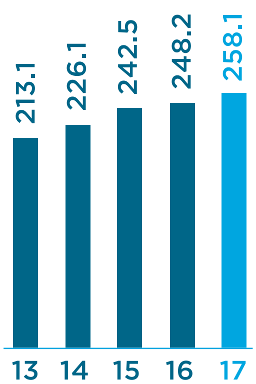
CARRIAGE SERVICES

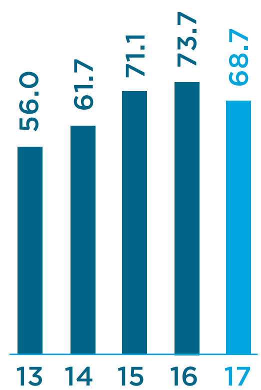
2017 ANNUAL REPORT

OWNING THE FUTURE,
ACCELERATING THE
GOOD TO GREAT JOURNEY!

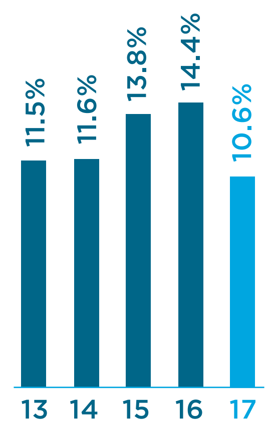
Total Revenue
(In Millions)



Adjusted Consolidated EBITDA
(In Millions)

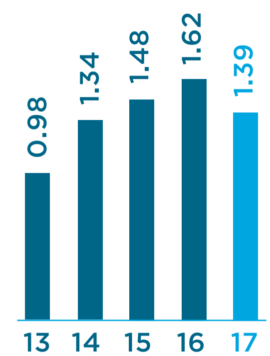


Adjusted Return on Equity



Source: Bloomberg Finance L.P.

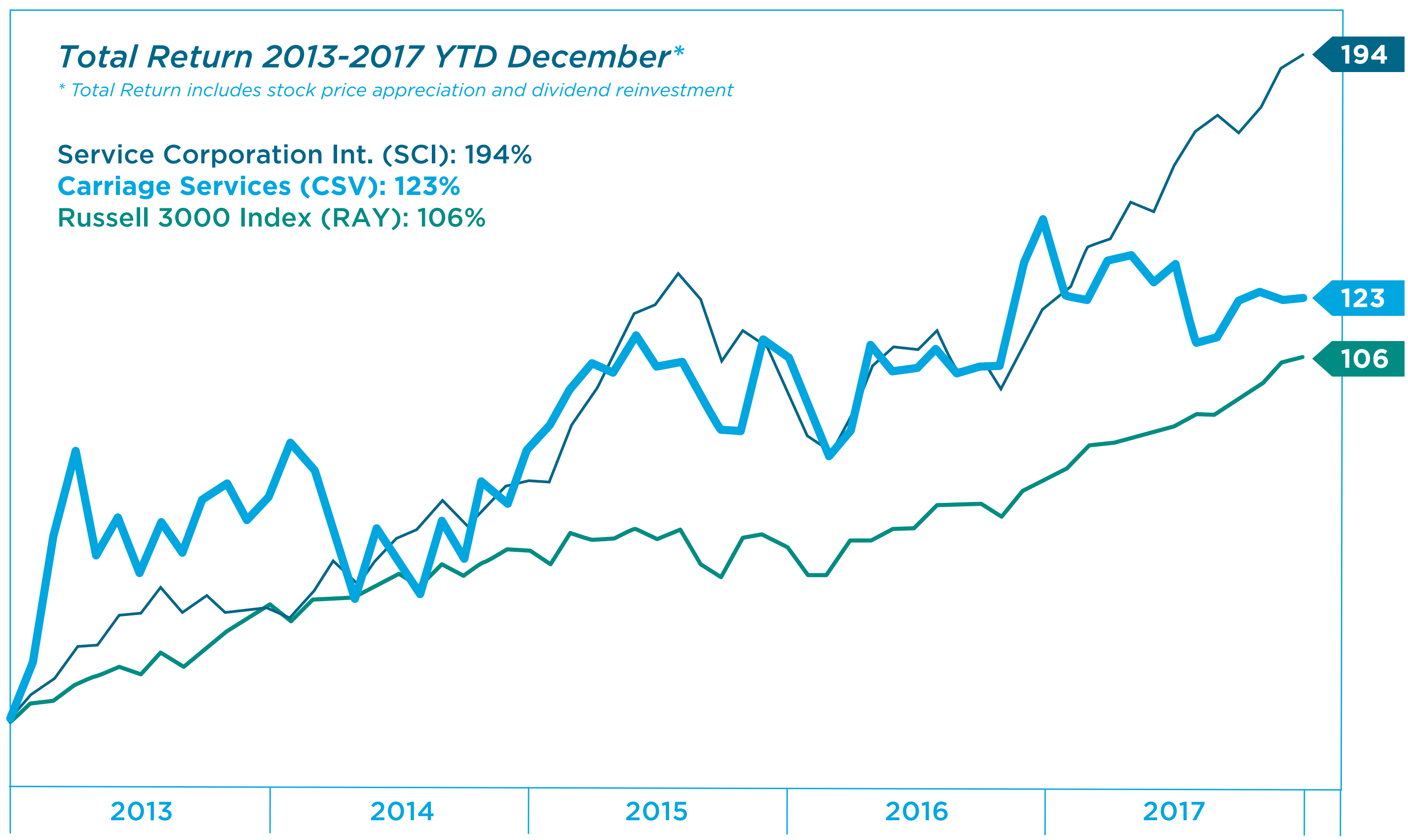
Adjusted Diluted Earnings Per Share



*Total Return 2013-2017 YTD December**

** Total Return includes stock price appreciation and dividend reinvestment*

Service Corporation Int. (SCI): 194%
Carriage Services (CSV): 123%
Russell 3000 Index (RAY): 106%



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The results of our **Good To Great Journey** have been remarkable, as reflected in the Total Shareholder Return graph above comparing the five full years ending December 31, 2017 of Carriage (up 123%), SCI (up 194%) and the Russell 3000 Index (up 106%). Carriage's Total Shareholder Return since the beginning of 2013 has been 123% and our stock price has increased 117% from $11.87 per share on December 31, 2012 to $25.71 per share on December 29, 2017.

SHAREHOLDER LETTER

After eight consecutive years of record performance beginning in 2009, we did not achieve new quantitative metric records in 2017 yet continued to improve qualitatively in most areas of the company. The primary comparative quantitative performance highlights of 2017 versus 2016 are shown below:

- Record Total Revenue of $258.1 million, an increase of 4.0%;
- Adjusted Consolidated EBITDA of $68.7 million, a decrease of 6.8%;
- Adjusted Consolidated EBITDA Margin of 26.6%, a decrease of 310 basis points;
- Adjusted Free Cash Flow of $37.4 million, a decrease of 21.4%;
- Adjusted Diluted Earnings Per Share $1.39, a decrease of 14.2%;
- CSV Share Price December 31, 2017 of $25.71, a decrease of 10.2%

At the beginning of 2012 we launched what we now refer to as the **Carriage Good To Great Journey** that never ends. We think about and lead the company in terms of a **Being The Best Ten Year Vision** (at Operating, Consolidating and Creating Shareholder Value) and Five Year Strategy with our Rolling Four Quarter Outlook within a "Roughly Right Range" of outcomes over time as we execute our three core models. Having produced extraordinary performance during the first five year timeframe of our **Good To Great Journey** that ended in 2016, we believe in hindsight that 2017 was clearly a year of transition and continued transformation which was evident across the Carriage Operating, Consolidation and Value Creation Platform.

During 2017 we upgraded leadership talent in both operations and home office support teams, achieved the best Same Store Funeral Volume and Revenue Trends in years, and established a surge of acquisition activity and momentum into 2018 from a larger and more effective Corporate Development Team. The continuous improvement transformation that occurred during 2017 coupled with the major tax reform legislation passed at year end has set the table for our company to achieve a much higher plateau of performance in the future as compared to the past. Therefore, we consider 2018 to be the beginning of the second five year timeframe of **Carriage's Good To Great Journey** that never ends.

We fully understand that in order to achieve a much higher plateau of performance in the future, we will need to grow the revenue of our company in the future faster than the approximately 5% rate of compounded revenue growth since the beginning of 2012, which in turn will produce gradually increasing Consolidated EBITDA Margins over time and a higher compounded growth rate in Consolidated EBITDA, Free Cash Flow and earnings per share. Using the proprietary Strategic Ranking and Valuation Methodology that are the central elements of our Strategic Acquisition Model, our goal is to grow revenue over the five year period 2018 – 2022 at a compound rate of 7-9%, comprised of about 2% from existing operations and 5 – 7% from acquisitions, thereby achieving a "Roughly Right Range" of revenue on an annualized basis of $380 million to $400 million by the end of 2022.

In order to achieve 5 – 7% annual growth from acquisitions and the $380 million to $400 million annualized revenue range, we will need to acquire over the next five years larger businesses in large strategic markets that rank high (60% - 80%) using our Ten Strategic Criteria so that over time our total funeral and cemetery portfolio will take on a higher growth and earnings profile as well. Since we will especially target businesses that rank in the upper part of this range (high 60% and above) using our Ten Strategic Criteria, we fully realize that these high quality select businesses will also carry high initial Field EBITDA acquisition multiples that nevertheless over time will prove justified based on long term returns on invested capital.

For those of you who might be new to the Carriage story, we wear as a "badge of honor" being completely unorthodox and different from what is customary and conventional. But you can be confident that there is always shareholder value creation **Method To Our Madness!**

OVERVIEW OF LETTER

Whereas my shareholder letter last year covered the first 25 year history of **The Evolution Of Our Learning Journey**, this shareholder letter will be dedicated in large part to a more analytical review of the enormous progress our company has made over the last 11 year timeframe 2007-2017 through continuous improvement in the execution of our Standards Operating Model, 4E Leadership Model and Strategic Acquisition Model.

Because Carriage is funeral dominant (78% of revenues), we believe a thorough review of the evolution of our funeral portfolio profile and especially recent 5 year data trends together with the evolution of our strategic geographical profile over the last 11 years would be important for a better understanding of how these profiles could trend and change over the next five to ten years. I will use data organized and explained for deeper insights and truth about our past operating and acquisition financial performance that can then be projected into our future performance as well, while simultaneously explaining the long term value creation merits of our unique High Performance Culture Framework.

Why do we believe the best is yet to come? Simply because in 2003 we created and evolved over the last 14 years an operating and consolidation framework that has turned the classic methodology of consolidating a highly fragmented industry upside down and made the most important jobs in the company those of our Managing Partners at the local business level rather than up the chain of command.

As many former owner testimonials have confirmed, we have proven beyond doubt that the best remaining family owned funeral home and cemetery business franchises owned in the best markets will absolutely get better over time after full integration into our **Being The Best** framework of operations support. At some point in the near term, we think the reality of this point along with other "Big Idea" strategies we have begun to implement in 2018 will lead to a more rapid and predictable pace of high quality acquisitions.

Carriage's Performance vs. S&P 500

Year	Return on Equity of Carriage	Percentage Annual Change Per-Share Book Value of Carriage	Percentage Annual Change Per-Share Market Value of Carriage	Percentage Annual Change S&P 500 with Dividends Included
2004	9.9	7.7	33.5	10.9
2005	(0.9)	(19.7)	1.2	4.9
2006	3.9	(0.8)	1.8	15.8
2007	7.2	7.4	72.9	5.5
2008	5.5	4.3	(77.2)	(37.0)
2009	6.7	7.8	95.5	26.5
2010	7.1	5.4	23.4	15.1
2011	7.0	4.4	15.5	2.1
2012	10.7	7.9	112.0	16.0
2013	11.5	15.0	64.5	32.4
2014	11.6	13.8	7.3	13.7
2015	13.8	(2.6)	15.0	1.4
2016	14.4	13.0	18.8	12.0
2017	10.6	14.8	(10.2)	21.8
Compounded Annual Gain – 2004-2017		**5.2%**	**14.9%**	**8.7%**
Overall Gain – 2003-2017		**103.4%**	**594.9%**	**221.5%**

CARRIAGE HIGH PERFORMANCE CULTURE FRAMEWORK

To celebrate our 25th year since Carriage was founded, my 2016 Shareholder Letter covered the first quarter century of our history in two parts. The first part covered the period from founding on June 1, 1991 to December 31, 2003, which is when we eliminated the traditional Budget and Control business model used across corporate America. On January 1, 2004 we implemented our innovative initial Funeral Standards Operating Model as a replacement for the Budget and Control Model and thus began a journey of learning, experimentation and continuous improvement that has evolved into what we strongly believe is a superior framework for operating and consolidating funeral home and cemetery businesses in our industry.

Even though I have written extensively in the past about the three core models that comprise the critical elements of our High Performance Culture Framework, i.e. Funeral and Cemetery Standards Operating Models, 4E Leadership Model and Strategic Acquisition Model, we believe the profoundly simple high performance ideas and concepts that are the "heart and soul" of these models have not yet been very well understood by public investors or even by most progressive owner operators in our industry.

The first major bullet point in my letter last year in the section titled **Final Observations About The Past and Present** on Page 38 was, "It is very difficult for most people (even some very smart ones) to think about something in a completely new, unorthodox, counterintuitive and unconventional way – which makes the uniqueness of Carriage as it has evolved pretty cool for those Who Get To The Other Side!" The knowledge for those wanting to get to the other side starts with our Standards Operating Model.

STANDARDS OPERATING MODEL

Over the last two years we have publicly mentioned for the first time the high performance ideas and concepts covered in the book ***Beyond Budgeting*** co-authored and published in 2003 by Robin Fraser and Jeremy Hope, which were also summarized in the February 2003 Harvard Business Review article "***Who Needs Budgets***."

The major takeaway point from their research on business models to replace budgets was that an incremental approach was doomed to failure and that success depended on first using a transformational process to build a coherent yet radically decentralized model, thereafter followed by long-term continuous improvement. Shown below is an excerpted table from the Harvard Business Review article that provides an accurate and relevant comparison of the primary "budget and control" model characteristics (left column) to the ***Beyond Budgeting*** concept characteristics (middle column) to the analogous more specific characteristics of our **Standards Operating Model.**

Fixed Performance Contract	Relative Performance Contract	Carriage Services Standards Operating Model
Fixed targets lead to only incremental improvements.	Relative targets push employees to outdo themselves.	Relative Performance Achievement measured against **Being The Best (BTB)** Long and Short Term High Performance Standards that don't change. Governance by **BTB** Standards Council of Peers.
Fixed incentives instill fear of failure.	Rewards based on relative performance give people the confidence to take risks.	One and Five Year Performance Incentives linked to **BTB** Standards Achievement with no limit to Recognition and Bonuses (**BTB** League Tables).
Rigid plans focus people on compliance.	Continuous planning focuses people on value creation.	Flexible **BTB** Standards Model weightings designed to reward long term sustainable growth versus maximum short term profit.
Preset allocation of resources encourages hoarding.	On-demand allocation of resources minimizes costs.	Capital allocation to Managing Partners/Businesses with High Long Term Standards Achievement (over 70%).
Centralized decision making ignores market feedback.	Decision making by local units in touch with one another makes full use of market feedback.	Decentralized decision making exploits dynamic local market knowledge for growth of market share and revenue within sustainable High **BTB** Field EBITDA Margin ranges.

Without a grasp of these concepts it is difficult to fully understand our results or the underlying ideas which produce them. Once again I would encourage those who would like to better understand the evolution of the high performance ideas and concepts of our High Performance Culture Framework to read either the book ***Beyond Budgeting*** or the Harvard Business Review article ***Who Needs Budgets***. But for now I will revisit and expand on a couple of sections from my 2016 letter.

CARRIAGE'S TEN TRUTHS OF A SERVICE BUSINESS

1. Market Share Equates To Market Value.
2. Market Share Is: Heritage, Relationships, Goodwill, Outstanding Service, and Leadership.
3. Select and Grow The Right People and They Will Grow Your Market Share.
4. Market Share Growth Leads To Well-Managed Profitability and Vice Versa.
5. Market Share Growth Is A Building Process; Market Share Loss Can Happen Quickly.
6. Market Share Lost Is Growth Opportunity Lost.
7. Market Share Loss Is Bad; Not Knowing Where It Was Lost and Why Is Worse.
8. The Budget Is Not To Be Worshipped, But Rather Used As A Tool For Success.
9. Performers Must Not Pay For Under-Performers.
10. Manage Each Business Uniquely; Only Fools Manage Consolidated Results.

These Ten Truths were developed because during 2001 to 2003 we were experiencing broad market share declines in our standalone funeral home portfolio that had been rapidly acquired in the deathcare consolidation mania of the 1990s. The first seven truths all related to market share volume trends for standalone funeral properties, although several of the truths don't as directly correlate to long term funeral volume trends for funeral homes built on cemeteries with many decades of heritage and a large number of annual burials. We long ago learned that market share volume trends are the primary driver of economic value creation in the standalone funeral home business and the seven market share truths remain as true and valid today as they were in 2001.

The difference today is that we figured out that often times whether a standalone funeral business is winning or losing market share can be a matter of debate in the short term with many excuses for one or two years of volume decline. The introduction of our Funeral Standards Operating Model in 2004 with a 30% (out of 100%) weighting on the contract volume standard (Standard for 2018 is the average number of annual funerals performed over three prior years of 2015, 2016 and 2017) eliminated all debate and began to shine a bright light of performance differentiation on Managing Partners who could grow a business over many years versus those who could manage to a negotiated top down annual budget imposed on them by the great Budget Gods in the sky!

What stands out about the first seven truths related to market share is that there is no mention of an aggressive preneed funeral sales program as a driver of increased market share volumes over time for standalone funeral properties. In the early years of Carriage we acquired numerous divestiture packages of standalone funeral homes that had been aggressively preneeded over many years if not several decades and with few exceptions they were all losing market share and had declining revenues and margins. We have yet to have anyone prove to us with long term preneed funeral and market share volume data for standalone properties that an aggressive preneed funeral sales program leads to good future long term financial outcomes.

So therefore we consider an aggressive preneed funeral sales concept for funeral homes that are not part of a combination funeral / cemetery business as more akin to a long term success myth than a "Truth."

On the other hand, we have also learned that the main economic driver for long term operating and financial success in the standalone cemetery and combination funeral and cemetery business is an aggressive and sustainably effective preneed sales program of cemetery / funeral products and services. We have also found that the cemetery business financial results over time should derive a substantial contribution from recurring income as well as capital gains from trust fund investments related to cemetery merchandise and services but especially from perpetual care trusts. These cemetery trusts can become very large over many decades at large heritage cemeteries as they have in a handful of our largest cemeteries, so acquiring more of these large cemetery properties in the future would be particularly attractive.

As for Truth No. 8, we found out the hard way that no matter what changes we made to our budget process in an attempt to improve performance management, the budget continued "to be worshipped" and was a "lousy tool for success!" If Jack Welch could not improve or escape the "tyranny of the budget" at General Electric during his twenty year reign as CEO, then we figured we should simply eliminate the budget and control concept completely from our company along with all the associated energy draining processes and methodologies. When you don't control the limits of what really good people "can do" without the burden of budgets and rules about what they "can't do", then you unleash tremendous people power in a people business.

Regarding Truth No. 9, our funeral and cemetery portfolios during the 2001-2003 timeframe and for many years thereafter had many high performing businesses subsidizing way too many underperforming businesses. Not until we introduced our Funeral Standards Operating Model in 2004 and Cemetery Standards Operating Model in 2007 did this "low performance culture" characteristic begin to change, slowly at first and much more rapidly thereafter.

Our field operating performance began to improve rapidly in the second half of 2006 as we terminated weak corporate leaders and field Managing Partners at a fast pace and replaced them with leaders that had many of the personal characteristics which are simply defined in the 4E Leadership Model that Jack Welch developed during the last phase of his time as CEO of General Electric. Carriage adopted the 4E Leadership Model in April 2006 (one of four "turning point" moves during 2006 and early 2007) and customized it for use as one of our three core models for sustained high performance. Jim Collins nailed this simple but powerful high performance culture concept in his book ***Good To Great*** with the phrase "**First Who, Then What**".

Truth No. 10 is one of my all-time favorites, as I learned in my first lending job with Prudential that consolidated data can be very misleading as to the source and concentration and sustainability of cash flow and earnings. Using "Big Data" conclusions derived from consolidated results to drive change and behaviors down on the competitive local market share battle-field of our businesses is indeed like finding "fools gold!" Especially in our highly fragmented industry, which is characterized by the local delivery of high value personal sales and services through highly motivated and skilled teams of employees (Carriage's two people standards weighted 10% each out of 100% total are critical to market share), there are unique competitive dynamics at play business by business and market by market that are not prone to centralized solutions or top down initiatives.

The unique nature of the fragmentation of our industry means that the main economic driver of long term success (market share volume trends) cannot be achieved by pursuing a national brand "McFuneral" approach because centralized top down initiatives and solutions to consolidated performance can be destructive to value creation over longer periods of time. The top management tendency strongly encouraged by incentives down through the chain of command will always be to over manage to achieve short term targets and bonuses which inevitably leads to market share losses in those local businesses that don't have a strong and resilient competitive standing. Market share losses lead to price increases that accelerate and never offset market share volume declines, which then leads to lower revenues and profits which have to be found somewhere else. As we like to say, "short term gain turns into long term pain!"

FIVE YEAR TREND REPORTS

We often see investors perusing and drawing conclusions from analysis of our SEC filings and financial data in the SEC required segment format, as that information is the most accessible for outside investors. However, we have found that requiring or asking someone who joins Carriage to unlearn some way of historically and successfully thinking about an important matter in preparation for analyzing the data related to the matter to reach actionable conclusions, and then requiring or asking them to relearn some completely new, unorthodox and counterintuitive way of thinking and behaving at Carriage is almost impossible for anyone to do. That is the "human nature" characteristic that has prevented so many otherwise really smart and previously successful people who joined Carriage over the years from "getting to the other side". Easy it's not – Darwinian it is!

As a testimonial experience on this point during the 2004-2006 period even after introduction of our Funeral Standards Operating Model in 2004, we continued to issue monthly internal reports in the SEC segment format. Each month I would personally by hand reverse financial engineer our consolidated funeral and cemetery financial results published by our Accounting Department in the SEC format until I could reconcile them with the funeral and cemetery Field EBITDA reports (summary data by business for month and year to date) that had been developed and used since Carriage was founded in 1991.

As field operations rapidly improved during the second half of 2006 as we replaced weak managers and leaders, our SEC format reporting and GAAP cost accounting still made Carriage seem like a troubled turnaround prospect based on our SEC filings but in reality was related to large one time charges in our Northern California portfolio being allocated to field operating business in our Western Region. Alas, we got an infamous takeover offer in December 2006 from a $32 billion hedge / private equity fund which wanted to replace me with their handpicked CEO after which he would eliminate the Standards Operating Model experiment because "obviously it hasn't worked!"

There is nothing more motivating than a huge fund with "more money than brains" wanting to kick you out (Mel, you must have a price – everybody has a price!) and pay you a huge amount of money to just go away and admit failure. The takeover offer of $6.25 per share quickly led (adapt or die!) to our Field Level innovative and highly transparent Five Year Trend Reports starting in the first quarter of 2007. Goodbye takeover! Hello "no place for underperformers to hide" trend reporting!

Because we wanted to show investors (and more importantly ourselves!) that we could find and attract acquisitions into our funeral and cemetery portfolios that had a higher future revenue and earnings growth profile than our 1990's timeframe existing portfolio, we decided to define Same Store in our Five Year Trend Reports as businesses that we had owned for five years rather than the traditional one year used by almost all multi-location companies in all industries including deathcare. This policy has kept new acquisitions in our Acquisition Portfolio for five years while the typically long process of full integration occurs, while at the same time showing the substantial change that can occur in Carriage's financial profile over five years with the addition of best in class acquisitions.

EVOLUTION OF FUNERAL PORTFOLIO PROFILE

The first quarter of 2007 was also when we began to grow again by acquisition after the public deathcare market crash in 1999 and subsequent seven year restructuring and repositioning period. After disposing of many underperforming properties (declining market share, revenue and earnings) to reduce our debt during the 2000 – 2006 timeframe, we were ready to use the lessons learned from our aggressive acquisition program mistakes of the 1990's as a guide for the acquisition candidate wisdom that would be institutionalized in the future.

As we enter what we believe will be a long period of faster growth by acquisition of both funeral homes and cemeteries, especially combination businesses, it is important to understand the Carriage funeral portfolio profile at the end of 2017. Our company revenue and earnings profile is currently funeral dominant, as funeral revenue, including funeral financial revenue that we segregate in our public trend reports, represents about 78% of our total company revenue and even a higher degree of earnings and Free Cash Flow.

Shown below is a summary breakdown of our current funeral home portfolio by grouping and the associated financial profile of each group in relation to our total funeral portfolio financial profile.

FUNERAL PORTFOLIO PROFILE 12/31/17 (dollars in millions) (i)

Grouping	Number of Businesses*	% Total	Revenue	% Total	Field EBITDA	% Total
Group A	28	22.4%	$16.8	8.5%	$ 5.4	6.8%
Group B	43	34.4%	$48.2	24.5%	$18.6	23.2%
Group C	33	26.4%	$66.4	33.7%	$28.4	35.4%
Group D	21	16.8%	$65.6	33.3%	$27.7	34.6%
Total	**125**	**100.0%**	**$197.0**	**100.0%**	**$80.1**	**100.0%**

Note: (i) Represents only existing businesses owned for full year and excludes divestitures and acquisitions during 2017.

**: Number of Businesses based on Standards Groupings.*

Last year in my shareholder letter I explained on Page 22 that our funeral home portfolio today can be broken into four volume groupings of A – B – C – D. The A Grouping represents 28 smaller businesses performing fewer than 125 funerals annually in mostly smaller markets (including distinct communities near larger cities) that were all acquired in the 1992 – 1999 timeframe. The average revenue for this small group is slightly more than $600,000 at an average Field EBITDA Margin of 32 – 33%. The B Grouping represents 43 somewhat larger businesses performing 125 – 250 funerals annually, 42 of which are in our Same Store portfolio and were mostly acquired in the 1990s. The average revenue for businesses in the B Grouping is a little over $1 million but the range can be wide, especially with businesses in very high average per funeral contract areas and markets primarily in the Northeast and Midwest. The average Field EBITDA Margin for the B Grouping is about 38 – 39%.

The C and D Groupings represent larger businesses that were especially targeted when we began to grow again in 2007 and will be emphasized for addition to our portfolio in the future. The table above does not include One B and Two D Grouping businesses that were added toward the end of 2017 because we don't yet have a full year financial profile. The C Grouping is comprised of 33 larger businesses performing 251 – 400 funerals annually with average revenue of over $2.0 million and Field EBITDA Margins of about 42 – 43%. The D Grouping is comprised of 21 larger businesses (some multi-location clusters) performing over 400 funerals annually with average revenue of over $3.1 million and Field EBITDA Margins of about 42 – 43%.

The major takeaway for the Funeral Portfolio Profile is that the combined A and B Funeral Groupings representing 71 individual businesses or 56.8% of the total of 125 at the end of 2017 only accounted for 33.0% of total funeral revenue and 30.0% of Field EBITDA. There are 43 businesses in Group B of which 42 are in our Same Store funeral portfolio. The B Group has been stable over the last five years with a compounded revenue increase of 1.1% annually ($2.1 million total) to $48.2 million in 2017 and Field EBITDA flat during this period at $18.6 million.

We will continue to divest over time those businesses that have business specific market trends that subtract from the total funeral portfolio revenue and earnings growth profile that is our goal over the next five to ten years. The A and B Grouping over time will represent a smaller and smaller percentage of our total revenue and Total Field EBITDA as we add larger businesses. While the combined A and B Groupings have not shown growth in revenue and earnings since 2013, they have been very stable producers of Field EBITDA and Free Cash Flow which has supported our capital allocation strategy of investing our precious capital in an opportunistic way for growth to maximize long term intrinsic value per share.

As an illustration of how outstanding execution of our Standards Operating Model and Strategic Acquisition Model can accelerate and impact shareholder value creation over five to ten years and longer, shown below for our C and D Funeral Grouping is the **Five Year Same Store Funeral Trend Report** on Funeral Contracts, Funeral Average Revenue Per Contract, Funeral Revenue, Funeral Field EBITDA and Funeral Field EBITDA Margins:

FUNERAL SAME STORE PORTFOLIO

Funeral Grouping	Performance Metric	2013	2014	2015	2016	2017	CAGR
C = 251-400 Contracts	Contracts	7,392	7,334	7,284	7,141	7,339	-0.2%
23 businesses	Average Contract Revenue	$5,759	$5,840	$6,142	$6,204	$6,197	1.9%
	Revenue (MM)	$42.6	$42.8	$44.7	$44.3	$45.5	1.7%
	Field EBITDA (MM)	$17.2	$17.9	$19.4	$19.0	$19.4	3.0%
	Field EBITDA Margin	40.5%	41.7%	43.4%	42.9%	42.6%	
D = Over 400 Contracts	Contracts	11,151	11,163	11,394	11,492	11,379	0.5%
18 businesses	Average Contract Revenue	$4,571	$4,604	$4,660	$4,641	$4,816	1.3%
	Revenue (MM)	$51.0	$51.4	$53.1	$53.3	$54.8	1.8%
	Field EBITDA (MM)	$20.1	$20.3	$22.5	$23.5	$23.5	4.0%
	Field EBITDA Margin	39.5%	39.6%	42.3%	44.0%	42.9%	
C & D Grouping	Contracts	18,543	18,497	18,678	18,633	18,718	0.2%
41 Businesses	Average Per Contract	$5,045	$5,094	$5,238	$5,240	$5,357	1.5%
	Net Revenue (MM)	$93.5	$94.2	$97.8	$97.6	$100.3	1.8%
	Field EBITDA (MM)	$37.4	$38.2	$41.9	$42.5	$42.9	3.5%
	Field EBITDA Margin	39.9%	40.5%	42.8%	43.5%	42.8%	
One C & One D Business	Contracts	1,210	1,215	1,333	1,364	878	-7.7%
2 Underperformers	Average Per Contract	$3,385	$3,351	$3,381	$3,012	$3,532	1.1%
2 Businesses	Net Revenue (MM)	$4.1	$4.1	$4.5	$4.1	$3.1	-6.7%
	Field EBITDA (MM)	$1.3	$1.6	$1.8	$1.6	$0.7	-13.9%
	Field EBITDA Margin	31.4%	38.7%	40.0%	39.8%	22.8%	
C & D Grouping	Contracts	17,333	17,282	17,345	17,269	17,840	0.7%
Without 2 Underperformers	Average Per Contract	$5,160	$5,216	$5,381	$5,416	$5,447	1.4%
39 Businesses	Burial Rate	42.1%	41.1%	40.2%	38.7%	38.0%	
	Cremation Rate	49.5%	49.8%	51.7%	53.6%	54.4%	
	Net Revenue (MM)	$89.4	$90.1	$93.3	$93.5	$97.2	2.1%
	Field EBITDA (MM)	$36.1	$36.6	$40.1	$40.8	$42.2	4.0%
	Field EBITDA Margin	40.3%	40.6%	42.9%	43.6%	43.4%	
C & D Grouping	Contracts	9,019	9,025	8,891	8,851	9,176	0.4%
Without 2 Underperformers	Average Per Contract	$5,569	$5,617	$5,866	$5,902	$5,959	1.7%
Acquired 1992 - 1999	Burial Rate	45.0%	44.4%	43.5%	42.6%	41.7%	
23 Businesses	Cremation Rate	47.4%	47.5%	49.1%	50.5%	51.0%	
	Net Revenue (MM)	$50.2	$50.7	$52.2	$52.2	$54.7	2.1%
	Field EBITDA (MM)	$21.4	$21.7	$23.8	$23.7	$24.4	3.3%
	Field EBITDA Margin	42.7%	42.9%	45.7%	45.4%	44.7%	
C & D Grouping	Contracts	8,314	8,257	8,454	8,418	8,664	1.0%
Without 2 Underperformers	Average Per Contract	$4,718	$4,779	$4,870	$4,906	$4,905	1.0%
Acquired 2007 - 2012	Burial Rate	39.0%	37.6%	36.8%	34.6%	34.1%	
16 Businesses	Cremation Rate	51.7%	52.3%	54.6%	56.8%	58.0%	
	Net Revenue (MM)	$39.2	$39.5	$41.2	$41.3	$42.5	2.0%
	Field EBITDA (MM)	$14.7	$14.9	$16.2	$17.1	$17.7	4.9%
	Field EBITDA Margin	37.4%	37.8%	39.5%	41.4%	41.8%	

The C and D Same Store Funeral Groupings represent 41 different businesses or 37.3% of a total of 110 businesses in our Same Store Funeral Portfolio. We have added 13 more C and D Grouping businesses out of 16 total in our Acquisition Funeral Portfolio that have been acquired in the 2013 – 2017 timeframe. Our larger Same Store funeral businesses represent about $100.3 million or 62.3% of Total Same Store Funeral Revenue of $161.0 million and $42.9 million or 65.8% of Total Same Store Funeral Field EBITDA of $65.2 million.

We have two (2) underperforming businesses (one in C Grouping, one in D Grouping) out of a total of 41 in our Same Store Funeral C and D Groupings. Both were bought at the peak of the deathcare consolidation market mania (one in 1997, one in 1998) and do not represent businesses we would acquire today or even core businesses within our existing portfolio, and are potential divestiture candidates in the future.

Excluding their combined underperformance from the consolidated data and then separating the performance of our 39 Same Store core businesses in these two groupings into one group (23 businesses) acquired in the 1992-1999 timeframe and another group (16 businesses) acquired in the 2007 – 2012 timeframe sheds light on the continuous improvement nature of execution of our Standards Operating Model and Strategic Acquisition Model over long periods of time. Only by breaking down the performance of our portfolio of funeral homes and cemeteries into groupings of similar sized businesses (volume and price per unit of volume) over many years can we determine whether all the high performance culture qualitative ideas, concepts, models, etc., translate into superior and sustainable quantitative results and value creation in the future.

Key takeaway points of merit from the 2013 – 2017 trend data profile of the C and D Funeral Grouping within our Same Store Funeral Portfolio that relate both to our ability to handle consolidation platform leverage as well as equity value creation are as follows:

1. Our portfolio of 39 larger funeral home businesses (excluding 2 underperformers) have modestly grown both contract volumes (CAGR of 0.7% since 2013) and Average Revenue Per Contract (CAGR of 1.4%) that has produced faster compounded revenue growth (2.1%) and even faster compounded Field EBITDA growth (4.0%).
2. The compounded growth in contract volumes, average revenue per contract and revenues in the 39 larger funeral businesses (mostly standalone) has occurred despite only about 20% of contract volumes representing previously sold contracts that matured upon a death; and also despite the fact that we have no control over the pricing of products and services at each business, which is completely decentralized.
3. The compounded growth in revenue and Field EBTIDA for these 39 businesses since 2013 has occurred despite an increase of 490 basis points in the cremation rate from 49.5% in 2013 to 54.4% in 2017.
4. Separating the 39 larger businesses into one group of 23 businesses acquired in the 1992 – 1999 timeframe and a second group of 16 businesses acquired in the 2007-2012 timeframe shows the same 2% compounded growth in revenue in each group but faster compounded growth in Field EBITDA of 4.9% in the 2007-2012 acquired group versus 3.3% in the 1990's group.
5. It takes many years for businesses to achieve their full steady state earnings power potential after initial integration into the framework of our Standards Operating Model, which is reflected in the 300-500 basis point differential in Field EBITDA Margins

between these two groups with the 1990's group consistently higher but the 2007-2012 group trending up and recently narrowing the margin gap to about 300 basis points.

6. The 2007-2012 acquired group of 16 businesses still have significant earnings potential upside from both revenue growth and margin expansion over time.

7. Assuming for ease of comparison and calculation that each incremental increase in Field EBITDA of $225,000 flows to pretax income for Carriage (depreciation, amortization and interest remain fixed and overhead growth is excluded for simplification) and equates to 1¢ per share, then the 39 large C and D Grouping businesses have added $6.1 million of Field EBTIDA from 2013 to 2017 on an increase in revenue of only $7.7 million (79% conversion into earnings) equal to 27¢ per share on a base of 16.1 million shares outstanding.

8. If we take the performance of the 23 larger funeral businesses that were all acquired in the 1990's back to full year 2003 performance, which was one year before implementing our Standards Operating Model, we find even more remarkable insights and comparisons:

	2003	2017	Change 2003-2017		CAGR 2003-2017
Total Contracts	9,374	9,176	(198)	-2.1%	-0.2%
Average Revenue	$4,538	$5,959	$1,421	31.3%	2.0%
Revenue (MM)	$ 42.5	$ 54.7	$ 12.2	28.7%	1.8%
Field EBITDA (MM)	$ 15.5	$ 24.4	$ 8.9	57.4%	3.3%
Field EBITDA Margin	36.5%	44.7%	820 bp	22.5%	
Cremation Rate	34.1%	51.0%	1690 bp	49.6%	

a. Compounded Revenue and Field EBTIDA growth over fourteen years of 1.8% and 3.3% occurred despite cremation rates increasing by almost 50% equal to 1690 basis points from 34.1% in 2003 to 51.0% in 2017.

b. Field EBITDA Margin increased by 820 basis points from 36.5% in 2003 to 44.7% in 2017 after many years of improvement in execution of our Standards Operating Model.

c. EPS accretion using $225,000 of incremental Field EBITDA as 1¢ per share was $8.9 million pretax equivalent to 39.6¢ per share from 2003 to 2017.

WHILE MANY INVESTORS ARE USED TO LOOKING AT MUCH BIGGER NUMBERS IN PUBLIC COMPANIES, WE VIEW OUR SMALL NUMBERS AND THE MAGIC OF SMALL NUMBERS COMPOUNDED INTO HUGE VALUE CREATION PER SHARE OVER LONG PERIODS OF TIME AS A THING OF BEAUTY.

But of course we would prefer to have larger numbers compounding into even larger increases in value creation over time. Larger businesses in larger markets have multiple ways to grow revenue at sustainably high Field EBITDA Margins, i.e. increases in market share, superior pricing power of products and services, and long term demographic trends. Moreover, once we have in place a high performance Managing Partner who can achieve annual **Being The Best** Standards of 70% or higher consistently over many years, then less proportionate overhead is required to support this larger business compared to smaller ones more geographically dispersed.

Since the end of 2012 we have acquired 18 businesses, 17 of which were standalone funeral homes and one combination business. These 18 were comprised of 2 businesses in our B Grouping (as part of larger package transactions), 10 businesses in our C Grouping and 5 businesses in our D Grouping with one in the smaller A Grouping. We also acquired 18 businesses in the 2007 – 2012 timeframe but none in 2008 and 2009 when we aggressively allocated our growing Free Cash Flow toward acquisition of 3.1 million CSV shares (approximately 15% of total outstanding) for $10 million equal to $3.19 per share. Most of the 18 businesses acquired in the 2007 – 2012 timeframe were in the C and D Groupings including 3 large combination businesses in the first half of 2007.

EVOLUTION OF STRATEGIC GEOGRAPHICAL PROFILE

When Carriage was founded in 1991 with no operations or consolidation experience in the business, there was very little thought given to a long term geographic strategy. Rather the focus was entirely on acquiring a critical mass of businesses fast enough to justify investment in an overhead infrastructure upon which a larger enterprise could be built over a longer timeframe.

We got lucky and unlucky at the same time when immediately after Carriage was founded, SCI favored us with numerous packages of divestitures, some discretionary but most pursuant to FTC Consent Degrees, as they aggressively acquired other consolidators from 1991 to 1999. As a result our geographical footprint through mid-1996 looked especially helter-skelter without any geographical strategy that made sense. But we had achieved sufficient critical mass to build infrastructure and go public on the Nasdaq Exchange in August 1996.

Beginning in July 1996 we began to focus on growth in the heavily and densely populated areas around Bristol and Hartford, Connecticut and Springfield, Massachusetts only a 20 minute interstate drive north. It was through these relationships and a handful of other early affiliations with a few highly reputable owners of top quality businesses that our passionate conviction of affiliating with only the best began to take shape. Getting public in 1996 also made a big difference to top quality franchises in other geographical areas of the country who saw that we were serious about building a very special and different kind of company that wouldn't be sold for a "fast buck flip" like so many other consolidators had done that were backed by venture capital and private equity.

We got strategically very lucky at the beginning of 1997 when a large family business consisting of 8 funeral homes and one large cemetery (still our largest) along the East San Francisco Bay Area joined Carriage and took a large equity position. Mark Wilson, the head of the family business, joined our Board and agreed to a Ten Year Strategic Partnership Program in which he would acquire a portfolio of high quality Northern California businesses. But rather than taking ten years, Mark achieved this goal in two years and today we own and operate 21 high quality properties in the East Bay / Oakland / San Jose / Modesto area comprised of 18 funeral chapels and 3 cemeteries operated as 15 different business units each with a Managing Partner.

After the public deathcare market crash in 1999, we began to divest underperforming properties many of which also did not fit into a more concentrated geographic strategy for future growth. When we began to grow again in 2007, all the acquisitions were assessed using six strategic criteria designed to enable allocation of our capital toward building groups of like quality businesses in cities and areas of the country that would likely benefit from future population growth and demographic trends (more deaths).

Shown below as of the end of 2017 is a breakdown of our existing portfolio into the number of businesses and full year revenue profile of what we consider strategic geographic areas of concentration compared to our portfolio as of the end of 2006:

Businesses in Strategic Geographic Areas of Concentration

	ACQUIRED						(MM) 2006 Revenue[1]				(MM) 2017 Revenue [1]			
	Funeral Homes		Combos		Cemeteries									
	'92-'99	'07-'17	'92-'99	'07-'17	'92-'99	'07-'17	FH	CEM	Total	%	FH	CEM	Total	%
Boston Area		1									$2.5		$2.5	1%
Bristol/Springfield Area	13	7					$13.4		$13.4	9%	17.4		17.4	7%
New York City Metro Area	6	6					7.3		7.3	5%	9.3		9.3	4%
Philadelphia Metro Area		2							-	0%	2.3		2.3	1%
Washington/North Virginia Area		2							-	0%	4.5		4.5	2%
Roanoke Virginia Area	4						3.0		3.0	2%	2.9		2.9	1%
Northern Detroit Area	2						2.9		2.9	2%	2.6		2.6	1%
Chicago Metro Area	3						3.4		3.4	2%	2.7		2.7	1%
Milwaukee Metro Area		1							-	0%	2.3		2.3	1%
Columbus/Middletown Area	4	1					3.9		3.9	3%	5.5		5.5	2%
Ashland, KY Area	4	2					3.0		3.0	2%	5.0		5.0	2%
Raleigh/Durham Area		5							-	0%	11.1		11.1	4%
Nashville/Clarksville Metro Area	3	1			1		1.4		1.4	1%	4.5		4.5	2%
Chattanooga Area	3	2					4.6		4.6	3%	9.6		9.6	4%
Panama City/Ft. Walton Area	1	2	1		2		4.9	$2.1	7.0	5%	6.8	$2.6	9.4	4%
Tampa/Orlando Area	2		1		1		3.5	2.3	5.8	4%	4.5	2.0	6.5	2%
Ft. Myers/Naples Area	2	5					1.8		1.8	1%	6.8		6.8	2%
Ft. Lauderdale/Miami Area		3			3			6.0	6.0	4%	2.7	6.2	8.9	3%
Atlanta Metro Area		1							-	0%	2.5		2.5	1%
New Orleans Area		3		1					-	0%	9.4	3.7	13.1	5%
Houston Metro Area	3	5	1		1		2.2	0.9	3.1	2%	9.6	1.5	11.1	4%
Corpus Christi Area		1		1	1			1.7	1.7	1%	5.5	4.7	10.2	4%
Bryan College Station Area	1	1					1.1		1.1	1%	2.5	-	2.5	1%
Amarillo, TX Area	2	2			1		1.0	0.5	1.5	1%	2.5	0.7	3.2	1%
Oklahoma City/Norman Area		2	1				1.8	2.2	4.0	3%	4.2	3.1	7.3	3%
Boise Metro Area	4			1	1	1	3.6	0.3	3.9	2%	6.9	1.3	8.2	3%
Flathead Valley, MT Area	1	2				1	1.1		1.1	1%	1.7	0.2	1.9	1%
San Jose/Oakland Area	16	2			3		19.8	13.3	33.1	22%	22.3	20.9	43.2	17%
Fresno Metro Area		1									2.1		2.1	1%
Los Angeles Metro Area		7		1					-	0%	9.0	3.7	12.7	5%
Total	**74**	**67**	**4**	**4**	**13**	**2**	**$83.7**	**$29.3**	**$113.0**	**76%**	**$181.2**	**$50.6**	**$231.8**	**90%**

Note [1]: Includes funeral and cemetery financial revenue.

Key takeaway points of merit from the above listing of what we consider strategic geographic areas of concentration are as follows:

1. Revenue from businesses that are in the strategic geographic areas of concentration increased 105% from $113.0 million in 2006 (75.6% of 2006 revenue), to $231.8 million in 2017 (89.5% of 2017 revenue).

2. Funeral revenue of $83.7 million from businesses in strategic areas accounted for 73.9% of total funeral revenue of $113.2 million in 2006, whereas funeral revenue of $181.2 million in strategic areas accounted for 90.2% of total funeral revenue of $200.9 million in 2017.

3. Cemetery revenue of $29.3 million from businesses in strategic areas accounted for 80.9% of total cemetery revenue of $36.2 million in 2006, whereas cemetery revenue of $50.6 million in strategic areas accounted for 88.5% of total cemetery revenue of $57.2 million in 2017.

Just because a business in a city or area is not listed above doesn't mean that the businesses in our portfolio would be divested. Rather, it means we would not likely allocate our capital to grow in that city or area because future revenue potential is relatively more limited than in other cities or areas considered strategic for future growth.

As we look to the future, we will continue to add select high quality businesses in strategic cities and areas where we already have a presence and believe that the growth prospects for the business and area would produce high rates of return on invested capital. Our goal over the next five to ten years is to focus allocation of our capital in those cities and areas where it is still possible to build a group of businesses performing 1,000 to 5,000 funerals and cemetery interments. By definition that would mean larger cities and areas where we already have a portfolio presence like the high population density corridor from Washington, D.C. up through Philadelphia, New York City, Hartford and Boston; East Bay / Oakland / San Jose Area; Chicago, Los Angeles, Houston, Oklahoma City, Atlanta, Nashville and areas of Florida.

We also have a ten year goal of adding new businesses in another 5 to 10 large strategic markets in which we don't currently have a presence that would include the metropolitan areas of Pittsburgh, Minneapolis, Indianapolis, Salt Lake City, Charlotte, Austin, San Antonio and Dallas / Fort Worth, as well as in the rapid growth areas in North and South Carolina and Virginia. So capital allocation toward growth by acquisition of larger businesses (C and D Funeral Grouping) in large, growing strategic geographic areas of concentration will generate the highest returns on invested capital over time.

STRATEGIC RANKING AND ACQUISITION METHODOLOGY

Beginning in 2007 with the initial Strategic Acquisition Model with six criteria that were poorly defined, we have evolved over the last twelve years a Strategic Growth Framework and Capital Allocation Strategy for long term growth and value creation by making highly selective acquisitions using our Strategic Ranking and Strategic Acquisition Valuation Methodology shown below.

	Strategic Ranking and Strategic Acquisition Methodology	Weighting
1	Seller Motivation Alignment	5%
2	Large Strategic Market	15%
3	Large Strategic Business	15%
4	10 Year SS Volumes	15%
5	Average Revenue Per Contract	15%
6	Competitive Standing Trend	10%
7	Burial/Cremation Mix Trend	10%
8	Demographic Trends	5%
9	Institutional Brand Strength	5%
10	Barriers to Entry	5%
TOTAL		**100%**

The Ten Strategic Criteria we have developed to profile and rank acquisition candidates relate to long term market and business characteristics that have very little correlation to how well or poorly a specific business is managed for short term financial results (one or two years) and are hugely correlated with longer term trends in revenue and profits (five to ten years). These strategic criteria are a tool that should enable us to better predict those businesses that will turn out to be long term winners in our portfolio and not underperforming businesses that subtract from the high performance of our many Managing Partners and their employee teams who are High Performance Heroes.

Shown below is a table comparing our Four Quarter Outlook for 2018 with actual full year 2006 performance and the ten year goal for Full Year 2016 that was approved by our Board at the end of 2006.

	Actual 2006	2006 Ten Year Goal 2016	4 QTR Outlook Low Point 2018	Change 2006-2018		CAGR 2006-2018
Total Revenue (MM)	$149.4	$300.0	$280.0	$130.6	87.4%	5.4%
Total Field EBITDA (MM)	$ 52.6	$113.0	$117.0	$ 64.4	122.4%	6.9%
Total Field EBITDA Margin	35.2%	37.7%	41.8%	660 bp	18.8%	1.4%
Adj. Consolidated EBITDA (MM)	$ 33.4	N/A	$ 80.0	$ 46.6	139.5%	7.6%
Adj. Consolidated EBITDA Margin	22.4%	N/A	28.6%	35.7%	27.7%	2.1%
Funeral Cremation Rate	34.3%	N/A	52.4%	1810 bp	52.8%	3.6%

I have often said somewhat in jest that I have been "right so early" that it seemed as if I was "wrong for so long!" So it is truly amazing to look back and see that the ten year vision for Carriage at the end of 2006 has actually happened within a "roughly right range of outcomes". That was EASY! And to just think – all this increasing growth at increasingly high profit margins occurred while cremation rates in our funeral portfolio increased 53% or 1810 basis points from 34.3% in 2006 to an estimated 52.4% in 2018 both from the national secular trend as well as acquisition of several large businesses in our Western Region with especially high cremation rates.

By far the most difficult challenges we faced executing the growth vision of our company over the last twelve years were because so many leaders and employees of our company either did not believe in the power of the ideas and concepts that comprise our three core models (Standards Operating, 4E Leadership and Strategic Acquisition), or did not have the functional or collaborative team leadership skills to execute them effectively. Thankfully we finally have the **Right Who's** in the **Right Seats** on the **Carriage Enterprise Bus** so that we can accelerate our growth over the next ten years on the **Carriage Good To Great Journey** that never ends.

U.S. DEMOGRAPHIC TRENDS OF THE FUTURE

In 2005 shortly before the U.S. population exceeded 300 million, I saw a long article in The Wall Street Journal with the headline 400 million, which was forecast to be the population of the U.S. by 2050. The article reviewed the historical population growth trends in the U.S. and compared the most recent forecast trends to those of other countries with aging but no growth population trends. The article also covered which areas of the country would most likely be the greatest beneficiaries of the next 100 million of population growth, including fast growing cities like Houston, Las Vegas, Phoenix, Charlotte, Dallas, Orlando and San Antonio.

Since 2005 there have been new demographic trends that have been researched substantially that have altered some of the findings at the time of the 2005 article. A few of the main points that were contained in a recent Wall Street Journal article by William Galston are as follows:

1. The U.S. population will reach 355 million by 2030, five million fewer than estimated by the Census Bureau only three years ago, and will reach 404 million by 2060, ten years later than the 2005 estimate.
2. People over 65 years of age would outnumber children by 2035, a first in U.S. history, as baby boomers become older and birth rates trend toward historical lows of about 60 births per 1,000 women ages 15 to 44.
3. As covered in the book "***The New Geography of Jobs***" by Berkley economist Enrico Moretti published in 2012, there is a widening split between dynamic urban areas and struggling small cities and towns.
4. Mr. Moretti believes that the emerging knowledge economy depends on constant innovation and that the most successful cities and areas in the future will have a critical mass of highly educated workers engaged in the regular, often informal, exchange of ideas.
5. Once a city or area gets identified as having the critical mass of population characteristics described by Mr. Moretti, the success feeds on itself and the innovation hubs attract new innovators in a self-reinforcing process while smaller cities, towns and areas lacking this critical mass of intellectual and economic growth fall further behind.
6. As supporting data for Mr. Moretti's jobs and population growth thesis is the recent research by the Brookings Institution's Metropolitan Policy Program, which documented the growing advantages that large, dynamic metropolitan areas enjoy in jobs, wages and productivity gains.
   a. From 2010 to 2016, large cities generated 73% of the nation's employment gains and two-thirds of its output growth.
   b. A study by the Economic Innovation Group found that from 2010 to 2014 just 20 counties accounted for half the new business formation in the entire U.S.
7. The recent major tax reform legislation may slow or even erode these trends in some high tax states like New York, New Jersey, California, etc., and speed up growth in some of the fast growing low tax cities and urban areas highlighted in the 2005 article, especially cities in Texas (shale energy revolution), North Carolina, etc. We would not be surprised to see Amazon build its second headquarters campus in one of these states.

As the above demographic trends of the future play out over the next five to ten years, we will constantly reassess our growth strategy and geographical focus so that most of our businesses have the demographic and population trends as our friend rather than our enemy. This way of long term thinking about our company is not rocket science and our capital allocation strategy will align completely with this thinking and what we consider a "strategic business in a strategic market or area".

ACQUIRING AND RETAINING A PLAYER TALENT

In order to effectively communicate with and inspire for higher performance the Managing Partners, Sales Managers and employees in our businesses that are responsible for executing our Standards Operating Model, we also had to invent and evolve over time a High Performance Operating and Leadership Language and incentive compensation arrangements (**Being The Best** One Year, **Good To Great** Five Year) for our businesses.

These extraordinarily unique and generous incentive compensation arrangements for our Managing Partners produce owner like income and net worth rewards over 10-15 years when the business is operating at a high level of Standards Achievement (Range of 70% to 85%) over long periods of time. My only regret now is that we didn't have these "pay up for crazy high performance" ideas even sooner because they attract and retain top talent who want to make an EPS "meter moving" financial difference!

Even top talent at other firms who hear about Carriage and learn that execution of our Standards Operating Model is decentralized and has huge financial rewards (Hallelujah!) really have little idea about the performance accountability they will be held to by peers and others in the organization. Most Managing Partners who come to Carriage from somewhere else think that 100% Standards Achievement is the definition of success, much like when we were in grade school and took a test, but we have learned that 100% Standards Achievement is not sustainable over longer periods of time.

Based on our experience 100% Standards Achievement for more than two years, three years max, means the business is being over managed for shorter term financial results and incentives at the expense of faster growth in market share at sustainable Field EBITDA Margins by a top notch staff of employees who are simply better at this noble work than the competition. On the other hand, a business that consistently averages in a 70% to 85% Range of Standards Achievement is generally growing volumes and revenues at sustainably high profit margins while continuously upgrading staff to better serve client families and adapt to competitive changes in the local market.

TEN YEAR VISION, FIVE YEAR STRATEGY, ONE YEAR PLAN

When we began reporting in 2007 with our Five Year Trend Reports covering five full years of historical performance, we also began the practice of looking five full years into the future with a scenario of "Roughly Right Range" of financial outcomes as we began to grow again using our Strategic Acquisition Model. This period of renewed growth was defined under a new **Being The Best Ten Year Vision** to only affiliate with the best remaining independent businesses in the best markets.

Since 2007 we have set corporate annual goals that aligned with Carriage's Ten Year Vision and Five Year Strategy. But based on actual unforeseen and uncontrollable events such as the 2008/2009 market crash and Great Recession, we have always been prepared to quickly adapt our shorter term capital allocation strategy in ways that would create the most intrinsic value per share over the long term. During 2008 and 2009 when most companies were "foggy at best" on their near term outlook and were hoarding cash (no credit for nobody), we acquired approximately 15% of our outstanding shares for only $10 million using our increasing Free Cash Flow and in 2009 had the first year of what turned out to be eight straight years of record performance.

Our goal over the next five to ten years is not only to accelerate our growth by acquisition, but also to have each business in our funeral home and cemetery portfolios aligned with Carriage's Ten Year Vision of higher growth and profitability over time. This past year our operations leadership led by Mark Bruce and his team began the process of having each Managing Partner develop a Ten Year Vision and Five Year Strategy with a Roughly Right Range of financial outcomes for each business along with a one year plan of **Being The Best** Standards Achievement under our Standards Operating Model.

It is a difficult and challenging yet quite wonderful job to be a Managing Partner of one of our portfolio businesses. So it is easy to become so intensely "in the business" on a day to day, 365 day 24/7 basis that you don't take the time to pause and reflect on what can be achieved in the future over five to ten years.

To say that the Managing Partner "Vision Calls" with our field operations and analytical support teams in Houston has been a "wake-up call" would be a profound understatement. Suffice it to say that if there is no vision of the future expressed by the Managing Partner at the beginning of the call that makes sense and fits with our Ten Year Vision of Carriage, then "the call" is suddenly quit – over – caput! We expect each leader at every position in all areas of our company to be responsible and accountable for contributing to the high performance success on which our future destiny depends. In other words we take terms like **Good To Great** and **Built To Last** seriously. And we communicate with brutal honesty when someone is out of alignment with that "high performance culture" characteristic and expectation.

The idea of a Ten Year Vision for each of our businesses that fits within the Ten Year Vision of Carriage but that is developed and executed locally but supported centrally and ably by our home office support teams is a brilliant idea that defines Carriage's high performance culture about as well as anything I could say in this letter. Even better because it wasn't my idea but upon hearing about it thought it was a fantastic and energizing idea.

But this fantastic and energizing idea also begs the question, "How do the rest of us in field operations and home office support teams seed and evolve the continuous improvement dynamic in our own roles and areas of responsibility that enables our Managing Partners to successfully achieve their Ten Year Vision and Five Year Strategy?" We are forced by the sheer weight of this fiduciary responsibility to question each process, each report, each system, each communication and especially the quality, skill and nature of each person in each role. We must continually challenge each other about our weaknesses with brutal honesty so that we also have a Ten Year Vision, Five Year Strategy and One Year Plan that aligns with Carriage's Vision and Mission of **Being The Best**.

CARRIAGE HIGH PERFORMANCE VALUE CREATION GRADING SYSTEM

One way for investors and others outside our company to better comprehend how we think and behave inside our company is a combination Yogi Berra / Warren Buffett analogy related to a game of investment choices:

1. If you came to a future investment returns fork in the road, would you choose the frequently traveled path where your investment returns over long periods of time depended on your ability to trade in and out of the market and its primary sectors based on timing the ups and downs of not only individual companies and sectors but also the vagaries of funds flow fashion?
2. Or would you choose the less traveled and much more boring path of owning shares for long term capital gains in a small public company in a sector that doesn't quite fit any where else and which defines long term success in rather unusual ways: owning, operating and acquiring funeral homes and cemeteries that:
    - Have a Strategic Ranking on most of its portfolio of properties that averages about 70% of 100%, plus or minus 5%;
    - Operates each business in a decentralized framework with Managing Partners for each business typically possessing 70% to 80% of the personal characteristics defined in a 4E Leadership Model created by Jack Welch in the 1990's;
    - Long term success for each business defined as **Being The Best** Standards Achievement within a range of 70% – 85% using a business model that seems foreign to the traditional concepts of performance management.

While we can only speak for those of us inside our company, the choice as presented above is a no brainer! Assuming that about 65% to 75% of our portfolio at some point over the next ten years can be graded in the sustainable high performance ranges above, it would mean that we have a majority portfolio of larger businesses in strategic markets that are increasing market share, revenues, Field EBITDA and Free Cash Flow over many years at increasingly high Field and Consolidated EBITDA Margins, which would in turn create "gobs of shareholder value" for Carriage's long term shareholders when the internal cash capital produced is allocated and invested wisely to produce high compound future rates of return.

CONSOLIDATION PLATFORM VALUE CREATION FINANCIAL DYNAMICS

As Carriage evolved its High Performance Culture Framework for operating and consolidating funeral homes and cemeteries since 2007, it became increasingly clear that there were four distinct financial dynamics related to leveraging the creation (or destruction) of value for shareholders. These four financial dynamics are captured toward the bottom of the Visual Schematic of our High Performance Culture Framework and are shown below in the actual sequence of the financial dynamic as it occurs and is captured in our Five Year Trend Reports over time as we execute our three core models:

1. **Operating Leverage.**
   Modest growth in Same Store Revenues and modest increases in Field EBITDA Margins over time produces a higher growth rate (versus revenue) in Same Store Field EBITDA.
2. **Consolidation Platform Leverage.**
   Acquired Field EBITDA from acquisitions over five year timeframes will substantially add to Consolidated EBITDA and Free Cash Flow and be highly accretive to EPS.
3. **Overhead Leverage.**
   Fixed Regional and Corporate Overhead infrastructure costs will increase over time at a slower rate than revenue, and variable overhead, primarily incentive compensation, will increase at a faster rate due to higher operating and financial performance over time.
4. **Capital structure Leverage.**
   High industry leading Consolidated EBITDA Margins that approximate the cash earning power of Carriage before capital structure costs has supported capital allocation and higher total leverage strategies that benefit long term shareholders without undue risk to creditors.

Much of this shareholder letter has been devoted to a historical review using select business portfolio trend data that reflects the beneficial impact of operating leverage and consolidation platform leverage from acquisitions over long periods of time.

We have made great progress over the last five years with getting better at supporting our field operating businesses while also showing a declining trend in overhead as a percentage of revenue. Our Total Overhead in 2013 was $33.0 million equal to 15.5% of Total Revenue of $213 million, whereas Total Overhead had increased only $3.4 million or 10.3% to $36.4 million by 2017, equal to only 14.1% of Total Revenue of $258 million.

It took a while but we now believe we have the portfolio critical mass to better leverage our Total Overhead with new Same Store and Acquisition Revenue. Our near term goal is to achieve a Total Overhead reduction of 100 basis points to about 13.1% of Total Revenue, which would be a financial dynamic benefit that would increase our Consolidated EBITDA Margin by the same 100 basis points. We would thus begin to trend toward our intermediate goal of achieving a historical and industry milestone of a 30% Consolidated EBITDA Margin within the next few years.

CARRIAGE HIGH PERFORMANCE CULTURE / CEO SUCCESSION RISK

I have no clue how to define the culture of a company but many leaders of companies say their culture is a competitive advantage. I have studied the culture of many companies over the years and absolutely believe culture has been a defining competitive advantage over long periods of time for many. I can think of Texas Commerce Bank where I worked in the 1970's, Southwest Airlines in the 80's and 90's and more recently Amazon, Netflix, Bridgewater Associates and others where people selection and retention of only the best who are a cultural fit creates a dynamic and innovative high performance culture that produces amazing financial performance as well. Yet so many companies lose the competitive advantage of culture over time as enterprise leaders change and new leaders want to implement their own ideas.

While it is difficult if not impossible to define culture and especially a high performance culture with words, you absolutely know it when you become part of a team that evolves into one over time. The corporate culture itself becomes like a protective immune system akin to the immune system of our body that naturally fights off infections and viruses. Carriage's strong mission and principles based culture and unique high performance ideas, concepts and methodologies have been seeded, nourished and adopted broadly and deeply across all areas of the company for many years. The culture and those of us who lead it have continuously rejected and fought against ideas and ways of thinking by others that would have been harmful to the long term health of the company. And the high performance culture keeps on winning!

As we stated clearly within the Corporate Governance Section of our recently filed Proxy Statement, our Board "fundamentally understands that the biggest continuing risk for the company is that executive and senior leadership will not continue the evolution of our unique **High Performance Culture** ideas and concepts. Our continued success and effective risk management emanates from being highly selective about leadership of the company and finding leaders that are aligned with our Five Guiding Principles and the idea of Carriage as a **High Performance Culture Company.** The biggest risk . . . is not having or not hiring the '**Right Who**' or hiring the '**Wrong Who**' including especially a CEO replacement in the event Mr. Payne was unable to fulfill his CEO responsibilities."

While it is natural to ask what happens to Carriage if I retire or get hit by a bus, I have no plans to do either! I am in great physical health (work hard to keep it that way) and my yearning for learning more about many things (especially human nature) has blessed me with eternal optimism about the future. Or as my wife and kids would say (son aged 31 and daughter aged 24), I am a "glass half full" guy 100% of the time. And as Carriage's Lead Director said during my recent 75th Birthday Celebration, when asked which decade of my life has been the best, I never hesitate to say, "Oh That's Easy! It's the next one!"

Our Operations and Strategic Growth Leadership Team (OSGLT) comprised of ten members including me is the most skilled and aligned senior leadership team in the history of the company. Looking back on when OSGLT was initially formed at the beginning of 2012, we went through five years of numerous senior leaders coming and going to finally get the fully aligned collaborative team dynamic right. And I have the best job of all, which is mentoring and coaching this young team of leaders so that they can lead the company to continued success when I am no longer here.

The amount of personal and professional growth and development in this young group of leaders both individually and as a collaborative team has been phenomenal over the last two years, and they have been getting better at an accelerating rate. But the best is yet to come from this leadership team, as I have found my continuing investment in them (tough love when needed) to be rewarding with returns on my allocated time extraordinarily high and expected to increase over time well into the future. Our future CEO could well be one of them.

We also have the best Board of Directors in our history who each bring separate strengths and experience to their role of oversight and yet fully understand the uniqueness of Carriage related to culture and leadership. We will add one new member at our May 2018 Board of Directors Meeting that will bring our total to seven members, six regular members comprised of five independent members and me as Chairman, plus one Advisory Board Member.

GOOD TO GREAT JOURNEY – WHAT REALLY MATTERS

Last year in my 2016 Shareholder Letter in a section toward the end titled **Reflections and Acknowledgements,** I thanked a few people who have made a meaningful and lasting difference to me and Carriage since its founding on June 1, 1991. The last person thanked was Jim Collins, whom I have never met, for the groundbreaking research that he and his team did for ***Good To Great***, whose simple yet powerful high performance ideas and concepts have inspired me and our leaders and employees since we launched our **Good To Great Journey** at the beginning of 2012.

As I was finishing my 2016 Shareholder Letter, I tried to remember how **Good To Great** ended but drew a blank. So I retrieved my well-worn, generously highlighted and tabbed copy from my office and turned to the last paragraph on Page 210, which reads as follows:

> "When all these pieces come together, not only does your work move toward greatness, but so does your life. And it is very difficult to have a meaningful life without meaningful work. Perhaps, then, you might gain that rare tranquility that comes from knowing that you've had a hand in creating something of intrinsic excellence that makes a contribution. Indeed, you might even gain that deepest of all satisfactions: knowing that your short time here on this earth has been well spent, and that it mattered."

On March 5, 2018 I sent our annual theme letter to all employees and will share with you the ending which also becomes the end of this shareholder letter:

> Recently, a new friend of the Carriage family sent me the poem "*What Will Matter?*" by Michael Josephson, and I will share a few thoughts which are perfectly aligned with how we think about our **Good To Great Journey** and which may provide you with inspiration as you think about creating your theme for the first One Year Plan for your business:
>
> > *"What will matter is not what you bought but what you built, not what you got but what you gave. What will matter is not your success but your significance...Living a life that matters doesn't happen by accident. It's not a matter of circumstance but of choice. Choose to live a life that matters."*
> >
> > -Michael Josephson, What Will Matter (2003).

And as always, I leave you with this thought:

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

Once again, I choose **Greatness** and to **live a life that matters with other like-minded members of our Company**—because I want to be on the journey from **Good To Great** to **Built To Last** with you!

Respectfully,

Melvin C. Payne
Chairman and Chief Executive Officer

CARRIAGE 2017 GOOD TO GREAT AWARD – HIGH PERFORMANCE HEROES

At the beginning of 2012 we created a new five year incentive award with the name **Good To Great Award** that was directly linked to our annual **Being The Best Pinnacle Award** which itself is linked to High Funeral Standards Achievement over a full year, i.e. our **Good To Great Awards** require high and sustained **Being The Best Standards Achievement** over a full five years. We have had many wonderful performances since the start of our **Good To Great Journey** by High Performance Hero Funeral and Cemetery Managing Partners and Sales Managers and their teams of winning employees, so I am more than honored on behalf of our Standards Council members, senior leadership team and Board of Directors to announce our second group of **Good To Great Award** winners for the five year timeframe that began in 2013 and ended at year end 2017, as listed below:

Cindy Hoots	Schmidt Funeral Homes; Katy, TX
Jim Terry	James J. Terry Funeral Home; Downingtown, PA
Michael Nicosia	Chapel of San Ramon Valley; Danville, CA

CARRIAGE 2017 PINNACLE OF SERVICE AWARD WINNERS

As an important part of our **High Performance Culture** tradition and language, and because we have a passionate conviction that RECOGNITION is the highest form of motivation, listed below are 29 Carriage **"Being The Best" Pinnacle Of Service Award** winners and 12 managing partners who achieved **100% Of Standards** for 2017:

"Being The Best" Pinnacle of Service Award

Curtis Ottinger	Heritage Funeral Home; Chattanooga, TN
Matthew Simpson	Fry Memorial Chapel; Tracy, CA
Michael Nicosia	Ouimet Brothers Concord Funeral Home; Concord, CA
Andy Shemwell	Maddux-Fuqua-Hinton Funeral Homes; Hopkinsville, KY
James Bass*	Emerald Coast/McLaughlin Mortuary; Ft. Walton Beach, FL
	McLaughlin Twin Cities Funeral Home; Niceville, FL
Justin Luyben	Evans-Brown Mortuaries & Crematory; Sun City, CA
Verdo Werre	McNary – Moore Funeral Service; Colusa, CA
James Terry	James J. Terry Funeral Home; Downingtown, PA
Tim Miller	Fuller Funeral Home – Cremation Services; Naples, FL
John Fitzpatrick	Donohue Cecere Funeral Homes; Westbury, NY
Tim Hauck	Harvey-Engelhardt/Fuller Metz; Ft. Myers, FL
David Rogers	Garden of Memories Funeral Home; Metairie, LA
Alan Kerrick	Dakan Funeral Chapel; Caldwell, ID
Bill Martinez	Stanfill Funeral Home, Miami, FL
Wayne Lovelace	Lotz Funeral Home; Vinton, VA
Brad Shemwell	Latham Funeral Home, Elkton, KY
Brian Binion	Steen Funeral Homes; Ashland, KY
Steven Mora*	Conejo Mountain Funeral Home; Camarillo, CA
	Conejo Mountain Memorial Park; Camarillo, CA
Jason Cox	Lane Funeral Home – South Crest; Rossville, GA
Kim Borselli	Fuller Funeral Home – Cremation Services; Naples, FL
Charlie Eagan	Greenwood Funeral Home; New Orleans, LA
Sue Keenan	Byron Keenan Funeral Home & Cremation; Springfield, MA

"Being The Best" Pinnacle of Service Award & 100% of Standards Award

Ken Summers	P.L. Fry & Son Funeral Home; Manteca, CA
Nicholas Welzenbach	Darling & Fischer Funeral Homes; Los Gatos, CA
Jeff Moore	Sterling – White Funeral Home; Crosby, TX
Bob Pollard	Lotz Funeral Home; Salem, VA
Patrick Schoen	Jacob Schoen & Son; New Orleans, LA
Scott Griffith	Woodtick/Frigon Funeral Homes; Wolcott, CT
Scott Sanderford	Everly-Wheatley Funeral Home; Alexandria, VA

"Being The Best" 100% of Standards Award

Jeff Seaman	Dwayne R. Spence Funeral Home; Canal Winchester, OH
Courtney Charvet	North Brevard Funeral Home; Titusville, FL
David DeRubeis	Cody – White Funeral Service; Milford, CT
Joseph Newkirk	West Contra – Costa Group; Richmond, CA
Jeff Hardwick	Bryan & Hardwick Funeral Home; Zanesville, OH

**Qualified for 2 Businesses*

HIGH PERFORMANCE CULTURE FRAMEWORK

CARRIAGE SERVICES, INC.
"BEING THE BEST"
Funeral and Cemetery Operating Company
Consolidator Of Independent Family Businesses
Value Creation Investment Platform

Five Guiding Principles
Honesty, Integrity, and Quality in All That We Do
Hard Work, Pride of Accomplishment, and Shared Success Through Employee Ownership
Belief in the Power of People Through Individual Initiative and Teamwork
Outstanding Service and Profitability Go Hand-in-Hand
Growth of the Company Is Driven by Decentralization and Partnership

Concepts of Good To Great
First Who, Then What
Right People in the Right Seats
Flywheel Effect

Standards Operating Model
Market Share
People
Operating & Financial Metrics

Integrity

4E Leadership Model
Energy
Energize
Edge
Execution

Passion

Strategic Acquisition Model
Ten Year Vision
Strategic Markets
Strategic Market Methodology
Selective Growth Strategy

Being The Best League Table
Being The Best Annual Incentive
Good To Great Five Year Incentive

High Standards Achievement

Capital Allocation
Acquisitions
Internal Growth Projects
Share Repurchases
Dividends
Debt Repayment

Valuation Ranking Methodology

ROIC & LOI Methodology

Maximize Intrinsic Shareholder Value Per Share

Value Creation Financial Dynamics
Operating Leverage
Overhead Leverage
Capital Structure Leverage
Consolidation Platform Leverage

Five Year Trend Reports

Sustained High Financial Performance

Carriage Journey From Good To Great
Carriage Achieves High Valuation
Carriage Becomes Built To Last

ANNUAL OPERATING AND FINANCIAL TREND REPORT

This table uses Non-GAAP financial measures to present the financial performance of the Company. Non-GAAP financial measures should be viewed in addition to, and not as an alternative for, the Company's reported operating results or cash flow from operations or any other measure of performance as determined in accordance with GAAP. We believe the Non-GAAP results are useful to investors because such results help investors compare our results to previous periods and provide insights into underlying trends in our business. In addition, the Company's presentation of these measures may not be comparable to similarly titled measures in other companies' reports. The Non-GAAP financial measures include "Funeral, Cemetery and Financial EBITDA", "Total Field EBITDA", "Total Field EBITDA Margin", "Divested Revenue", "Divested EBITDA", "Divested EBITDA Margin", "Consolidated EBITDA", "Adjusted Consolidated EBITDA", "Adjusted Consolidated EBITDA Margin", "Adjusted Net Income", "Adjusted Basic Earnings Per Share", "Adjusted Diluted Earnings Per Share" and "Special Items". A full copy of our Annual Operating and Financial Trend Report and reconciliations of the Non-GAAP financial measures to GAAP measures are provided on our website, **www.carriageservices.com.**

(in thousands, except per share amounts)	2013	2014	2015	2016	2017	CAGR
Same Store Contracts						
Atneed Contracts	23,428	23,489	23,385	23,104	23,947	
Preneed Contracts	5,953	5,632	5,748	5,568	5,640	
Total Same Store Funeral Contracts	29,381	29,121	29,133	28,672	29,587	0.2%
Acquisition Contracts						
Atneed Contracts	64	1,473	2,392	3,289	4,488	
Preneed Contracts	8	369	574	597	819	
Total Acquisition Funeral Contracts	72	1,842	2,966	3,886	5,307	
Total Funeral Contracts	29,453	30,963	32,099	32,558	34,894	4.3%
Funeral Operating Revenue						
Same Store Revenue	$ 151,570	$ 151,684	$ 155,362	$ 154,130	$ 158,106	1.1%
Acquisition Revenue	464	10,926	19,187	24,914	34,294	
Total Funeral Operating Revenue	$ 152,034	$ 162,610	$ 174,549	$ 179,044	$ 192,400	6.1%
Cemetery Operating Revenue						
Same Store Revenue	$ 40,479	$ 41,558	$ 43,661	$ 45,894	$ 45,044	2.7%
Acquisition Revenue	-	1,298	2,996	3,053	3,194	
Total Cemetery Operating Revenue	$ 40,479	$ 42,856	$ 46,657	$ 48,947	$ 48,238	4.5%
Total Financial Revenue	$ 18,694	$ 18,974	$ 19,415	$ 18,589	$ 17,501	-1.6%
Total Divested Revenue	$ 1,867	$ 1,684	$ 1,881	$ 1,620	-	
Total Revenue	$ 213,074	$ 226,124	$ 242,502	$ 248,200	$ 258,139	4.9%
Field EBITDA						
Same Store Funeral Field EBITDA	$ 54,583	$ 55,457	$ 59,189	$ 60,042	$ 60,864	2.8%
Same Store Funeral Field EBITDA Margin	36.0%	36.6%	38.1%	39.0%	38.5%	
Acquisition Funeral Field EBITDA	229	4,417	8,473	10,421	13,565	
Acquisition Funeral Field EBITDA Margin	49.5%	40.4%	44.2%	41.8%	39.6%	
Total Funeral Field EBITDA	$ 54,812	$ 59,874	$ 67,662	$ 70,463	$ 74,429	7.9%
Total Funeral Field EBITDA Margin	36.1%	36.8%	38.8%	39.4%	38.7%	
Same Store Cemetery Field EBITDA	$ 11,714	$ 11,856	$ 14,034	$ 14,618	$ 12,864	2.4%
Same Store Cemetery Field EBITDA Margin	28.9%	28.5%	32.1%	31.9%	28.6%	
Acquired Cemetery Field EBITDA	-	340	1,099	1,049	1,039	
Acquired Cemetery Field EBITDA Margin	0.0%	26.3%	36.7%	34.4%	32.5%	
Total Cemetery Field EBITDA	$ 11,714	$ 12,196	$ 15,133	$ 15,667	$ 13,903	4.4%
Total Cemetery Field EBITDA Margin	28.9%	28.5%	32.4%	32.0%	28.8%	
Total Financial EBITDA	$ 17,256	$ 17,635	$ 18,011	$ 17,443	$ 16,180	-1.6%
Total Financial EBITDA Margin	92.3%	92.9%	92.8%	93.8%	92.5%	
Total Divested EBITDA	$ 695	$ 654	$ 733	$ 840	-	
Total Divested EBITDA Margin	37.2%	38.8%	39.0%	51.9%	0.0%	
Total Field EBITDA	$ 84,477	$ 90,359	$ 101,539	$ 104,413	$ 104,512	5.5%
Total Field EBITDA Margin	39.6%	40.0%	41.9%	42.1%	40.5%	
Total Overhead	$ 33,020	$ 34,127	$ 34,667	$ 35,898	$ 36,430	2.5%
Overhead as a percentage of Revenue	15.5%	15.1%	14.3%	14.5%	14.1%	
Consolidated EBITDA	$ 51,457	$ 56,232	$ 66,872	$ 68,515	$ 68,082	7.2%
Consolidated EBITDA Margin	24.1%	24.9%	27.6%	27.6%	26.4%	
Other Expenses and Interest						
Depreciation & Amortization	$ 11,635	$ 11,923	$ 13,780	$ 15,421	$ 15,979	
Non-Cash Stock Compensation	2,916	3,832	4,444	2,890	3,162	
Interest Expense	13,437	10,308	10,559	11,738	12,948	
Accretion of Discount on Convert. Sub. Notes	-	2,452	3,454	3,870	4,329	
Loss on Early Extinguishment of Debt	-	1,042	-	567	-	
Loss on Redemption of Convert. Jr. Sub. Deb.	-	3,779	-	-	-	
Other, Net	(896)	195	45	1,788	(1,118)	
Pretax Income	$ 24,365	$ 22,701	$ 34,590	$ 32,241	$ 32,782	7.7%
Net Tax Provision	9,245	7,255	13,737	12,660	(4,411)	
GAAP Net Income	$ 15,120	$ 15,446	$ 20,853	$ 19,581	$ 37,193	25.2%
Total Special Items, Net of tax	$ 2,973	$ 9,348	$ 6,508	$ 8,757	$ (12,444)	
Adjusted Net Income	$ 18,093	$ 24,794	$ 27,361	$ 28,338	$ 24,749	8.1%
Adjusted Net Profit Margin	8.5%	11.0%	11.3%	11.4%	9.6%	
Reconciliation of Consolidated EBITDA to Adjusted Consolidated EBITDA						
Consolidated EBITDA	$ 51,457	$ 56,232	$ 66,872	$ 68,515	$ 68,082	7.2%
Total Special Items	$ 4,550	$ 5,421	$ 4,261	$ 5,176	$ 620	
Adjusted Consolidated EBITDA	$ 56,007	$ 61,653	$ 71,133	$ 73,691	$ 68,702	5.2%
Adjusted Consolidated EBITDA Margin	26.3%	27.3%	29.3%	29.7%	26.6%	
GAAP Diluted EPS	$ 0.82	$ 0.83	$ 1.12	$ 1.12	$ 2.09	26.4%
Adjusted Diluted EPS	$ 0.98	$ 1.34	$ 1.48	$ 1.62	$ 1.39	9.1%
Average Number of Diluted Shares Outstanding	22,393	18,257	18,313	17,460	17,715	-5.7%
GAAP Basic EPS	$ 0.83	$ 0.84	$ 1.16	$ 1.18	$ 2.25	28.3%
Adjusted Basic EPS	$ 1.00	$ 1.35	$ 1.52	$ 1.71	$ 1.50	10.7%
Average Number of Basic Shares Outstanding	17,826	18,108	17,791	16,515	16,438	-2.0%

CARRIAGE SERVICES

CORPORATE INFORMATION

Carriage Services is a leading provider of funeral and cemetery services and merchandise in the United States. As of December 31, 2017, Carriage operated 178 funeral homes in 29 states and 32 cemeteries in 11 states.

Board of Directors

Melvin C. Payne
Chief Executive Officer and Chairman of the Board

Bryan D. Leibman
President and Chief Executive Officer, Frosch Travel

Barry K. Fingerhut
Chief Executive Officer, Certification Partners, LLC

Donald D. Patteson, Jr.
Investor

James R. Schenck
President and Chief Executive Officer, PenFed Credit Union

Operations and Strategic Growth Leadership Team

Melvin C. Payne
Chief Executive Officer and Chairman of the Board

Mark R. Bruce
Executive Vice President and Chief Operating Officer

Viki K. Blinderman
Senior Vice President, Principal Financial Officer, Chief Accounting Officer and Secretary

C. Benjamin Brink
Senior Vice President, Chief Financial Officer and Treasurer

Shawn R. Phillips
Senior Vice President and Head of Strategic and Corporate Development

Paul D. Elliott
Senior Vice President and Regional Partner

Kevin F. Doherty
Senior Vice President and Regional Partner

Brijesh K. Patel
Vice President and Head of Operations and Analysis Planning Group

Gabriel Q. Ngo
Vice President and Head of Operations and Acquisitions Support

Michael S. Loeffel
Vice President of Human Resources

Independent Public Accountants

Grant Thornton LLP, Houston, Texas

Form 10-K Availability

The Company's Annual Report on Form 10-K for the year ended December 31, 2017 may be obtained by writing to: Investor Relations, Carriage Services, Inc., 3040 Post Oak Boulevard, Suite 300, Houston, Texas 77056; via the Company's website: **www.carriageservices.com**; or via the SEC's website: **www.sec.gov.**

Common Stock

Carriage Services, Inc.'s common stock is traded on the New York Stock Exchange under the symbol "**CSV**".

Transfer Agent & Registrar

American Stock Transfer & Trust Company, LLC
6201 15th Avenue
Brooklyn, New York 11219
800-937-5449
www.astfinancial.com

Houston Support Office

Carriage Services, Inc.
3040 Post Oak Boulevard, Suite 300
Houston, Texas 77056
713-332-8400
www.carriageservices.com

Forward-looking Statements

Certain statements made in this Annual Report by or on behalf of the Company that are not historical facts are intended to be forward-looking statements within the meaning of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. These statements are based on assumptions that the Company believes are reasonable; however, many important factors, as discussed under "Forward-Looking Statements" in the Company's Form 10-K for the year ended December 31, 2017, could cause the Company's results in the future to differ materially from the forward-looking statements made herein and in any other documents or oral presentations made by or on behalf of the Company.

CARRIAGE SERVICES, INC.
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Houston, Texas 77056

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