contract. Those two things really define the profile of a funeral business. And so the standards are — we have four groupings, depending on the size and the average revenue. The standards are different for each grouping, and the main ones that are different are the gross margin or the S&B as a percent of revenue — for example, if you have a high cremation business, the S&B as a percent of revenue is going to be less. If you have a high service, traditional service business, the S&B will be higher. It requires more people and more service.

So those are the kinds of things that we look at, so everybody is in a group, they can relate to, and the standards are approved by a council. Now, we have nine standards on the funeral business. This is one of the main things we did that has made a huge difference. We broke the short-term controllable standards into one group and called them the quantitative standards. We put the three other standards, which were market share and the two people standards, into qualitative, and we have two departments now. One is called OAPG, and they only support the people on the quantitative standards.

These are all controllable in the short term and have to do with the average, the gross margin range, the S&B range, the EBITDA range, and the bad debt. All of those are percentages, other than the average, and they're ranges. The qualitative are market share, longer term intermediate term, and people, and now we've got two groups focused on each set of those. It has made a huge difference, with people focusing on short term with the quantitative group and qualitative, leadership and development and the quality of the people a little more long term and intermediate. It made a huge difference in the performance of the company overnight, because it made sense to our people, and they responded to it. And that's going to continue. That's why I do think this is sustainable, the margin improvement, although I can't predict the degree by quarter.

L. WILLIAM HEILIGBRODT: Nick, this is Bill. Looking at cash flow, number one, our cash flow numbers were up slightly for the month, and I think they will continue to improve throughout the year, but our free cash flow in the first quarter was up 24 percent. We may be a hair bit conservative on our cash flow projections that we have in our outlook, but the reason — some of the reason for the difference, obviously, is the fact that the withdrawable trust income was projected slightly down this year and compared to last year where we had a huge amount of withdrawable income from our trust. So that's the only difference, but our cash flow remains exceedingly strong, and we've taken a fresh look at, you know, what is free cash flow, and so I'm pretty confident that you'll be happy with our cash flow numbers.

NICHOLAS JANSEN: That's perfect. And maybe just one last one. In terms of guidance for the next rolling four quarters. It doesn't — you know, going to your comments, it doesn't look like you've assumed that the — kind of the strength of the margin in the first quarter continues, so there could perhaps be upside if some of that — if some of that does weaken through the next four quarters. Is that correct?

L. WILLIAM HEILIGBRODT: We have opportunity for improvement.

NICHOLAS JANSEN: Fair enough. Thanks, guys.

L. WILLIAM HEILIGBRODT: You know, on this outlook, we're trying to present something that's realistic. Those are huge increases when you look at them, and hopefully we'll be looking at that on a quarterly basis as we move forward so that you'll be getting a fresh look all the time. So we're pretty excited.

NICHOLAS JANSEN: That's all for me. Thanks.

OPERATOR: And, once again, if you would like to ask a question, please press star, then 1 on your touchtone phone.

Our next question will come from Duncan Brown of Wells Fargo. Please go ahead.

DUNCAN BROWN: Hey, good morning. I just wanted to go back to the M&A pipeline. I think you said maybe you're looking at $30 million worth of opportunities now. Can you give us the timeframe on that? Is that something you guys think you could close on this year, or is that over the next maybe two to three years?

L. WILLIAM HEILIGBRODT: Oh, no, we're — no, we're looking at — we're looking at a — you know, if we could do every acquisition we have in-house today, it would be well in excess of $50 million, but, I mean, we have to make certain that we do meet our criteria on these acquisitions.

They’re the lifeblood of our funeral operation in terms of additions to our field EBITDA numbers. We’re looking for unusual situations that fit a model that I would be happy to discuss with any of you if you’d like to learn about it. I know some of you know what we’re doing, but what I said was I thought we could easily do $30 million this year. And we’re not going to have a budget for how many acquisitions we can do, nor will we make foolish — you know, give some kind of foolish data to you that says what we’re going to do, because it depends on the businesses, the opportunity, and our ability to close it.

In the last quarter, we did mention that the Conner Westbury acquisition in Georgia — we closed that transaction in 31 days. We’re concentrating not only on acquiring them, but we have to integrate them into our system and we — and we have to keep performance going. Otherwise you don't get 40 percent margins in your acquisition businesses. That’s hard to do when you’re bringing a new business online, and, again, as Mel pointed out, it attests to the people and the businesses that we did acquire, and that’s what we’re looking for, but we are looking for acquisitions, we’re — that’s part of our business plan and model, and we will — we’re actively soliciting, and we do have a lot of opportunities right now to make selections in that regard.

MELVIN PAYNE: What we find and I have to tell you, when Bill joined the company in September and went to work on revising and updating the strategic acquisition model, I had no idea that what he would come out of that with in a very short amount of time was the most advanced, statistically, ten years of data, demographics, a ranking system of 1 to 10, and the three deals that he put through that system, you know, all ranked very high, and what that means is that not only do they have a history of growth — organic growth of volumes, average, they dominate their market. There’s upside, and it’s very predictive of what will happen over the next five years, and the best part of all is these are owners who are primo, primo quality people in their communities, with reputations to match, and they’ve been running their businesses much like we have designed in the standards operating models. So when they look at this model, even though they didn't know about it specifically, they totally comprehend it and fall in love with it and say, “This is where we belong.” And so they are already operating like that, so there’s really no challenge with changes, and I think this model and Bill’s team now have been very selective, and though we have all this activity in here, it’s now easy to screen what really doesn’t work but what — there’s no guessing, so what that does is you’re known by the company you keep, and it attracts even more quality. Quality of like kind want to join quality of like kind, so we’re finding the word’s getting out in the industry, and we’re getting a lot of calls. Capital structurewise, I mean, we don’t have a spending budget. We could spend $100 million if we wanted to, but then we’d be just stupid again, so we’re not going to do that.

DUNCAN BROWN: Okay. Thanks. All that’s very helpful, and, I guess, following onto that, obviously, you know, the focus is finding the right acquisitions, but can you give us a flavor of where purchased multiples stand today?

MALE SPEAKER: When you — now, when you say purchased multiples —

DUNCAN BROWN: Like a multiple to EBITDA.

L. WILLIAM HEILIGBRODT: Oh, well, that’s just one criteria. We really don’t — we don’t buy on any kind of EBITDA multiple. We buy based on cash return on funds invested on a discounted cash flow model and an earnings per share contribution model, as well as criteria that relates to revenue growth, numbers of funerals, and control of expenses and quality of assets that we’re acquiring. So there’s a lot of criteria going in, but the financial model is the discounted cash flow model, not a price times EBITDA multiple. They all — they come out all kinds of numbers when it relates to EBITDA, so —

MELVIN PAYNE: Let me try to answer your question a different way. With what Bill and his team have created and are now soliciting in certain areas of the country — and they do focus, because what they're finding is the profile that fits this model is not everywhere in the country. There are places in the country where it's more concentrated. I don't want to go into where that is. That's proprietary, but whatever the price, let's say, that comes out of the model, and it is a valuation model as well, you could say there's an EBITDA multiple there, but that's not the important part. Whatever that multiple looks like today, in five years, it'll be a lot less with more certainty than what we used to do before. That's how you create value over time.

L. WILLIAM HEILIGBRODT: Right. We're looking — most of the acquisitions, we're getting our purchase price back in five years, and the businesses continue to get better every year that we own them, with the first year probably being the worst performance year, even though it is a very good performance year.

DUNCAN BROWN: So maybe the way we should think about it is a five-year cash-on-cash. Is that the right way to think about it?

L. WILLIAM HEILIGBRODT: That's close to it, right.

MELVIN PAYNE: Five to six years [inaudible].

DUNCAN BROWN: Okay, thank you.

MELVIN PAYNE: Bill said five. Take off the six. That was me.

DUNCAN BROWN: And then the last one —

L. WILLIAM HEILIGBRODT: We'd be happy to go over that with you if — with any of you that want to sit down with us and talk about it. We're — we'd be happy to show it to you.

MELVIN PAYNE: It's much better if you see it and apply — see him apply it to specific businesses, because then you will totally get it.

DUNCAN BROWN: Sure. That would be great. I'll take you up on that. And then the last one for me, I think you bought back some stock in the quarter. Can you remind us what your authority is from the board and then your outlook on share repurchases going forward for the rest of the year?

L. WILLIAM HEILIGBRODT: We're — we have — we have been buying our stock through the first quarter, and we have not rescinded any programs in that regard, so we're continuing to buy. You know, we bought slightly under 600,000 so far this year, probably somewhere below an average price of $6.50. We still have some room on our $5 million approved amount from our board. We'll be discussing that later in the year as we move forward, and that price and what we do there will obviously be dependent on what we think the value of our company is.

MELVIN PAYNE: We think our stock is cheap, but we're biased.

DUNCAN BROWN: All right. I appreciate the color.

OPERATOR: And that will conclude our question-and-answer session. I would like to turn the conference back over to Mr. Payne for any closing remarks.

MELVIN PAYNE: Well, Bill and I appreciate, as well as everybody in our company, the interest in what we're doing, and I would say our new beginning is off to a great start. It is only a beginning of the new beginning, and there's a lot more to come and a lot more celebration to occur, I can promise you that. Thank you for calling.

OPERATOR: Ladies and gentlemen, the conference has now concluded. We thank you for attending today's presentation. You may now disconnect your lines.