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Q1 2020 Carriage Services Inc Earnings Call

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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the Carriage Services First Quarter 2020 Conference Call. (Operator Instructions) Please be advised that today's conference is being recorded. I would now like to hand the conference over to Carriage Services management. Please go ahead.

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

Thank you, and good morning, everyone. This is Viki Blinderman, Chief Accounting Officer of Carriage Services. Today, we'll be discussing the company's first quarter results for 2020. Our related earnings release was made public yesterday after the market closed.

Carriage Services has posted the press release, including supplemental financial tables and information on the Investors page of our website. The audio conference is being recorded, and an archive will be made available on our website later today through May 25.

Replay 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.

Before we begin, I would like to remind everyone that during this call, we will make forward-looking statements. Certain statements on this call, including financial estimates, assumptions or statements about our plans, future results, expectations or beliefs may constitute forward-looking statements under applicable securities laws. We make these statements on the basis of our reviews and assumptions regarding future events, business performance and other factors at the time we make them and do not undertake any obligation to provide updates or revise any of these forward-looking statements after the date of this call, whether to reflect the occurrence of events, circumstances or changes in expectations, except as required by law.

These forward-looking statements are subject to a number of risks and uncertainties, and actual results may differ materially from the results expressed or implied in light of a variety of factors, including factors contained in our annual report on Form 10-K, quarterly reports on Form 10-Q and in our other filings with the SEC. Please note that a reconciliation of non-GAAP measures that may be referred to on this call to equivalent GAAP measures can be found in our earnings press release that was issued yesterday and on the company's website.

And with that, I'd like to turn the call over to Mel.

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

Thank you, Viki. Jim Collins in his famous best seller Good to Great offered a simple but profound truth about leadership in taking a company from good to great, which was First Who, Then What, meaning, get the right people on your enterprise bus, the wrong people off your enterprise bus, the right people in the right seats on your enterprise bus before you began the journey of driving your enterprises bus to a sustained, great performance destination.

Coming into 2020 and after 2 full months of performance and integration of Bill Goetz into our 10-member executive team, I was feeling highly confident that I finally had the right senior leadership team in place for the future.

And then the coronavirus pandemic crisis suddenly shows up. And I'm ordered to stay-at-home for 2 months. What happened during that 2-month period culminated in an April performance that is nothing short of shockingly fantastic. And the best news of all is that I had absolutely nothing to do with it.

I was stuck in my home, library, working on our trust fund, capital deployment strategy in collaboration with Ben Brink and

Bernadette Pomponio while Bill Goetz and the other 8 members of our executive team led our company on a daily basis through the peak of the coronavirus pandemic crisis in spectacular fashion.

I would like to share the names of these high-performance leader owner heroes that are on our executive team. These are the leaders who will now drive the Carriage bus to a sustained high-performance destination over the next 5 years, and I'm personally counting on our share price following their upward directory performance like night follows day. They are 3 regional partners, Shawn Phillips in the Central; Paul Elliott in the West; Chris Manceaux in the East; Peggy Schappaugh, Operations and Acquisitions Analysis; Ben Brink, CFO; Viki Blinderman, Principal Financial Officer and Accounting Reporting; Steve Metzger, General Counsel; and Mike Loeffel, Human Resources.

Now I'll turn it over to our fearless leader, Bill.

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

Great. Thank you, Mel. Good morning, everyone. We appreciate your interest in Carriage Services, and I hope we find you and your families safe and healthy.

Before we outline our business results, I want to pass along our thoughts and prayers to all the families that have been directly impacted by the COVID-19 pandemic.

Also, I know we have many members of the Carriage team on the call. I want to thank each of them for their heroic work they have done over the last 10 weeks to serve their communities and each other while prioritizing everyone's health and safety.

What the Carriage team has done is truly amazing, and I'm so proud to be a part of this organization. As we prepared for the call today, we thought long and hard about what information would be most helpful to you as investors.

With that in mind, we will spend less time going through our first quarter results. We believe the more pertinent information is our performance in April, which was the first full month of operating under the new social distancing restrictions.

I know many companies have withdrawn guidance, but we are taking a different approach based on the confidence that we have in our business. We will take you through our updated 3-year roughly right scenario, we'll share with you capital allocation, trust fund performance and our 5-year shareholder value creation plan.

I'm going to start with some context surrounding the time line of when the pandemic struck our business. The immediate impact we felt in our business as the country began to shut down, and most importantly, the actions we took that have been delivering superior financial results during the COVID-19 crisis.

I'm going to end my comments by also sharing our plan to continue our good to great transformative journey as restrictions are lifted. We believe that our reaction to this crisis clearly demonstrates that Carriage is the right choice for investors who are looking for strong margins and a solid growth platform in the stable and predictable funeral and cemetery industry.

First, the time line. Our performance through mid-March was on track to deliver a traditionally strong quarter despite just getting initial momentum in March from our 4 recent acquisitions.

But as you will recall, most of us realized that the world was quickly changing the week of March 9 as California became the first state to take statewide action to mitigate the spread of the virus.

I just happened to be in Northern California that week, visiting some of our cemetery businesses. In retrospect, it was beneficial for me and the executives that I was with to experience that change which would quickly move across the country.

Over the next 2 weeks, began to monitor the effects on our businesses in California and develop a process to communicate other state orders.

We also established a weekly operations call on March 20 and a daily executive COVID-19 call on March 23 to assess the impact to our businesses as stay-at-home orders and social distancing restrictions expanded to other states.

The last 2 weeks of March were a sudden shock to our operations as we dealt with mandated shutdowns and stay-at-home orders that spread across the country. The result was lower funeral revenue averages and preneed cemetery sales that initially were not offset by higher volumes or cost reductions.

This led to lower year-over-year field EBITDA margins and consolidated EBITDA margins, not only for March, but for the entire first quarter.

From that point on, the story changes. The story becomes one of an incredible team producing phenomenal results during one of the most challenging times in our country's history.

It is also a testament to our high-performance leaders and their teams and our decentralized standards operating model. This differentiated model of hiring great talent, giving those leaders the autonomy to run their business while providing tools and support is the right model for this industry, and this crisis has only reaffirmed that point.

We have driven superior results in a difficult environment because our talented leaders do not wait for a directive from a corporate headquarters. They use their unique understanding of their own business and market to quickly adapt and innovate while leveraging new technology platforms and resources that were developed and implemented from the functional support teams in Houston.

From an operational standpoint, we prioritized 3 areas as we met the challenges of these unprecedented times. The first area of focus was to protect our people, especially our local teams who are on the frontline serving families. Many of our local leaders based on their specific needs began to implement revised work schedules for their associates designed to minimize exposure in the event one employee contracted the virus.

Also, they doubled down on existing infectious disease control procedures when handling COVID-19 cases.

Finally, one of our executive leaders, Shawn Phillips, used Carriage's diverse network of PPE suppliers to obtain the proper supplies for our field teams. Thanks to Shawn's leadership, we have always had a sufficient supply of PPE, and we have not experienced any business interruptions. The second area of focus for our business was to continue to safely and responsibly serve families while complying with the new social distancing guidelines. This is where our local teams have been and continue to be very creative, not trying to use a one-size-fits-all approach, but instead, developing the right innovative ideas to help each family through the grieving process.

These creative approaches included: drive through visitations that allow family and friends to pay their respects while remaining safely inside their vehicle; placing paper hearts on the chairs and chapels with personal messages from loved ones who could not attend a service due to the restrictions.

Many of our businesses utilized live video streaming to broadcast services to family and friends. We even had 1 funeral whose live streaming was viewed more than 1,300 times. Additionally, in the month of April, our live video streams were viewed in over 22 countries. Also, many of our funeral directors leverage Zoom and online arrangement tools to guide families through funeral arrangements and merchandise selections while finalizing agreements using DocuSign, this provided for a completely remote experience.

Finally, we also adjusted our website, messaging and our search engine optimization strategy to highlight our capabilities and competitive advantages within hours of government announcements.

Our third and final area of focus during the COVID-19 crisis was to minimize the possible negative financial impact to our business by growing market share and tightly managing our expenses.

First and foremost, our local teams reacted quickly to identify market share opportunities while tightly managing their expenses in this new environment.

Some of our best-performing businesses actually increased their marketing and promotional activities when they saw competitors do the opposite. While at the same time, they reduced other variable expenses to pay for this investment.

From the Houston support Center, we supported these activities by providing additional attractive incentives in our preneed cemetery business. And under the leadership of Paula Harris, one of our leaders in our Cemetery business, we executed both preneed cemetery direct mail campaigns and digital text campaigns that produced response rates more than 2x the industry average. These efforts have led to a robust pipeline of preneed property opportunities.

We also focused on corporate expense categories at the Houston Support Center. We temporarily postponed some discretionary capital expenditures and aggressively managed all variable costs.

We also received support from some of our key suppliers who offered additional discounts on crucial products.

Finally, our executive team and the Board felt it was only right to reduce our compensation for a short period of time as we assess the impact of the pandemic on our business.

Our focused response to the pandemic that I just outlined has allowed us to achieve outstanding results over this very difficult period.

To put this statement in perspective, in April, the likely bottom point for our economy, we grew total revenues by 3.6%, we grew our adjusted consolidated EBITDA by 7.2% and increased adjusted cash flow by 41%.

This performance was driven by increased volumes that more than offset what we believe will be temporary reduction in contract averages.

This performance will also serve as a springboard to produce the longer-term results that Ben will outline in just a minute.

Finally, I want to quickly cover our operational priorities for the remainder of the year that will continue to drive our performance momentum as we move to a more normalized business environment.

We will continue to operate the business in a nimble fashion and react quickly as states, counties and cities gradually reopen. Steve Metzger and his legal team have established a process that provides immediate direction to our businesses as restrictions continue to change.

Also, Paul Elliott, our senior executive who runs the western region, has developed a list of best practices that our businesses can leverage to accelerate engagement with families and communities as restrictions are lifted.

Talent, we will continue to focus on the Who, as Mel mentioned, by relentlessly recruiting and developing the best talent in the industry.

In fact, in the middle of this crisis, we were able to bring 3 new leaders on Board that will immediately impact key businesses.

The third area of focus is acquisition integration. At the end of last year, we closed 4 transformative acquisitions. I'm happy to report that the integration of these businesses are on schedule, and each of these businesses are positively impacting our overall results while showing improving revenue trends each month.

A great example of this immediate impact is Fairfax Memorial Park. One of our top integration priorities was to add a world-class cemetery sales leader to Fairfax. And we found that leader in Cherry Brown.

This is the first dedicated sales leader at this property, and Cherry and her team are producing world-class results.

There is still work to do and upside to be realized, but all 4 of these investments are producing the results we anticipated.

Lastly, we will resume our work on the 4 transformative areas I spoke about on our last earnings call.

We believe these areas will be the catalyst for transformative earnings growth over the next 3 years.

I want to quickly remind you of these key drivers. The first transformative area is cremation conversion. One of our key executives, Chris Manceaux is leading this focus, and you'll see these efforts positively impact our cremation averages this year and beyond.

This effort centers around building out the approach, tools and training to share customized ideas on how families can honor and memorialize their loved one when choosing cremation as the final disposition.

The second transformative focus is technology innovation. We have made significant progress implementing technology solutions during this crisis. But we will continue to develop and source technology that enhances our ability to market to and serve families while providing us a competitive advantage.

Here, again, we're going to use our ability to be nimble to move quickly on these opportunities.

The third transformative area is cemetery sales. We have recently made some great investments in our Cemetery business, and they're producing positive results, but we believe the upside for us in cemetery, especially preneed sales, is enormous.

We will hire a national sales leader for cemetery sales in the near future and then build out a comprehensive marketing and sales model to take our growing Cemetery business to the next level.

Finally, we will continue our work on better defining, measuring and building both the service and guest experience.

Carriage has been built on a decentralized local leadership model that drives the best consumer experience in the industry.

This work is not an overhaul, but rather an enhancement to what we already believe is a collection of best-in-class operators and businesses.

We will take some of the best practices from across our portfolio and create a platform to share those best practices.

We'll better measure their impact and provide our local leaders with new tools to help further enhance services that drive greater results.

Again, we will resume our work on these transformative areas starting in June.

One final comment before I hand it off to Ben. Typically, in each earnings release, we highlight our high-performance heroes. Based on the last 2 months, we cannot single out even a large group for this recognition. That's because each and every one of our managing partners and their teams, along with our Houston support team, have truly been heroes during these unprecedented times.

I mean all of what these heroes have been able to accomplish for both their communities and Carriage shareholders. And I want to thank each of them for their incredible dedication and passion. Now I'll turn it over to Ben.

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

Thank you, Bill, and thanks to all of you for joining our call this morning. We hope that everyone is staying safe and healthy out there.

With the advent of the coronavirus crisis in mid-March and the subsequent stay-at-home and other gathering restrictions that were implemented in states and other jurisdictions across the country, our business and our industry had constraints placed upon us that were unprecedented in our history.

The response from the entire Carriage family over these past 10 weeks has been remarkable.

From the passion, skill and innovation our managing partners and their high-performance teams demonstrated and caring for their client families, to the work of our Houston Support Center during these times, I have never been more proud to be a part of the Carriage team.

At Carriage, we have a passionate conviction that our high-performance culture begins and ends with having the best entrepreneurial leadership talent in every position at our company.

Unlike any other time in the history of Carriage has our belief in the power of people through individual initiative and teamwork been more evident.

And I join the rest of the executive team in thanking everyone for the dedication and passion for their work over these past 10 weeks.

Now on to the results. We were on pace to deliver solid first quarter results until the middle of March when the first stay-at-home and other social distancing restrictions began to be implemented in the Bay Area in California, where we have a significant operational presence and spread to most states across the country.

The negative impact to our business came in the form of lower funeral contract averages as we were restricted from hosting large funerals and from a reduction of preneed cemetery sales activity.

As Bill mentioned, our local operating teams across the country moved quickly to adjust to these conditions and to continue to serve their client families and their communities during these unprecedented times.

The decline in performance in the latter part of March negatively impacted all of our operating margins as we were unable to adjust our costs in that short amount of time.

For the first quarter, revenue increased 12.2% to $77.5 million, total field EBITDA increased 6.3% to $30.1 million, total field EBITDA margin decreased 220 basis points to 38.8%, adjusted consolidated EBITDA increased 9.5% to $22.8 million, adjusted consolidated EBITDA margin fell 70 basis points to 29.5% and adjusted earnings per share declined 7.9% to $0.35.

Importantly, adjusted free cash flow increased 30.7% to $12.6 million in the quarter.

Additionally, in the quarter, we took a $14.7 million charge for goodwill and trade name impairments. This is goodwill impairments related to old existing goodwill and was precipitated by the decline in our stock price that we were required to take this impairment.

We're happy to get this done out of the way.

In April, our operating and financial performance was tremendous and demonstrated the strength of Carriage and its operating model when faced with the challenges presented across our entire portfolio as a result of the coronavirus crisis.

The leadership and innovation of our managing partners and their high-performance teams and continuing to serve their communities is a testament to our commitment and the right to in each local business and our belief in the power of the decentralized decision-making.

Same-store funeral revenue declined 2.3% as a 14% decrease in average revenue per funeral contract, driven by the restrictions on gatherings, was offset by a similar increase in funeral home contracts in April.

The increase in funeral contract volume was primarily attributed to businesses located in areas of the country that experienced the greatest impact from the coronavirus crisis, such as New York, New Jersey, Connecticut, Massachusetts and New Orleans.

Same-store funeral field margin increased 350 basis points to 43.5% in April as our teams demonstrated disciplined expense management at each local business.

Same-store cemetery revenue declined $2.1 million or 37.7%, primarily due to the decline in preneed property sales as local stay-at-home orders and other social distancing orders curtailed some of our normal sales activity.

Our sales managers and counselors across our businesses found new and innovative ways to interact with our cemetery preneed customers, which led to improved sales performance throughout the month.

Additionally, the inability to celebrate the traditional Ching Ming holiday at Rolling Hills Memorial Park in Richmond, California in early April was the cause for 66% of the decline in our preneed property sales as compared to last April.

We view the decline in preneed property sale revenue in April as deferred rather than loss as we see significant opportunity to recapture those sales as we continue to welcome client families back into our cemeteries through the rest of the year.

The 7.2% growth in adjusted consolidated EBITDA and the 120 basis point improvement in adjusted consolidated EBITDA margin for the month of March versus last year were a result of improved performance of our same-store funeral and acquisition portfolio margins and a reduction in overhead expenses.

Overhead expense reductions were driven lower by lower corporate incentive compensation, lower nonessential corporate expenses and previously announced reductions in salaries for our executive leadership team and our Board.

We will continue to review the corporate overhead expense items as the year progresses.

During the first quarter, our acquisition funeral field EBITDA was up $1.5 million or 55%, driven by the inclusion of the 4 acquisitions we made at the end of 2019, while our funeral acquisition EBITDA margin declined 320 basis points to 36.2% as we continue to integrate those 4 businesses.

Acquisition cemetery EBITDA for the first quarter was $827,000, and our acquisition cemetery field EBITDA margin was 29.5%. We had no cemeteries in our acquired portfolio as of last year.

In April, we continue to see great momentum and improvement in our acquisition portfolio. Our Funeral Home Field acquisition margin improved 38.9%, while our acquired cemetery field EBITDA margin improved to 40.7%, and field EBITDA was $606,000 for 1 month compared to the $827,000 that we saw for the first 3 months of the year.

As Bill said, we are pleased with the pace of integration of these acquisitions and the leadership we have in place at each of these 4 new acquisitions. And we're also excited about our rapidly improving performance of our cemetery sales.

In the first quarter, adjusted free cash flow increased 30.7% to $12.6 million. In April, our estimated free cash flow was $8.2 million, an increase of 41.1%. The growth in free cash flow over the first 4 months of the year is an indication of the early innings of Carriage becoming a free cash flow generating machine.

Accordingly, we have introduced a new shareholder value creation metric, adjusted free cash flow margin, which will grow materially over the next 3 years and will be an important metric for investors to track over the coming years.

We expect our adjusted free cash flow for 2020 to be between $43 million and $45 million, a small increase from our previous estimate.

Our free cash flow will benefit from our decision to reduce capital expenditures to approximately $10 million for the year.

We will continue to invest in needed maintenance CapEx, along with selected growth projects focused on cemetery inventory development throughout the rest of 2020.

Free cash flow will additionally benefit from changes to tax laws due to the recently passed CARES Act. Carriage will no longer be required to pay federal cash income taxes in 2020, a savings of approximately $7 million compared to our original expectations.

Cash flow will additionally benefit from a provision in the CARES Act to the first social security payroll tax payments for 1 year and from the receipt of a tax refund we previously filed an amended return.

We expect these additional benefits to equal about $4 million in cash savings, and we will provide updates on the final amount throughout the rest of the year.

We also continue to make progress on our previously announced divestiture program. We currently have 7 properties under letter of intent to sell with approximate proceeds of $7 million, the first of which will close in the coming weeks.

We expect to complete additional divestiture transactions throughout the year with total proceeds of approximately $11 million.

The impact of these divestitures is minimal to our overall operating and financial results. Taken together, our strong and improving operating performance, reduction in capital expenditures, benefits from the CARES Act's and execution of small amount of divestitures will lead to an over 20% increase in adjusted free cash flow versus 2019 even in the midst of this challenging operating environment.

The cash flow generation abilities of our business over the course of 2020 will also allow us to continue our debt repayment schedule and leverage reduction, as we have previously announced.

At the end of March, we made the decision to hold additional cash on our balance sheet, given the uncertain conditions during those early weeks of the coronavirus crisis. This caused our gross debt-to-EBITDA ratio as defined in our credit agreement to be 5.9x at the end of the quarter, higher than our maximum leverage compliance ratio of 5.7x. On a net debt basis, our leverage ratio was right at 5.75x.

After seeing our strong April performance and with a clear view of the effects of the coronavirus crisis has had on Carriage, we have worked with our bank group to obtain a waiver for the first quarter leverage ratio breach, with a small increase in our pricing on our facility.

We expect our borrowing costs on our credit facility to be 3.75% for the remainder of the year. We expect to remain under our maximum leverage ratio per our credit agreement throughout the remainder of the year, expect our leverage ratio to end the year below 5.4x and expect to reduce our debt to under $490 million by year-end.

Our growing free cash flow will provide us multiple shareholder value creation, capital allocation opportunities over the next few years.

Our focus over the next 12 months will continue to be on operational improvements, integration of recently completed acquisitions and repayment of debt using free cash flow.

Our improved credit profile over the next 12 months will put us in a position to refinance our 6.65% senior unsecured notes at a lower interest rate, given our belief that interest rates will continue to stay low and credit markets will continue to be healthy when we have the opportunity to call our notes in June of next year.

The near-term refinancing opportunity will be a significant driver for accelerated earnings per share and adjusted free capital growth in the second half of 2021 as we expect this refinancing to generate a minimum of $8 million in cash interest savings.

This would be the final piece of our improved capital structure strategy we began in May of 2018 and will create a truly built to last balance sheet here at Carriage.

At Carriage, we've always believed in a balanced capital allocation program supported by our high margin, high free cash flow business. We are pleased to announce the decision of our Board of Directors to increase our dividend $0.05 to $0.35 annually, which will be effective for our next dividend declaration in August.

This represents a current 2.5 dividend yield -- 2.5% dividend yield and shows the confidence we have in our growing free cash flow earnings power.

As we detailed in our press release, since the beginning of the year and accelerating over the past 3 months, we have executed a significant trust fund portfolio repositioning strategy focused on growing our annual recurring income and establishing positions in core equity positions at prices we believe to be at a substantial discount to their intrinsic value in a normalized economic environment.

We began to aggressively raise cash in our portfolio in February, which only accelerated in early March as we saw interest rates fall to historic levels and oil prices collapse in the face of production disagreements between Saudi Arabia and Russia.

Our cash position also benefited from the liquidation of trust funds we acquired as part of the acquisitions completed in the fourth quarter of last year.

By the time the markets became highly volatile on March 9, we had moved over 25% of our portfolio and over $50 million into cash.

We deployed the majority of that cash over the next 2 weeks as both the volatility index and credit spreads were blown out and prices across multiple asset classes became dislocated.

We have continued actively and selectively making relative value rotations within our portfolio throughout April and into early May. The results of this repositioning strategy is a trust fund portfolio that is even better prepared to weather any near-term economic downturns, provide more upside potential as the company and economy return to a more normal state over the next year or 2 as well as generate significantly more recurring income for years to come.

Our ability to increase recurring annual income from the portfolio to -- from $4.5 million or 50% to just over $13 million annually will provide immediate lift to our financial revenue and EBITDA through increased earnings in our cemetery perpetual care trust accounts.

Over the longer term, this higher amount of recurring income plus the potential for significantly increased capital gains will lead to higher matured preneed funeral and cemetery contract values and provide a tailwind for financial revenue EBITDA.

Through the end of the day on Monday, our discretionary trust fund portfolio is down approximately 10% on a year-to-date basis.

And finally, we are pleased to provide an updated 3-year scenario with an updated roughly right range for our 2020 results and reaffirmation of our roughly right performance metrics for 2021 and 2022.

We recognize a number of companies have withdrawn guidance for this year, but we felt that it was important to push back our earnings release a couple of weeks in order to not only provide a greater insight to our current operating results and the impact of the coronavirus crisis, but also to provide investors our best and most up-to-date view of our performance over the next 2.5 years.

Our updated 2020 roughly right range of $300 million to $306 million in total revenue, $87 million to $91 million in adjusted consolidated EBITDA, 29% to 30% adjusted consolidated EBITDA margin, close to our all-time high adjusted consolidated EBITDA margins and $1.36 to $1.35 in adjusted diluted EPS assumes a gradual normalization of our funeral and cemetery operations over the rest of the year.

We are encouraged by our results in April and early May, and the feedback from our managing partners that families want to return to the ritual and ceremony of gathering to remember and celebrate the life of a loved one.

It's important to note that even though the impact of the coronavirus crisis will be negative to revenue, field EBITDA, adjusted consolidated EBITDA and adjusted consolidated EPS compared to our earlier expectations, we expect an increase in adjusted free cash flow and adjusted free cash flow margin, which demonstrates the cash flow earning power of Carriage and the resiliency of the industry.

We are also pleased to reaffirm our previously announced roughly right range for 2021 and 2022. The performance of our operating teams over the past few months has only increased our confidence in our ability to achieve the important annual company milestones of $325 million in annual revenue, $100 million in annual adjusted consolidated EBITDA and over $2.25 in adjusted diluted EPS in 2021 and 2022.

As you can see, these are some very exciting times here at Carriage, even as we all navigate through challenging and unprecedented circumstances.

Again, thank you for taking the time to join us today, and we look forward to reporting our second quarter results soon.

And with that, I will turn the call over for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question comes from Alex Paris from Barrington Research.

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

I wanted to first congratulate you on the outperformance versus expectations in Q1 and the strong April and early May performance. I was especially pleased to say that you kept guidance, while many others have not and reaffirmed for '21 and '22.

There was a lot of information that you gave in the prepared comments. I just wanted to dive down into a couple of the issues that you have been faced with, like lower funeral averages and lower preneed cemetery sales. Again, not uncommon, not a surprise given what others have reported in this space.

What role did cremation mix shift have on funeral averages in the first quarter?

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

Alex, there was -- in the first quarter in early April, we didn't see a tremendous difference in the pace of change in our cremation rates. We typically see that changing about 1% annually. And it was about there, maybe a little bit higher during that time.

What we did see is, is people choose whether to not have a service, to defer a service or to have a smaller service, certainly had an impact on the averages of our funeral home contracts during that time.

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

So it is more the gathering, yes.

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

Yes. Alex, the only thing I could add, that's a general statement, obviously, in some areas, right, that we're probably harder hit and you did see some of that mix change. But overall, as Ben said, it wasn't a big driver.

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

All right. And is it still your expectation that the cremation mix shift will stay in line kind of with this historical experience, a 100 basis point sort of thing?

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

Yes. I think as we went through April, right, we saw the performance of the entire company continue to improve, and that has moved into May. We've seen average -- funeral home averages approach about 100% of where they were for the first part of May even last year. So we've seen what I would call normalized happen pretty quickly here recently.

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

Alex, this is Bill. Just to add one thing. I mentioned this in my comments, a big focus is cremation conversion. And because a family chooses cremation as the final disposition, that doesn't mean that they don't want to honor, celebrate, memorialize that family member.

So we're doing a good job of that now. We believe there's upside to improve those discussions with families to make sure we're providing the right service with that cremation decision.

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

Great. And then, Ben, I think you said that same-store funeral revenues in the month of April were down 2.3%, while cemetery same-store was down 37.1%. Did I hear that right, driven primarily by preneed sales?

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

Yes. April -- to put in context, April of last year was our best ever and record month for preneed property sales. Our teams performed incredibly well in the second quarter of last year and throughout the rest of the year, for that matter. So it was a tough comparison to begin with.

And certainly, the restrictions right there in Northern California that was put in place fairly early on, restricted people's ability to meet face-to-face, to come to the park to meet with us, and restricted our ability to have a large gathering and ceremony and service like we normally have for that holiday, which is traditionally a big driver of sales for us.

So -- and like I said in our remarks, we don't view that as lost sales that these are opportunities to recapture those sales here in the next 6 to 12 months.

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

Alex, it's Bill. The other thing I mentioned in my comments, we knew that face-to-face interaction in preneed property sales was going to be impacted. And so that's why we decided to implement a direct mail program. We knew a lot of people were at home. The response rate on that direct mail program was again 2x industry averages. We also did a text message campaign for 10 of our cemeteries in May around Mother's day.

So we feel good now. We have this really robust pipeline of preneed opportunities. And we've already sold some of those opportunities, but we feel as social distancing restrictions are lifted, our sales teams, our sales counselors have a pipeline that they'll be able to quickly activate.

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

Good. And then a question about COVID cases. Obviously, this is top of mind for everybody, and I don't want to get more of it here, but how many -- how should we think about COVID cases in terms of driving volume? Was it a factor? Was it immaterial? Where did these COVID cases come from? Where they predominantly from nursing homes? Was there a pull forward of volume? I guess, just a little bit of color on the COVID cases that you've handled.

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

Yes, Alex, thank you for asking. We were -- we had the ability to serve over 600 families who lost a loved one due to COVID. I think it speaks to our professionals in the field and how they're able to continue to serve families through this, the proper PPE and precautions we were able to take to continue to serve those families, which is really important for us.

A lot of that volume was certainly in some hotspots you heard about. So Long Island, Massachusetts, Northern New Jersey, Connecticut, where we have a large collection of businesses as well as in New Orleans, we saw big spikes in volume there end of March and throughout April.

Some of that has returned to normal and other places -- those areas continue to experience some of those higher volumes even here into May.

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

Okay. And then a question I meant to ask, what percentage of cemetery revenue is preneed sales roughly?

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

Yes. So in terms of just preneed property sales, about 55% of our cemetery revenue in the current period.

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

And did you note some improvement in the first couple of weeks of May in terms of preneed cemetery sales as a result of these marketing campaigns that you've launched?

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

Yes. Again, Alex, I think a lot of activity. We feel really good about, again, these campaigns we did. And also the technology that we brought into the business that allow for conversations remotely. So we don't think it's going to be a jump-start in May. It will probably take June and July. But we feel good about our ability to hang on to some of those opportunities. And then as restrictions are lifted, to have those conversations with families face-to-face touring the cemeteries that obviously are going to improve the close ratio.

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

Great. I think that's all the questions I have for right now, and I'll follow-up with Ben with a few small modeling questions after the call.

Operator

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

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

I guess just a question around as things start to normalize, are there extra costs that are going to be layered in, just given whether it's safe -- extra safety precautions due to COVID? Can you just maybe talk about how that plays out as we get maybe back to a more normalized operating environment?

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

I think the costs related to COVID and our response to it, I think we have the majority of those, whether it be the cost we had for additional PPE, cost we had for reconfiguring space or the cost we had for implementing different technologies that Bill has talked about. Those have been -- those dollars have been spent. We've bifurcated some of those in natural disaster costs on our trend report, we'll have some of those in April as well.

I think, in general, the cost that you may look to come back in that we've taken out so far is around incentive compensation for the field and potentially for corporate. We'll kind of address that as we move through the year based on operating and financial performance.

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

Okay. And I guess, just -- are you starting to see as now states are starting to open up a more normalized environment of what -- I guess, what you're seeing before COVID kind of came in, maybe a regular funeral and service versus what you have been seeing through the restrictions?

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

Yes. I think the -- I think it's been pretty universal that as we move through April and as things start to loosen up here in May, that our client families and people are looking to get back to normal. I mean, the feedback we've gotten from our managing partners and their teams is that folks want to get back to the rituals of celebrating and remembering the life of a loved one in areas where social differencing restrictions have been lifted or modified. An example here in Texas, we've been able to host services of 30 and 40 people, while adhering to proper social distancing guidelines.

So we're seeing areas like that where we're able to gather and host more completely.

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

This is Mel, Chris. America is a big country. It's a very diverse country. And our whole model and strategy here is to let these entrepreneurs locally, go to work, innovate, create. So I know everybody was frightened here across the country. The media was relentless 24/7 on making sure everybody thought they were going to die the next day, but our people were fearless. And it varied case-by-case across the country.

So normalization is coming to our portfolio at very different rates. And it's the states where they've been hit the hardest, Massachusetts, New York, New Jersey, of course, Connecticut, Pennsylvania, where you've had these really tough mandated behavioral orders in place and still in a lot of those places. But the rest of our portfolio has been free to create. And so it's not -- it hasn't been one-size-fits-all recovery for our portfolio. And it speaks to the diversity and strength of the country itself.

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

Great. I appreciate that probably being stuck in New York. I'll think about it more morbidly I guess, to some degree. And I guess, just longer term, any changes do you think COVID maybe presents? And maybe positively in the sense of the competitors you talked about maybe the opportunity to gain share while some are going back. It's just how much of that opportunity presents itself right now? And just given the recent acquisitions, maybe a little bit more levered balance sheet, does that hold you back on the acquisition strategy maybe a little bit in terms of maybe there's a lot of opportunities to distressed properties out there? Can you just talk a little bit about how the industry is playing out?

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

Chris, it's Bill. I'll take the first part of that. And to Mel's point, our teams locally really have done a good job. I think as we come out of this, we're in a great position. Based on some of the things that we did during the crisis, a good example of that is the technology that we implemented.

We were very quick. Our IT team here did a great job. We were very quick to bring in technology solutions that helped us here in the crisis but we will benefit by being able to serve families in unique ways and expanded ways.

And I think that will impact our business moving forward. I think the other thing that we heard from our managing partners, a lot of them -- as we worked with them, as Mel said, they were very in tuned to what was going on in their market, they're reacting to that. But from a Houston Support Center, we were close to make sure -- close to them to make sure they had the resources that they needed to be successful.

And what we heard from quite a few of those managing partners, they were thankful that they have ownership running their local business with the support from the center opposed to being an independent operator who might struggle in some of these areas to react to a crisis like this.

So I think that's one of the benefits you see that our model, again, local ownership, decentralized autonomy, but still resources of a public company. And I think that will continue to benefit us moving forward.

And Ben, if you want to talk on the acquisition piece, give your perspective on that?

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

Yes. I think a couple of things. The concerns that people or national media may have on some shift in consumer preferences or behaviors when it comes to choosing funeral or cemetery product, I think, is very off base.

I think people really appreciate and value what our managing partners and our teams bring and allow them to celebrate the life of the loved one. And I think that returns back to normal faster than what people expect.

I think the stress and the crisis and everything that people have gone through in our industry over these past couple of months has the potential, who knows to accelerate people's decisions around succession planning solutions.

I think we stand ready to partner and affiliate with the best remaining independents in the country, and we'll continue to evaluate those as they come about.

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

So Chris, this is Mel. I'd tell you I had at home indoor relentless reporting, I finally just couldn't watch it anymore, but we got to adjust to a new normal and then media declaring death scare, being killed by coronavirus, yes, that went on, forbearance, all these negative things. And we get -- finally get back here in the office. I couldn't wait. And I'm looking at the early May trends and I'm telling Bill and the team here, the new normal is looking a whole lot like the old normal. And the old normal was pretty good. So this is the story of our company, and it's also the strength of our industry.

Rituals around death have been going on for thousands of years. When you do it right, it has high value, but you got to have the right people delivering all the options and executing the plan, family by family.

And when you get the talent, they will overcome adversity. And what we just went through was proof-of-concept in Carriage. It was proof-of-concept. If you can't prove the concept works in April, it's not provable. And it's going to be getting better, and it's going to stay that way for years and years.

That's why we did this Good to Great 2 incentive plan. Nobody has mentioned it, but it's real, and our people are fired up, and there are 47 of them. And you've never seen so many people fired up about what we can do, what is possible. And what this team can do has been amazing. I've been sitting back watching all this as a big shareholder. And I've never been happier, and I've never done less work.

So to watch them work has been a blessing. And Bill being here with his team and me being home, I never even listened into a call. I listened to one operational call. And I was so blown away. I'm going -- I'm not going to even listen to another call. I get too excited. And I didn't. And so here we are, coming out of this and is going to get really good for the next many years.

And as far as the acquisitions, look, we're not out to buy some broken business because of coronavirus. We want to affiliate with the best remaining businesses. The best ones are not going to be broke and desperate. They're going to come to us because we were hearing from these that we bought recently that they never could have made it through this crisis, without the incredible support of all the heroes here in the Houston Support Center and in the field. They never could have endured it the way they did. And this is what will lead to us affiliating with the best remaining independents.

But not now, we've got to pay down our debt. We got to get the credit rating. We've got to get a low rate on our balance sheet, then we're good to go, and we're going to stay that way. This will be a cash flow value creation platform that I always dreamed it would be. And it's right around the corner.

I think that's it. So I just want to thank the executive team. I want to thank all the managing partners in this company and their teams of employees, it has been something to behold, never been more honored to be affiliated with a group of people in my life. So we look forward to reporting our results for the remainder of the year. Thank you.

Operator

This concludes today's conference. You may now disconnect.