



Carriage Services 2012 – A NEW BEGINNING

No company in the history of our industry has created as innovative a framework for consolidating the deathcare industry by acquiring great local family businesses, and then supporting them effectively to make them even better. Our **Vision** over the next five years is to become home to the best remaining independents in the industry and a company where the best talent wants to spend a career.

Our **Vision** is dependent on your future operating and financial performance as we close out the 20th year since Carriage's founding on June 1, 1991. Only with you and our other Managing Partners performing at a very high level of Standards Achievement beginning on January 1, 2012, will Carriage move from a **Good to a Great** company. And only when we sustain a great performance over the next five years will Carriage become a company that was **BUILT TO LAST!**

We are embarking on a **Good To Great** journey that is rare in the business world and has never been done in the funeral and cemetery industry. I am personally committed to leading this journey with like-minded leaders and employees until we complete our **Mission of Being The Best**. It is critical to our future destiny that each of you commit to do the same. It will not be easy, as there will be continuous challenges and difficult decisions, but it will be possible if you harness all of your **4E Leadership Skills** and **Energize** your staff around this common **Being The Best Vision** for your business and for Carriage.

I leave you with this thought:

"Greatness is not a function of circumstance. Greatness, it turns out, is largely a matter of conscious choice." *Jim Collins, Author of Good to Great, 2001 and Co-Author of Built to Last, 1994.*

I choose **Greatness**.

Mel



We recently asked all of our employees and leaders for their ideas on a Carriage theme for 2013, the second full year of our five year **Good To Great** journey. Our company theme for 2013 is proudly and boldly:

Carriage Services 2013 – Raising the Standard – ALL IN!!

We congratulate Alex Crider, our Sales Manager from Conejo Mountain Memorial Park, Camarillo, California, for his winning theme, which he explained in his submission as follows, "Has multiple connotations; could mean at location level or anywhere within the company. Also is a great reference to our "Standards" and ties well with our company's trend of continued growth, i.e. to go from **Good To Great** you have to be committed to raising your current Standards". Outstandingly and simply put, join me in thanking Alex for his creativity and the inspiring theme for this year. It was Paul Elliott's idea to add "**ALL IN**" to Alex's theme, making it clear that each leader and employee with Carriage is important and responsible for pushing on our **Good To Great** flywheel.

Last year I challenged our entire organization by ending my letter with a quote from Jim Collins, author of **Good To Great**, which was:

"Greatness is not a function of circumstance. Greatness, it turns out, is largely a matter of conscious choice."

It is obvious from our record 2012 operating performance that you and our Carriage employees (**First Who, Then What**), made a conscious choice at the end of 2011 to join me and our senior management team on the journey of a lifetime to take our company from a **Good** company in 2012 to one that is recognized as **Great** by the end of 2016. As a public company, the "market" during 2012 began to vote in favor of Carriage being a winning investment in the future, as our stock price increased 112% from \$5.60 per share at year-end 2011 to \$11.87 per share at year-end 2012. Already in the first two weeks of 2013, our stock price has increased another 10.2% to \$13.08 per share at yesterday's close.

If you or your employees were participants in our Employee Stock Purchase Plan at year-end 2011, then you were able to purchase Carriage stock via payroll deduction all during 2012 at \$4.68 per share, which would have yielded a gain of \$7.19 per share, or 151.9% by year-end 2012. As our **Good To Great** journey continues during 2013 and thereafter, I encourage you and your hard working employees to participate in this stock ownership program. The public market is finally waking up to the fact that Carriage is the best kept secret in the deathcare industry, so I expect our company valuation to continue to rise as our performance increases and we continue our strategic growth by acquisition of only the best remaining independents in our industry.

A truly **Great** company will have a high and sustainable performance over many years, resulting in a very high valuation compared to sector peers. I believe that after 16 years as a public company, Carriage began a long term breakout from our sector during 2012, thanks to your performance. While we will pause briefly to celebrate and recognize many of you for your outstanding performance in 2012, the journey ahead is long and challenging, which is what makes it so special and meaningful to each of us individually and as a team. I am honored and personally humbled to be your leader.

So please join me as we make 2013 another huge leap toward Carriage becoming a **Great** company with the theme . . . **Carriage Services 2013 – Raising the Standard – ALL IN!!**

Mel



We previously announced on March 5, 2014 our **Good To Great Journey** annual theme for 2014:

Carriage Services 2014: Being The Best – One Team, One Vision!

When we first launched our five year **Good To Great Journey** in 2012 with **Carriage Services 2012 – A NEW BEGINNING!**, I said that the journey would be long and we would each be faced with continuous challenges and difficult decisions. That is a profoundly true statement today as we all gather in Houston for our Annual Managing Partners Meeting.

Although we continue to have many Managing Partner performance heroes within our portfolio of businesses, our field funeral and cemetery operating and financial performance in total has trended down beginning in the second half of 2013 and continuing through the first four months of 2014 into May. While some of this recent relatively weaker performance can be attributed to lower death rates and therefore weaker funeral contract and cemetery interment volumes, over which we have little short term control, much of the weaker performance is a direct result of less revenue flowing through our portfolio of businesses because of declining funeral cremation revenue averages and weak preneed property sales in too many of our larger cemeteries. We will therefore focus heavily during the Managing Partners Meeting on rising to the challenge of higher revenue in these two areas for the balance of 2014 and thereafter.

Our Annual Report cover for 2013 was themed **Good To Great** and is dedicated to the many high performance heroes in our portfolio of funeral and cemetery businesses across the country. It is now time to take our **Good To Great Journey** to a higher level of sustainable operating and financial performance through strong 4E Leadership applied to every position in our company, especially our funeral arrangers and sales counselors. The high performance concept of **FIRST WHO, THEN WHAT** means making difficult and necessary decisions about our people either being the **Right Who** or the **Wrong Who** if we are to adequately address the difficult revenue challenges we face. Only by facing the “brutal facts” will we live up to the bold statement about the bright future for our company and the importance of our dedication to a **Being The Best Vision**.

As always, I leave you with this thought:

“Greatness is not a function of circumstance. Greatness, it turns out, is largely a matter of conscious choice.”¹

Once again, I choose Greatness - - - because I want to be on the **Good To Great Journey** with you!!

Mel

¹ Jim Collins, Author of Good to Great, 2001 and Co-Author of Built to Last, 1994.



Carriage Services 2015: High Performance through Passion and Partnership!

Over the last twelve years it became increasingly evident that 4E Leadership characteristics in a Managing Partner were required to then achieve Right Quality of Staff and Continuous Upgrading of Staff. We began to think of each business as a **Good To Great** Bus within the framework of Carriage as a **Good To Great** Consolidation and Operational Support Company Bus. Over time we had to get the Right People on each bus, the Wrong People off each bus, and the Right People in the Right Seats on each bus BEFORE we could determine whether each bus and Carriage as a company could be driven somewhere Great through High and Sustainable Performance as defined by our **Being The Best** Funeral Standards. We now use the short version of this **Good To Great** concept with the phrase "**First Who, Then What**". Again, these high performance ideas and concepts align perfectly with all five of our Guiding Principles.

If Carriage is to successfully meet the challenge of high and sustainable funeral revenue and profit performance through high and sustainable Being The Best Funeral Standards Achievement, it will be because we and you focus relentlessly and effectively on improving the quality and skills of our funeral arrangers over time. We now serve 14,860 cremation families compared to 14,068 burial families and the ARPC difference is \$5,355 (\$8,493 burial versus \$3,138 cremation), meaning the "trend is not our friend" and we are becoming more "commoditized" like the industry at large, which is not consistent with our view of funeral service as a "high value personal service business" or with our Five Guiding Principles. The only way to close the \$5,355 gap is through higher quality people with the right attitudes and skills driven by 4E Leader Managing Partners supported by 4E Leader Directors of Support and 4E Leader Houston Support Teams.

Since 75% of our revenue derives from funeral operations, how we deal with the cremation revenue and service challenge and trend is likely to be our greatest opportunity to define the **Carriage Good To Great** status and recognition. And because revenue growth from existing operations is critical so as not to rely only upon new acquisitions, how each 4E Leader Managing Partner and 4E Team of High Performance Employees meet this cremation revenue and service challenge will hugely impact the future Carriage valuation and become a wonderful opportunity for achieving our goal of being a **Built To Last** Carriage.

When we launched the Five Year Carriage **Good To Great Journey** at the end of 2011 starting with the annual theme of **Carriage Services 2012: A NEW BEGINNING!**, I stated that we were embarking on a journey so rare in any business or industry that we each would look back at some point and find amazing joy and meaning individually and as teams in achieving what we could not have dreamed was possible. However, as the cremation revenue challenge and cemetery burial trends make clear, we never said it would be anything but challenging and difficult. If this were easy, then anyone could do it and the journey of learning, continuous improvement and collaboration with others that are like-minded toward **Being The Best** would have no meaning at all.

I have total confidence in each of you, as we have never had our company so populated with 4E Leaders and employees committed to our **Vision of Being The Best** on a **Carriage Good To Great Journey**. This past year had many milestone achievements, but none greater than coming together throughout all field operations and support Houston departments as **Carriage Services 2014: One Team, One Vision!**

I personally believe that 2015, the fourth year in our defined five year **Good To Great Journey**, will be a critical year for this journey to be “Sustained High Performance” and produce an increasing and sustainable high valuation **Built To Last** Carriage. So we are establishing a **Being The Best Funeral Standards Achievement Goal** of 70% and a Cemetery **Being The Best Standards Achievement Goal** of 70%, both goals that I believe are absolutely possible through 4E Leadership at all levels. The theme for 2015 was suggested by Anjana Jackson of our Houston Accounting and Tax Team. Anjana, thank you on behalf of all of our leaders and employees for the awesome theme:

Carriage Services 2015: High Performance through Passion and Partnership!

As always, I leave you with this thought:

“Greatness is not a function of circumstance. Greatness, it turns out, is largely a matter of conscious choice.”⁽¹⁾

And as always, **I CHOOSE GREATNESS** because I want to be on the **Carriage Good To Great Journey** with you!

Mel

⁽¹⁾Quote from Jim Collins, Author of **Good To Great**, 2001 and Co-Author of **Built To Last**, 1994.



Carriage Services 2016 – We Choose To Be Great

When we launched the **Carriage Good To Great Journey** over four years ago at the end of 2011, the second and third paragraph in my letter to you dated November 29, 2011 stated:

“Our Vision is dependent on your future operating and financial performance as we close out the 20th year since Carriage’s founding on June 1, 1991. Only with you and our other Managing Partners performing at a very high level of Standards Achievement beginning on January 1, 2012, will Carriage move from a **Good To Great** company. And only when we sustain a great performance over the next five years will Carriage become a company that was **Built To Last!**

We are embarking on a **Good To Great Journey** that is rare in the business world and has never been done in the funeral and cemetery industry. I am personally committed to leading this journey with like-minded leaders and employees until we complete our **Mission of Being The Best**. It is critical to our future destiny that each of you commit to do the same. It will not be easy, as there will be continuous challenges and difficult decisions, but it will be possible if you harness all of your **4E Leadership** skills and **Energize** your staff around this common **Being The Best Vision** for your business and for Carriage.”

Attached is our fourth quarter and full year 2015 earnings release which was issued publicly this afternoon. By rising to the challenge four years ago for high and sustainable operating and financial performance across our portfolio of businesses, you have made writing about and discussing our company a joy and honor for me and the other members of our Operations and Strategic Growth Leadership Team. Please listen to our conference call tomorrow morning or later by recorded replay, as we will celebrate and recognize many of you by name as High Performance Heroes in 2015.

I ended the **Carriage Services 2012 – A NEW BEGINNING** theme letter by leaving you with this thought, and have ended each of our theme letters for 2013, 2014 and 2015 with the same thought:

“Greatness is not a function of circumstance. Greatness, it turns out, is largely a matter of conscious choice”. Jim Collins, Author of ***Good To Great***, 2001 and Co-Author of ***Built to Last***, 1994.

As you also know by now, I consciously chose **Greatness** at the beginning of the **Carriage Good To Great Journey** and try to lead by example every single day by learning from my mistakes and trying to get better at defining and leading our **Mission of Being The Best**, executing our **Ten Year Vision** of affiliating with the best remaining independent businesses in the best markets, and becoming a high performance culture leadership and people development company where the most highly motivated, skilled and entrepreneurial leaders and employees in our industry want to spend their career. Consistent with these **Being The Best** ideas about our company, I am proud and most honored to announce our theme for this year, the fifth year in the first five year timeframe of the **Carriage Good To Great Journey** that never ends:

Carriage Services 2016: We Choose To Be Great!

This simple yet wonderful theme was a combination of the themes submitted by Jeff Hardwick, Managing Partner at Bryan and Hardwick Funeral Home, Zanesville, Ohio, and Jake Johnson, financial analyst on our OAAPG support team in Houston. Thank you both on behalf of all of Carriage's leaders and employees, as this theme is consistent with the idea that the **Good To Great Journey** never ends because we never quit trying **To Be GREAT** by getting better and better over time through continuous upgrading of our leadership and people.

I always dreamed about Carriage becoming a company that was so different in a wonderful way with its approach to funeral and cemetery business operations and consolidation that over time our publicly reported results would make it seem as if we were in a different (and much better) industry compared to other public companies in our industry. But I always knew that realization of such a dream would be directly and profoundly related to the motivation, skills and cultural alignment of our leaders and employees to our **Five Guiding Principles**. CONGRATULATIONS! Through the hard and noble work of you and your employees, we actually turned this dream into a reality over the last four years, as I made clear in our press release.

So how do we continue our **Good To Great Journey** after achieving such never before achieved industry milestones? The answer to this question is easy, but doing it and sustaining it will be the most challenging and difficult task that a **Being The Best /4E Leader** must confront: **FIRST WHO RIGHT SEAT, THEN WHAT!**

The successful evolution of our Standards Operating Model for both funeral and cemetery operations since 2003 has been because we kept the focus (sometimes more, sometimes less) on continuous improvement and calibration of our leadership and people standards at all levels of the company, which produced the amazing financial performance of this past year. These not so mysterious high performance culture elements are:

4E LEADERSHIP;
CONTINUOUS UPGRADING OF STAFF; AND
RIGHT QUALILTY OF STAFF.



FIRST THE RIGHT WHO IN THE RIGHT SEAT;
THEN ACHIEVEMENT OF GOAL OF OPERATIONS BY HIGH AND
SUSTAINABLE STANDARDS ACHIEVMENT; AND
THEN **BEING THE BEST/GOOD TO GREAT** RECOGNITION AND
REWARDS.



CARRIAGE CONTINUES GOOD TO GREAT JOURNEY; AND
CARRIAGE BECOMES A BUILT TO LAST COMPANY.

The other major part of my Carriage dream is that by taking a never ending **Good To Great Journey** and becoming over time a highly valued **Built To Last Company**, each of you and your employees and our Houston support teams and employees would find special personal meaning and joy as well as generous financial rewards over time in your work through the challenges and successes of **Being The Best** by always striving to become better with other like-minded people on the Carriage team bus.

At seventy-three years of age, I count my blessings for my good health, which I work hard to maintain because I derive so much energy and passion and have so much fun from observing and recognizing the wonderful and noble work that our leadership and employee teams achieve on a daily basis – year after year after year. You are each and every one indeed the best!

“Carriage Services 2016: We Choose To Be Great!”

Mel



I am pleased to announce this year's theme:

Carriage Services 2017: Owing the Future, Accelerating the Good To Great Journey

When we launched the **Carriage Good To Great Journey** with the first year theme of **Carriage Services 2012—A New Beginning**, the second paragraph of my yearly theme letter stated,

“Our **Vision** is dependent on your future operating and financial performance as we close out the 20th year since Carriage’s founding on June 1, 1991. Only with you and our other Managing Partners performing at a very high level of Standards Achievement beginning on January 1, 2012, will Carriage move from a **Good To Great** company. And only when we sustain a great performance over the next five years will Carriage become a Company that was **Built To Last.**”

We have had a phenomenally impressive five year performance on our initial phase of our **Good To Great** Journey with total revenue compounding at 6.4% annually, Adjusted Consolidated EBITDA at 8.7% annually, Adjusted Diluted EPS at 20.3% annually and our CSV share price at 38.6% annually before adding our dividend. And with dividends included, total equity market value growth and total shareholder returns over time has been 417% over the last five years ending December 31, 2016.

Most of the value creation over the last five years occurred in our field operations because of outstanding execution of our three core models—Standards Operating Model, Strategic Acquisition Model, and 4E Leadership Model. The impressive value creation dynamic in our field operations since 2011 is a function of the leadership and qualitative people elements of Carriage’s High Performance Culture driving high and trending higher over time quantitative results.

There have been many wonderful performances over the last five years by High Performance Hero Funeral and Cemetery Managing Partners and Sales Managers and their teams of winning employees. It is now time to take our **Good To Great Journey** that never ends to a higher level of sustainable operating and financial performance through strong 4E Leadership applied to every position in our company.

In **Carriage Services 2015: High Performance through Passion and Partnership** annual theme letter I noted that,

“...how we deal with cremation revenue and service challenge and trend is likely to be our greatest opportunity to define the Carriage **Good To Great** status and recognition. And because revenue growth from existing operations is critical so as to not rely only upon new acquisitions, how each 4E Leader Managing Partner and 4E Team of High Performance Employees meet this cremation revenue and service challenge will hugely impact the future Carriage valuation...”

The funeral and cemetery industry is challenged by the trends of more families choosing cremation. Over the last several years I have had occasion to participate in a number of industry conferences, meet with first class, progressive and high reputation independent funeral home and cemetery owners, and various senior leaders from industry vendors. When it comes to confronting the challenges of creating more value with cremation families, I will tell you unequivocally that the industry as a whole is out of fresh and effective ideas. I have learned that almost all of the hashed over ideas relate to working on some aspect of the cremation family **WHAT** experience without confronting the mindset and skills of the **Who** funeral arranger.

The consequences of the industry not understanding the long term secular trends of more families choosing cremation has directly led to the commoditization of the funeral and cemetery service experience—with more families deciding to avoid one or both. Faced with declining service and merchandise revenues and absent ideas on how to best build “experience value” with cremation families, much of the industry and its individual business owners have resorted to decreasing the number of highly skilled service providers (**Who’s**) in order to minimize the declining trends in profitability of their businesses.

But not at Carriage.

We believe in 4E Leadership in every seat on the bus.

Our view of funeral service as a “high value personal service business” applies directly to families choosing cremation and requires a disciplined application of our **First Guiding Principle**,

Honesty, Integrity, and Quality in all that we do.

The answer to serving families choosing cremation resides in our individual and collective mindset embracing that these are really opportunities to rigorously practice “**Quality in all that we do.**” Creating more value, with each family, every time requires facing the “brutal facts” of differentiated 4E High Performance in every seat on the bus and with every family. The **Good To Great** concept of **First Who, Then What** means making difficult and necessary decisions about people and continuously evolving the High Performance expectations of “**Quality in all that we do.**”

This is not easy.

It requires each and every one of us to put our 4E Leadership to the test and to ultimately choose to **Energize** cremation families to receive more “experience value” every time—funeral or cemetery. Our individual decision to create more valuable experiences has led and will continue to lead to more funeral services, more cemetery preneed property sales, more market share for our funeral homes and cemeteries, and more profits to share with each 4E Team of High Performance Employees.

The easy part of the **Good To Great Journey** that never ends is behind us. To move from **Good To Great** to **Built To Last** will take commitment and execution of our three core High Performance models (Standards Operating Model, 4E Leadership Model, and Strategic Acquisition Model) consistently together at a higher level of performance.

As always, I leave you with this thought:

“Greatness is not a function of circumstance. Greatness, it turns out, is largely a matter of conscious choice,”

Once again, I choose **Greatness**—because I want to be on the journey from **Good To Great** to **Built To Last** with you!!

Mel