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PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to the Carriage Services Year End 2019 Earnings Webcast. (Operator Instructions) As a reminder, this conference call is being recorded. I would now like to turn the conference over to your host, Viki Blinderman, Senior Vice President and Chief Accounting Officer. Thank you. Please go ahead.

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

Thank you, and good morning, everyone. Today, we'll be discussing the company's year-end results for 2019. Our related earnings release was made public yesterday after the market closed. Carriage Services has posted a 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 25. Display information for the call can be found in the press release distributed yesterday. On the call today from management are Mel Payne, Chairman and Chief Executive Officer; Bill Goetz, President and Chief Operating Officer; and Ben Brink, Chief Financial Officer. Today's call will begin with formal remarks from management followed by a question-and-answer period. Please note that during the call, we will make forward-looking statements in accordance with the safe harbor provision of the Private Securities Litigation Reform Act of 1995. All statements other than statements of historical information should be deemed to be forward-looking statements. These statements include, but are not limited to, statements regarding recently closed acquisitions; the anticipated cost savings, operational improvements and other benefits related to the acquisitions and the effect of such acquisitions on the company's financial performance; our milestone 3-year scenario; any projections of earnings, revenues, asset sales, cash flow, debt levels or other financial items; any statements of plans, strategies and objectives of management for future operations, acquisition and divestiture activities and financing activities; any statements regarding future economic and market conditions or performance; any statements of belief and any statements of assumptions underlying any of the foregoing.
Forward-looking statements contained herein regarding the performance of our same-store and acquisition businesses include assumptions related to future revenue growth. We can provide no assurances that our same-store and acquisition businesses will generate the revenue growth discussed today or any revenue growth at all. I'd like to call your attention to the risks associated with these statements, which are more fully described in the company's report filed on Form 10-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. We expressly disclaim 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.

Furthermore, during the course of the morning's call, we will reference certain non-GAAP financial performance measures. Management's opinion regarding the usefulness of such measures, together with the reconciliation of such measures to the most directly comparable GAAP measures for historical periods, are included in the press release and the company's filings with the SEC.

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

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

Thank you, Viki. Over the last 5 years, and especially over the 2017, 2018 period, after I had promoted members of the senior leadership team into executive positions and we suffered a performance decline in our portfolio, it became very obvious that we did not have, within the company, the executive leadership that we needed for the future. So I retained a boutique executive recruiting firm. I honestly did not think I would be able to find someone because my qualifications were extremely high, and they had to go through an incredible vetting process, both at the board level and the senior leadership within the company and at the field level. But we got lucky. And in December, we made a bold strategic move, I think, that will serve this company well for years to come. And at this time, I'd like for Bill Goetz to report to you, how he has settled in, in Carriage and what he's found compared to what he perceived. Bill?

William W. Goetz ***Carriage Services, Inc. - President, COO & Director***

Great. Thank you, Mel, and good morning, everybody. First of all, I appreciate your interest in Carriage. And what I thought I would do this morning, as Mel just mentioned, is talk a little bit about what I've seen over the last 75 days. Of course, I have a lot to learn, spending a lot of time in the business, but that would be the first thing. Just give you an overview of what I've seen over the last 75 days and also talk a little bit about, as a leadership team, some of the strategic opportunities that we've identified and talk about how we're going to go after those opportunities.

So going back to December, I was on the call on December 3 after I joined on December 2, and I shared 3 reasons why Carriage was so attractive to me. I just want to kind of give you my assessment after being in the business for the last 75 days. First of all, the main reason to join Carriage was really this great culture, great people, great leaders. And over the last 75 days, I have visited more of our businesses.

In fact, last week, I was out in California at two of our great businesses, one being Conejo Mountain, the other one being Heritage-Dilday in Huntington Beach. And again, I walked away just impressed with the businesses that we have, impressed with the people that are leading those businesses and everyone just involved in servicing those families in those communities.

I also had the privilege to attend a Standards Council Meeting, and that was, again, just very eye-opening to see the talent in the room, and not only the talent, but the commitment of that team and all of our leaders to continue to make an impact on our communities, families and, of course, shareholder value.

And then over those 75 days, I've also spent time with our Houston support team. We've got great people here in Houston that are providing support to our businesses across the U.S. And I think this model that we have, which is kind of the upside down triangle, where we realized that it's all about our people out in the field, it's all about us helping them serve families, is real and making a difference every day.

The second reason that I was attracted to Carriage that I mentioned on the December call was meaningful work. And at this point in my career, I was looking for something more meaningful. And for those of you that know the industry, you know what our businesses do each and every day, to help families at the toughest times is just inspiring. And that meaningful work purpose, as I've visited our businesses, it's really stood out.

And then the third reason that I discussed on the December call was really about the opportunity. And at that point, I had a chance to look at some of the macro data on the industry, starting to get a feel for Carriage. But I was excited about that opportunity. After 75 days, I would tell you, I'm even more excited. I think there is a huge opportunity to grow our business. Grow it in existing markets where we operate today through our decentralized model, but also very excited about what the team has done to bring new businesses into the fold over the last 60 days. We have acquired some absolutely great businesses. We've got to spend some time now integrating those businesses. But those are businesses that are really going to catapult us to even greater results over the next 5 years.

The other thing that I've learned over the last 75 days is the decentralized model that Mel has created, that really gives the autonomy to our local managing partners, is the right model. It's the right way to run the business. It's the right way for us to support families, but it's also the right way to maximize shareholder value. And then finally, from an opportunity standpoint of what I've learned over the last 75 days, this decentralized model where we give our managing partners the opportunities to make a difference in those communities, has allowed us to attract, retain and develop A Players. And I see that every day as we look at recruiting. People want to join this organization, and one of the big reasons they want to join is obviously the culture, but also the autonomy they'd get to run their own business. So that's my assessment over the last 75 days.

Second thing I wanted to talk about is share with you a few key areas that we've identified as a team that we believe that will be crucial to really drive our Good To Great Journey part 2. And to attack these opportunities, we are forming 4 high-performance, transformative teams. And we do believe these areas will be transformative to our business over the next 5 years. Again, we're at a starting point here, and I want to share those 4 areas with you.

The first area is how we define service and guest experience. So we put a team together, again, a cross-functional team, that will be working on establishing and measuring the key metrics, so we have a better understanding of the service that we're providing to family and the guest experience in each business. The other thing that we're going to do is make sure we're capturing the best practices at our businesses and then sharing them across the country. Because today, we have businesses that are doing an absolutely great job with the service and guest experience, and we just want to make sure we capture those and share those.

The second key strategic area is around technology. So we formed a transformative team that will focus on technology innovation. And in technology, we're going to really look at 2 areas: first, how we use technology internally to make us more efficient, more effective, to better serve families. Then secondly, we're going to be looking at technology that is consumer-facing. That's everything from what we're doing from a digital marketing standpoint, social media, e-commerce, mobile apps and analytics. Excited about this. There's great things going on right now at a local level, but we believe that the technology piece is a big part of our story moving forward.

The third strategic area that we're focused on is cremation conversion. I think everybody that knows our business and follows this industry knows that cremation continues to be an increasing trend. We look at cremation as a great opportunity. And what we're focused on is to develop the tools and training to improve our cremation with service. Right now, obviously, families make a decision to have their loved one cremated. We want to make sure that we have the tools and training to share with them ideas of how they can honor, memorialize that loved one. And so that will be a big focus. We've got a great leader in Chris Manceaux, who's going to lead that team, and we feel this is an area that we can move on pretty quickly to get better.

Again, learn from what's going on in the field today, there's a lot of great work in that area, and improve our business overall from the standpoint of cremation conversion.

And then finally, and this was in the press release, we believe there's a big opportunity on the Cemetery sales side. As you know, we recently made some big acquisitions on that side of our business. As we mentioned in the press release, we're looking for a senior leader in that area that -- who could come in and bring their experience. But also, we're starting that work immediately. I'm going to be on the West Coast in a couple of weeks with some of our key businesses out there, better understanding what they're doing, capturing those best practices and thinking about how we develop the right sales process, the right sales management process, how we put a CRM in place to drive that process, and how we incorporate an aftercare strategy to make that complete cycle to drive our Cemetery sales. So that's where we are. Again, as I mentioned at the top of my remarks, I'm more excited than ever. I feel privileged to be a part of the Carriage team and work with the associates here. And looking forward to learning more about the business and helping the team move forward on these areas.

So with that, I will send it back to Mel.

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

Thank you, Bill. Bill get to enjoy and participate in his first Carriage Board Meeting yesterday. And I got a lot of feedback, Bill, after the board meeting, from the board members, but I guess the most insightful feedback was from a young money manager that returned over $20 million. Young guy, he's got brilliant ideas. He's done really well. And one of the things he wanted to do was to become a Board observer in Carriage to improve his knowledge of how value is created, then we went into a turnaround mode and talked all about that.

So he called me on my way home last night, Bill, and he said, Mel, I've got some Board observer feedback. And it's kind of an epiphany. He said, sitting there in the room, and I've been sitting there now for almost 2 years, I noticed from your senior leadership team, executive team, and there are 10 of us, including Bill and I, all in the room, and the 6 Board members that, Bill, through his executive presence, through his articulation of different themes, whatever the subject might be, has raised the game for the entire Board meeting and each one of the players.

He said, "I have this insight, and I couldn't wait to share it with you. " So I'm going, "Wow, thank you, [Jay], then let's just -- I'm going to take that and change the sequence of our presentation on the call tomorrow. " So thank you, Bill. We're already making a difference. You've raised the game. You've raised the ante, and I think the people in the field are excited about your leadership. I know I am. And we look forward to many, many, many high-performance victories in the future.

Before I turn the call over to Ben to put some meat on the bone of the next 3 years and this past year, I just wanted to say that there's been a lot of hard work since I got back in operations in September of '18 and then took control on October 31 of '18. I got a lot of wonderful responses last year. We had a lot of high-performance winners. All of them are listed in this year-end earnings release, these high-performance heroes. We had too many that didn't respond, we're going to divest quite a few of those, clean this up. But we made bold moves toward the end of last year, bolder than we've ever done before. And if I look back over the -- of 29 years since co-founding Carriage on June 1, '91, I didn't know what I was doing, I had to learn it. Almost went broke in 2000, after the mania and over leverage. Stock went to $1 again in '09, and we bought in a bunch of it for $3. And in this time, when the performance declined, it already went down to [$14.50], so I think that's progress. I was kind of hoping it would go back to $1 because we were ready.

We got a great bunch of people, and we got a great bunch of assets. We added some wonderful assets. And if there's one regret that I have over the last 29 years has been different times when I've had the opportunity to go big and take a big bite, mostly when SCI bought another consolidator like Alderwoods in '06 or Stewart in '14, we had the opportunity to go big. It would have stretched the company. I decided not to do that in both of those situations and in a number of others that were not public. And if there's one regret -- I didn't regret not doing it in all those cases because I don't think we were ready. But if there is one regret is that I didn't recognize the long-term earning power of some of these big businesses in wonderful markets, like the ones we've bought at the end of last year. It will take us some time to integrate. There's a lot there. It is stretching us, but everybody here is excited about it. The Board meeting yesterday was -- I mean, nothing but let's go. And what we tried to do here is lay out a realistic 3-year roughly right scenario. I learned a long time ago when studying Warren Buffet that if you kind of focus on the short-term in the scoreboard, you're going to be a loser. And so this time, we went big, we went bold and we went long term. This is going to transform our company and those who believe and want to do the hard work and study and get out of the covers, I think you'll turn into a believer as well. And those who don't, we accept that. That's the nature of a public company market. So with that, I want to turn it over to Ben.

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

Thank you, Mel. Thank you, Bill. Our results for Carriage Services 2019: Back To The Future -- A NEW BEGINNING -- PART II demonstrated an incredible amount of progress in just 1 year, as we return to organic revenue growth in our Funeral Home businesses, had a record performance year in our Cemetery segment, significantly improved consolidated EBITDA margins and produced a record adjusted consolidated EBITDA for the year. While our operating performance in the fourth quarter was short of our expectations, the strategic moves we made in the fourth quarter to complete 4 large acquisitions in large strategic markets, along with the addition of Bill as President and COO, has positioned Carriage like no other time in our history for performance and value creation success over the next 5 years.

And now for our results. For the full year, total revenue increased 4.2% to $27. -- $273.3 million. Total field EBITDA increased $7.4 million to $110.3 million. Total field EBITDA margin increased 120 basis points to 40.4%. Consolidated EBITDA increased $8.2 million or 12% to $76.5 million, and adjusted consolidated EBITDA margin increased 200 basis points to 28%. Again, recapturing what we had lost in that 2017, 2018 time frame, a portion of it.

And then diluted earnings per share increased $0.27 to -- or 29% to $1.20. For the fourth quarter, total revenue increased 7.3% to $71.1 million, consolidated EBITDA increased 17.7% to $19.2 million, and our margins increased in the fourth quarter, 240 basis points to 27%. Adjusted diluted EPS for the quarter was $0.29, an increase of 26.1% year-over-year.

In our same-store Funeral Home segment, full year revenue increased 0.2% to $167.2 million on strong growth in the number of families we serve at 2.3%. This small increase in revenue was leveraged into a slightly greater increase in same-store funeral field EBITDA to $63.9 million, a 1.3% increase versus 2018, and field EBITDA margins improvement of 40 basis points to 38.2%.

The fourth quarter also showed continued momentum in the number of families we've served, a growth of 5.3% year-over-year and a good indication of future market share growth. This growth in same-store funeral home volume in the quarter led to a 1.8% growth in same-store Funeral Home revenue, which was leveraged into a 5.5% increase in same-store Funeral field EBITDA and 130 basis point increase in field EBITDA margin. Acquisition funeral field EBITDA margin declined 180 basis points in the fourth quarter, entirely related to the acquisition and the beginning phases of integration of the 2 larger funeral home businesses we acquired in October. While for the full year, acquisition funeral field EBITDA margin increased 160 basis points to 37.9%.

The year-over-year increase demonstrates the margin improvement and full integration of businesses we acquired in 2018, and we would expect the same type of improvement for the most recent acquisitions in their first full year of operating within our Standards Operating Model.

It was encouraging to see year-over-year growth in our same-store Funeral Home revenue, get our greatest opportunities to translate the larger year-over-year increase in contract volume and to higher revenue growth more consistently across our entire portfolio. As Bill stated in his remarks, our focus is improving on the number of families choosing to memorialize their loved ones with us and increasing the average revenue per cremation contract through our dedication to this high-value personal service business. In recent weeks, our operational leadership team, along with our Standards Council, spent 2 focus days here in Houston to review our 2019 results by business, as well as debate and agree on updated standards with an added focus on cremation averages.

The Standards Council, made up of our -- 10 of our top-performing long time managing partners, has also agreed to each work with 2 businesses over the very near-term to provide additional insight for improved performance immediately. We thank all of them for their years of dedicated service to Carriage and for their expanded role here in 2020. The performance of our Cemetery business for the year was simply fantastic, and we finished with a strong momentum in the fourth quarter.

For the year, same-store cemetery revenue increased 9.6% to $49.5 million, same-store cemetery field EBITDA increased 22.9% to $17 million, and cemetery field EBITDA margin increased 370 basis points to 34.5%.

As we said a few times this year, we believe the performance of our cemeteries can only continue to improve and we've laid important foundations regarding people and inventory development over the past 18 months. With the 3 new large cemeteries, we have the necessary size, scale and long-term growth opportunities to invest in building a world-class cemetery sales organization, including at the operational leadership level. We look forward -- we look forward to presenting the progress of our cemetery portfolio throughout the year. Our trend report -- or year-end trend report also includes a new other revenue and EBITDA reporting categories. These include the pet memorial cremation and 8 cremation.com businesses that were acquired as part of the acquisition of Rest Haven Funeral Home in Rockwall, Texas. We have broken out these results of these businesses since they are unique within Carriage. We have been impressed with these businesses since they partnered -- since we have partnered with Rest Haven and look forward to their continued development with our partnership.

During the fourth quarter, we completed 3 acquisitions, Lombardo Funeral Homes in Buffalo, New York; Rest Haven Funeral Home and Memorial Park in Rockwall, Texas; and Fairfax Memorial Park and Funeral Home in Fairfax, Virginia, which represented the single largest acquisition in the 28 years history of Carriage. Shortly after the first of the year, we also closed on the acquisition of Oakmont Memorial Park & Mortuary in Lafayette, California. We would like to take this opportunity to once again welcome all the team members of each of these businesses to the Carriage family, and thank them for welcoming us with open arms. While they are all at various levels of their individual integrations, in a short period of time, we have developed definitive plans for their integrations over the course of the next year. What has been consistent is that all of us here at Carriage are even more confident in the capital allocation decisions that we have made and are even more excited for the future of these businesses in highly strategic markets for Carriage.

In all, we expect these 4 businesses to generate an annual run rate of $17 million in field EBITDA, once fully integrated in 2020, and grow from there. All these businesses will provide Carriage multiple years of accretive organic growth opportunities, allow us to have a higher and more consistent field EBITDA margin and improve our adjusted consolidated EBITDA margin by allowing us to better leverage our overhead and support platforms. We are intensely focused on integration of these businesses and using our growing free cash flow to pay down debt and achieve a lower leverage profile over the next 12 to 18 months.

It would not surprise us to be presented with opportunities for further high-quality acquisitions within that time frame, and we will continue to evaluate those opportunities as they come. What investors should take away is that while we may not see this level of acquisition activity always, we do believe these businesses are indicative of Carriage's long-term opportunity to partner with the best remaining independent businesses in what remains a highly fragmented funeral and cemetery industry.

We believe strongly that when quality independent operators have the chance to look under the proverbial Carriage covers, they will find a company with a strong and well-defined corporate culture that has been built and tested over the course of 29 years. You will find a company that is dedicated to the belief and the value of funeral and cemetery service, and that the best days of our profession is ahead of it. They will find a company full of high-performance local leaders who generally care about the communities and families they serve, all led by a leadership team who has been committed to Carriage since day one. Our goal is to ensure the acquisition and integration of these 4 fantastic businesses only validates who we are as an organization. I would also be remiss not to mention the work of our operational leadership and Houston support teams over the last 4, 5 months. The work we've done to have due diligence and the -- start the integration process of new businesses has been truly phenomenal, and I am particularly proud of all the work that's been done around here during that time.

Okay. In order to finance the total of $172 million of acquisition activity in the fourth quarter, we issued an additional $75 million to our 6.625% senior notes, due 2026 at a price of $104, to yield 5.5%, bringing the total of these notes outstanding to $400 million.

Additionally, we amended our credit facility to increase our capacity to $190 million and to allow for a higher leverage profile over the next year.

Specifically, the amendment increases our maximum leverage ratio to 6x at the end of 2019, stepping down to 5.75x in the first quarter and back down to 5.5x at the end of the year. We ended 2019 with a pro forma leverage ratio of 5.6x and expect our leverage ratio to fall to about 5.1x by year-end. Over the long term, we expect the free cash flow generation ability of Carriage to provide us opportunities to allocate capital in the best interest of all of our stakeholders, including the ability to rapidly delever when necessary.

We'd like to thank again our bondholders and banking group for their support in regards to these transactions.

As we highlighted in our earnings release, our improved credit profile over the next 18 months will give us another opportunity to lower our cost of capital in June of 2021, when we are able to call our bond unsecured notes at $105. Given current interest rates and the trading of our bonds, we would expect the refinancing to lower interest cost by approximately $7 million and be accretive to diluted EPS by a minimum of $0.28. This is a very real value creation opportunity we have within our control over the near term.

Adjusted free cash flow for 2019 was $37.4 million down approximately $5 million from 2018, due primarily to the increase in interest expense from our senior notes that we issued back in 2018. We will return to free cash flow growth in 2020 with $42 million to $45 million and produce a record free cash flow in 2021.

We have made the strategic decision to divest or merge 12 to 15 funeral home businesses throughout 2020 and currently have 3 under letter of intent. These businesses earned $5 million in revenue and $1 million in field EBITDA in 2019. The effect of these divestitures is included in the updated scenario in our press release and are included in the divested revenue and EBITDA lines of the trend report, also included in the press release.

We spent $15.4 million on capital expenditures in 2019 and expect to spend between $16 million and $18 million in CapEx in 2020 with $10 million of that being allocated towards maintenance.

Our growth CapEx will predominantly be spent on high-quality differentiated cemetery inventory and remodels of existing funeral home businesses and growing markets. We are excited about the opportunities to invest growth capital with expected rates of return in excess of our cost of capital across our entire portfolio, and greatly expand in those opportunities with our recent acquisitions. We also remain committed to investing in our businesses through consistent amounts of annual maintenance CapEx. Our preneed discretionary trust loan portfolio had a return of 25.9% compared to 35.9 -- 31.5% return for the S&P 500, and 19.5% return for our long-term 70% high yield bond, 30% S&P equity benchmark.

This compares favorably to our 11-year long-term compound annual return of 13.5% since carriers began to manage these assets internally back in 2008. This long-term track record of performance has and will continue to accrue to the benefit of the value of the underlying funeral and cemetery preneed contracts, as well as increased income generated through our cemetery perpetual care accounts.

Additionally, we recently completed the assumption of $27 million in new trust assets we acquired with the recent acquisitions. The addition of these trust assets will be immediately accretive to our financial revenue and EBITDA, particularly in earnings from cemetery perpetual care accounts. In our press release, we introduced a 3-year roughly right scenario based on our expectation for future performance over the 3 distinct time periods, the goals of which we were described -- were also described in the press release.

It includes the impact of expected divestitures, a view of the accretive impact of a potential high-yield bond refinancing next year and our expectations of the time lines for the full integration of the recent acquisitions. Based on this scenario, we are confident in the ability of Carriage to achieve important financial milestones over the next 3 years: revenue above $325 million, adjusted consolidated EBITDA above $100 million, adjusted consolidated EBITDA margin above 31%, diluted earnings per share over $2.25 and free cash flow over $60 million, all of which with a much improved credit and leverage profile.

All these metrics are significant improvements of our just released 2019 results and present a compelling value creation opportunity over the coming years. We look forward to reporting our results to you along the way, beginning with Carriage Services 2020: Transformative High Performance - Good to Great Journey - Part II.

And with that, I would like to read our high performance heroes. Annually, we celebrate our high performance heroes, our Pinnacle of Service Award winners. This year, we had 39 businesses achieve the Pinnacle award, and we'll be celebrating with them down in Mexico here in a couple of weeks. We're really looking forward to that. So for being the best Pinnacle of Service Award winners were: Courtney Charvet, North Brevard Funeral Home; Patrick Schoen, Jacob Schoen & Son; Matthew Simpson, Fry Memorial Chapel; Justin Luyben, Evans-Brown Mortuaries & Crematory; Alan Kerrick, Dakan Funeral Chapel; Jeff Hardwick, Bryan & Hardwick Funeral Home; James Bass, Emerald Coast/McLaughlin Mortuary; Randy Valentine, Dieterle Memorial Home & Cremation; Sue Keenan, Byron Keenan Funeral Home & Cremation; Todd Muller, All Cremation Options; Jason Cox, Lane Funeral Home - South Crest; Jeff Seaman, Dwayne Spence Funeral Homes; Dan Simons, Everly Community Funeral Care; Mike Conner, Conner-Westbury Funeral Home; Ashley Vella, Deegan Funeral Chapels; Jason Higginbotham, Lakeland Funeral Home; Joe Newkirk, Civic Center Chappel; Robert Maclary, Kent-Forest Lawn Funeral Home; Ken Duffy, John E. Day Funeral Home; Scott Sanderford, Everly Wheatley Funeral Home; Phil Appell, Keenan Funeral Home; Joe Waterwash, Baird-Case Jordan-Fannin Funeral Home & Cremation Center; Jeff Steadman, Sansone Funeral Home; Tom O'brien, O'brien Funeral Home; Chris Chetsas, Cataudella Funeral Home; Nicholas Welzenbach, Darling & Fischer Funeral Homes

Los Gatos Memorial Park; Tim Hauck, Harvey-Engelhardt/Fuller Metz and Lee County Cremation.

Our Being The Best Pinnacle of Service Award winners, and winners that achieved 100% of Standards in 2019: Ken summers, P.L. Fry & Son Funeral Home; Steve Mora, Conejo Mountain Funeral Home; Brian Binion, Steen Funeral Homes; James Terry, James J. Terry Funeral Homes; and Cindy Hoots, Schmidt Funeral Homes.

And the winners that achieved 100% of Standards this year: JoAnna DiSibio, Oak View Memorial Park; Anthony Rodriguez, Higgins Mortuary; Ben Friberg, Heritage Funeral Home & Crematory; David Keller, Lane Funeral Home - Coulter Chapel; and Mike Page, Sterling-White Cemetery. Congrats to all of our Pinnacle Winners.

Moving on to our Carriage Good to Great Award winners. These are managing partners that have been able to grow their business 2% compound revenue for over 5 years or above. This is a long-term incentive program that is unique to Carriage. There's no other opportunity like this in our industry for local managing partner talent.

The winners of this award are: Todd Muller, Muller-Thompson Funeral Chapel & Cremation Services; Alan Kerrick, Dakan Funeral Chapels; Nicholas Welzenbach, Darling Fischer Funeral Homes; Scott Sanderford, Everly Wheatley Funeral Home; Patrick Schoen, Jacob

Schoen & Son Funeral Home; and Charlie Eagan, Greenwood Funeral Home. Congratulations to all of the winners.

And last but not least, we'd like to recognize 3 high performance heroes from our Houston support center. These 3 have truly gone above and beyond over the past few months, and we like to publicly recognize them: [John Poon,] [Ben Walker] and [David Baptise] and our op support team. And with that, I'll stop talking and we can open it up for questions here.

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

No, let me just go one more time here, Ben. Before we open it up for questions, I do want to say that the future 3 years looks very attractive. But you have to measure that look of attractiveness against the history of the company. The idea of Carriage, at some point, becoming the best in this industry, if not the biggest, always baffle me, how would you measure that? And as a guy who started out in the high-yield business in the '70s, when Michael Milken took to the public markets in the '80s, that was my background. And so I knew credit, I knew cash flows and I went into banking, great bank for 5 years, Texas Commerce Bank, became a AAA bank, and then turning around companies for 10 years. But I got tired to that and wanted my own company, and this is where I got lucky and landed.

And I loved it because it was a cash flow business, and you could lever it, but you could also mess it up if you didn't operate, right. So my definition of being the best in the industry, as a consolidation and operating platform, over time became creating the most cash margin per dollar of revenue. And for us, that's a rough estimate of the cash, it's the adjusted consolidated EBITDA after all overhead. And I learned a lot about that over the years. First, it was hard to get past [20] for a lot of years. And then we got past that and accounting changes and all, and then we got up to, at some point, [24]. And at the end of '11, when we had another transition date, a lot of management turnover, and I took over operations again. And we launched our first Good To Great Journey, for 5 years. And we went -- and the stock was [$5.60]. For 10, 12 years, 15 years, it would have been $21.5.

And so we launched our first Good To Great Journey on January 1 of '12, and the adjusted consolidated EBITDA margin went from 24 and change, up to [29.7] in 2016. And the way I've always looked at this, and if you studied Carriage, we started doing 5 year trend reports because I learned over time this is incremental business year-over-year over year-over-year over year, not a quarter-over-quarter over quarter. And from 2012 to '16, that margin went up almost 500 basis points. And the stock went from $5.60 to $28.64, about a 38%, 39% compounded return over that 5 years.

So then I stepped back and I promoted some people, and we know what happened in '17 and '18. And now we had a partial come back in '19. And now we're launching our second 5-year Good To Great Journey. If you want to look back at '16, is the benchmark, as standard of being the best in terms of every dollar of revenue converting to approximate cash at the EBITDA level, we were $248 million in revenue, and the field EBITDA was [104.4], that was an all-time high, and the margin was 42.1%. This is before all overhead.

After that, the revenue went up $20 million in the next 2 years, '17 and '18. And the field EBITDA stayed the same, 104.4 , 104.5], [104.3] because the margin went from 42.1% to 38.9%. '19, we bounced back up. This included all the low performers that now are being taken out. We bounced back up. And if you take them out, we were at 44.4% field EBITDA and the field EBITDA went from 104.5% [of $3 million] to [110.3%]. So if the field EBITDA margin had been the same as '16, 42.1%, that will added another $4.8 million to our field EBITDA, and it would have added another $4.6 million to adjusted consolidated EBITDA. So we would have gone up 18% on adjusted consolidated EBITDA if we'd just been at the same margin. Taking out the low margin, low performers and adding these 4, that once fully integrated will have much higher margins, will get you to the 3-year beginning trend, and this is why our -- all of our people know, 42.1% field EBITDA is the near term target. But we don't expect to stop there, and we don't expect not to surpass 29.7% adjusted consolidated EBITDA margin.

We're going to get past it. And we're going to create a lot of free cash flow, especially when we refinanced the debt. We refinanced our debt and issued those bonds at exactly the 10-year high over the last few years. We priced up at 10-year high of [$3.05] in May of '18, we priced at 368 basis points of spread over 10-year treasuries, which was the same spread we've priced at when we issued our first bonds in 2005, as if the company got no better from a credit point of view. This time, when we refinanced, I can promise you, our spread will be a lot lower than 368 points over 10-year treasuries. And right now, 10-year treasuries are $1.53. So I'm looking forward to that. And once we do that, just like Ben said, we believe we will have witnessed a complete transformation of this company over the last few years, and it will be like a new platform with new earning power, new cash flow power, ability to do it at about a 4x leverage and still allocate capital to create value through share repurchases, Mr. Market didn't value us high enough, our acquisitions, our higher dividends, we will be very flexible in our financing and very flexible and savvy in our capital allocation. So with that, I'd like to open it up for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question is from the line of Alex Paris from Barrington Research.

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

This is Chris sitting in for Alex. Thank you, Mel, Bill and Ben for all your detailed commentary thus far. Going through some of my notes that I have here previously in regard to Fairfax. Mel, you had mentioned in the past about acceleration. In regard to Fairfax, its ability to achieve sustained and now with the potential for further acceleration in its business, could you provide some additional color typically on Fairfax? And how this can relate to some of the buckets that Bill mentioned, more specifically, in regard to capturing best practices and perhaps applying them to other areas of the business?

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

Yes, Fairfax, I know the business well. And then there are a bunch of times over the years, I dreamed of one day owning it. And I didn't know if we'd ever get the chance. It had 14 bidders. We recognize it's been a family business. It's been not aggressively managed, especially on the cemetery side. And I mean, the funeral home opportunity in that overall area, to expand the brand and grow the market share, is incredible. But the cemetery opportunity is even better. It just -- it's just an amazing upside and it will continue to be amazing for 10 or 20 years.

This is the kind of park I always dream someday we would own. I've seen this counterpart in other companies like Rose Hill and SCI in L.A., others, and always dreamed of having one of those bell weather companies that has incredible margin growth opportunity, but also revenue growth, both on funeral homes and cemeteries. I'm not sure if I can relate to what you're calling best practices, but we will put the talent in here to make it hum and it will hum once we get it going. It will be worth the price we paid, which was dear, and it will be a return on invested capital that would just grow and grow and grow. It's the kind of business that Warren Buffett talks about, you want to buy businesses where beyond -- you want to buy a good business at a fair price. Well, this is not a good business at a fair price. We bought a great franchise at a high price. And the great franchise has been under managed, possibly improperly, by family that owned it all these years. And now it's going to be in a company that's going to know how to turn on the high-performance buttons through leadership and systems. And it will be one of these, we'll look back in 10 years and say, wow, we got a good deal there, but it's going to take us a while to get this one home. And it's a big business, and it's going to be a big growth in earnings and free cash flow driver for Carriage for years and years and years to come once we get it going. It will grow market share in the funeral niches in and around Fairfax. There's an opportunity for brand expansion with another chapel. The cemetery product, I can promise you, is going to be -- we can a build product. They really haven't emphasized that. They've been selling land. And so it's just one of these that we'll be proud of. It will take us a little while to get it humming. And I know Wallstreet is not that patient when you pay a dear price, but we know it was the right thing to do and it's the critical mass that we've been looking for, and it's around these ideas and concepts, that the next 5 years ought to be the greatest value creation period in the history of our company.

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

That's excellent. And shifting to some of Bill's comments about the 4 different areas for operational efficiencies or strategic objectives. As this relates to your guidance, how should we assess these 4 key areas in regard to perhaps your internal expectation as to how they develop over time or how they accelerate or show progression?

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

I don't know if you can link directly what Bill articulated. These are teams he's formed. You can tell he's got incredible energy. Our people are excited to work with him. I think whatever the fruit of those 4 areas that he grows with his teams over the next few years is incremental probably to what you see in this forecast. We don't have any revenue and EBITDA in there as far as I know. Ben hadn't been over there, beating Bill's door down and go, "Tell me how much this is going to add." No, this is just going to make our overall company better in the 2 areas. I mean, all those areas are critical. And our people are excited about it. We want to be an innovator.

We've never been that good at high and sustained cemetery preneed property sales. Been hit and miss for a while, and then our bigger properties would miss, we have a top sales manager leave. And when they got a cold, our performance got flu. But I think we're ready. This is going to put us in the lead, where we can hire the talent, build the system, build a culture and that's Bill's background, and it was my background, but it is his, so I think all of our people are excited to follow his lead.

Leadership is all about people who have ideas about the present and a vision of the future that other like-minded talent wants to follow. This was missing in '17 and '18. That's my fault. It's not missing now. And these 3 years are not anything that we can't do. I mean, there is not anything there that can't be achieved roughly in that range. So you won't come here and find anybody whining or down or -- I mean, our field people are excited. Is there a lot of work to do? You're damn right. Are we up to the challenge and do we have the ability to do it? You're damn right. So didn't mean to use a bad word there, but we're kind of passionate about where we are. And I hope that somewhat answers your question.

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

No, all that's helpful. Thank you, Mel. And we look forward to what's on the horizon.

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

So do we.

Operator

Your next question is from the line of Chris McGinnis from Sidoti & Company.

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

And thanks as well for the -- kind of all the details last night and then the commentary this morning. Just to talk about the change on the preneed sales. Is that due to the acquisitions? Or you see a significant opportunity for growth there going forward? And how much is in place already today, outside of the leadership that you just talked about that's in place to drive that?

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

Yes. We've -- like I said, we didn't have a -- I got into the cemetery business late. I was told to be in the funeral business, it's cash flow. In the cemetery, if you have an aggressive preneed sales program and you finance long term receivables, especially in a land, you could actually sell yourself in the early years into insolvency. And that's how other companies do that, through working capital. And we got into the cemetery business in '97 in Northern California. We added 2 in '98. So our 3 biggest cemeteries are in Northern California, San Jose, the Los Gatos, and Richmond, which is the East Bay. These are big, big cemeteries. And we've had Los Gatos really going. It's like a gold mine right there in Silicon Valley. The Rolling Hills is a monster, and it's got 3 major sales team areas of the Pacific ground, the Asian, and then, the family service, servicing other members and friends or family who were buried there. And then the advanced planning, which is the direct sales, where you're selling people who have no heritage.

We've had a lot of problems over the years, having all 3 of those really up and humming at once. And this past year, we had 2 of those humming at once. And you saw it made a big difference in our cemetery performance, along with Las Gatos, and then we have another great business down in Camarillo, California, Cal Conejo that Bill went to see. These 3 have always been key to our performance, and then we got some other big ones in Seaside, in Corpus Christi, Oklahoma City, in Florida. And so with -- we haven't been able to get all of them going. And I think it's because we didn't have the right structure. The sales culture and system is more centralized in short-term and incentives, and the funeral business is more a longer-term service oriented. So I think this is what we've been missing. Bill is in the process of putting that structure in place and the systems to go with it. And I think that will take a while. But once we get these things up and running, including the new ones, and 2 of the new ones, really didn't have any preneed going on at all, and they were the biggest ones. Fairfax and Oakmont, so it's going to take us a little while, but it will come. And when we get it coming, these things are big meter movers. And I don't know how much of that is in the 3-year outlook, some of it, obviously, but I mean, there's upside here that we've never realized in our existing portfolio and there's unknown but very large upside in the ones we've acquired.

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

Very helpful. And then lastly, just one question. If I remember right, at the end of 2018, you changed some of the incentives for the operators. Does that change with kind of the new targets today? I know it's based on -- more on the acquisitions. But have you thought about changing any of those as Bill can kind of look at some of the operations over the last 75 days?

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

Absolutely. Our Council members made changes to 2 of the Standards this past time, initiated a new one on cremation averages, and they also approved, 2 days ago, some changes in the incentive bonuses to match up with performance and what is more desired outcomes over 1-year and 5-year periods. They absolutely did that.

William W. Goetz ***Carriage Services, Inc. - President, COO & Director***

Chris, I think what's important -- what, Chris, what's important point -- that's a great question. What's important to point out is there was really no changes made to the operating model for 7 years from '12 to the end of '18. And now we've had a really constructive process where we brought a lot of good people around the table and made meaningful changes that people bought into going forward. So that's good.

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

So, Chris, I wasn't going to bring this up, but since you bring it up, I'm going to go ahead and say it. And people can either think I'm smoking d*pe or not. I really don't care what they think, it's what we think. Our senior team here believes in that 3 years. We believe that everything we've said is going to happen in a roughly right range of outcomes that will create a lot of value. Why do I know they believe that because they had a chance. Each year we do incentives. We look at the next year, and there's a incentive cash bonus for hitting certain goals and targets. And then there's an equity component for a public company. But last year and this year, our team did not take any options. And they did not take -- the senior leadership team, and they did not take any grants of stock. Instead, they took, last year, believe it or not, 5-year stock price compounding, much like we -- that happened from '12 to '16, compounded 38%, 39%. And from the year-end '18, we did -- they had -- 25% was our minimum compounding, 25%, 30% and 35%. And if it didn't happen, they get nothing. And so we had an advantage. Mr. Market put the price at [$15.50]. This year, we did another layer, and we called it believe it or else Value Creation Incentive Plan for all the executive team and a lot of the managers here in the home office, but we also included for the first time, our Standards, 10 Standards Council members. And our price has to compound 15% over the next 5 years, over the last -- over the year-end price at '19 of [$25.60] or they get nothing, they get nothing. And they had a choice, we'll get them a choice, look, should we go for some stock grant or options, fix the price here, where you know you might get something? Or do you want to take a leap of faith, and we got to do it, believe it or else, that's what it's called, and they get so many shares. We create another $466 million incrementally to shareholders after 5 years. If it's 15% compounding, that ends up being [$51.49]. If it's 20%, it's [63.70], that's $686 million of incremental shareholder value. 25%, [$78.12] that's $945 million. So the -- more of the compounding, the more shares they get and participate in the additional value created. Otherwise, I get nothing. And every one of them, without exception, is so excited about this, you can't believe it, especially the Council Members.

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

Okay. And I appreciate that. And I remember that was put in place in those sort of open.

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

Nobody ever questions about it because nobody believed it. And we're good with that.

Operator

I am showing no further questions at this time. I would now like to turn the conference back to Mel Payne.

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

We look forward to your continued interest in our company. It's a very interesting time for me, for Bill, for Ben, for Viki, everyone on our executive team, and all of our people in the field, many of which are listening into this call. So stay tuned, follow our progress, and we hope to deliver for you, not hope, we believe we will deliver for you or else. Thank you very much.

Operator

Ladies and gentlemen, this concludes today's conference. Thank you for your participation, and have a wonderful day. You may all disconnect.