Year End 2016 Carriage Services Inc. Earnings Call
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CORPORATE PARTICIPANTS

Mel Payne - Carriage Services Inc. - Chief Executive Officer and Chairman of the Board

Ben Brink - Carriage Services Inc. - Senior Vice President, Chief Financial Officer and Treasurer

Viki Blinderman - Carriage Services Inc. - Senior Vice President, Principal Financial Officer and Chief Accounting Officer

CONFERENCE CALL PARTICIPANTS

Chris McGinnis - Sidoti & Company - Analyst

Alex Paris - Barrington Research - Analyst

Greg Charpentier - Oppenheimer & Co. - Analyst

PRESENTATION

Operator

Good day, ladies and gentlemen and welcome to the Carriage Services Year End 2016 Earnings Conference Call.

(Operator Instructions)

I would like to introduce your host for today's conference, Viki Blinderman. You may begin.

Viki Blinderman

Thank you and good morning everyone. We're so glad you're able to join us today. We would like to welcome you to the Carriage Services Conference Call. Today, we will be discussing the Company's results after the full year 2016, which was released yesterday after the market closed.

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

Additionally, later today, an audio archive of this call will be made available and active through February 20th. 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 and Ben Brink, Chief Financial Officer.

Today's call will begin with formal remarks from management followed by a question and answer period. Please note that during the call, we will make forward looking statements in accordance with the Safe Harbor provision of the Private Securities Litigation Reform Act of 1995.

I'd like to call your attention to the risk associated with these statements, which are more fully described in the Company's report filed on Form 10-K and other filings with the Securities and Exchange Commission.

Forward-looking statements, assumptions or factors stated or referred to on this conference call are based on information available to Carriage Services as of today. Carriage Services expressly disclaims any duty to provide updates to these forward-looking statements, assumptions or other factors after the date of this call to reflect the occurrence of events, circumstances, or changes in expectations.

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

Now, I'd like to turn the call over to Mel Payne, Chairman and Chief Executive Officer.

Mel Payne

In 2011, it became very apparent after several years of underperformance that we had to make a radical change. So we convened a group and figured out what to do. We did that on November 4th of 2011. It was a radical management re-organization as well as Board.

It became clear that if we didn't take those measures, someone else would see our Company as an opportunity to do better with it than we could in what is a wonderful industry. So, we all agreed after reading the book, Good To Great, that we would launch a Good To Great journey starting January 1, 2012.

I wrote a letter; the total letter was seven pages long. The short version of that letter is the good part of launching the journey, but the other six pages were explaining all the radical changes we had made, including leadership. We sent that out on November 29th of 2011and it was explaining everything and asking our people to rise to the challenge of high and sustained performance beginning on January 1, but not just for 2012, continuing for the next five years in order that our Company would take a journey from a good company that was underperforming under the framework, to one that was outperforming everything else in the industry historically over that five-year timeframe.

It went out on November 29th. December was the weakest volume we had had in years; as I recall, same-store volumes were down 6 percent. We had the highest field EBITDA margins we had had in five years. That trend continued, no matter what the variability, quarter or month, that rate flew for the next five years. It has been a journey unlike anything I have ever seen. And it just seems to keep getting better and better.

But to put some color on the journey and the performance, I'd like to turn it over to Ben Brink.

Ben Brink

2016 marked a strong finish to the first five year phase of Carriage's Good To Great Journey that never ends. Over the past five years Carriage has demonstrated the ability to leverage a reveune compound annual growth rate of 6.4%, into an 8.7% growth rate in Adjusted Consolidated EBITDA and a 20.4% compound annual growth rate of Adjusted Diluted Earnings Per Share. We have increased our Adjusted Consolidated EBITDA Margin by 310 basis points and increased the proforma Adjusted Consolidated EBITDA margin by 550 basis points when you exclude our previously reported Withdrawable Trust Income. All of this extraordinary performance led to a total shareholder return of 417% over the past five years.

At Carriage, we believe that qualitative factors always precede quantitative results. In fact, our third guiding principle states our Belief In The Power of People through Individual Initiative and Teamwork. To that end, the quantitative results we have achieved during this first phase of our Good To Great Journey are a direct correlation to the 4E Managing Partners and their teams at each of our businesses who embody our high performance culture each and every day by providing a high value personal service to each family we have the opportunity to serve. Underneath the Carriage covers over the past five years we have seen an upgrade in entrepreneurial talent across our organization as evidenced by the continual improvement in Field level profitability, improvements across all of our Houston Support Department that has allowed us to better leverage our consolidation platform, and better alignment of our Operations & Strategic Growth Leadership Team. These qualitative improvements will allow us to further accelerate our Good To Great Journey over the course of the next five years.

Turning to our 2016 annual results, which marked the eighth consecutive year of record performance, revenue grew 2.3% to $248.2 million, Adjusted Consolidated EBITDA grew 3.6% to $73.7 million, Adjusted Diluted Earnings Per Share grew by 9.5% to $1.62 and Adjusted Free Cash Flow grew 7.8% to $47 million. We also achieved an Adjusted Consolidated EBITDA margin of 29.7%, an improvement of 30 basis points over the prior year and a level that has never been achieved in the history of consolidation in our industry by a mature, public company using current accounting methodology.

On pages 2 through 4 of our press release, we provide a detail discussion of how we view the achievement of an Adjusted Consolidated EBITDA Margin of 29.7% along with the investment merits to current and prospective long term shareholders of the improvement in the cash earning power of Carriage over the past five years. This improvement has allowed Carriage to increase our debt leverage capacity by approximately 23% on the same revenue base; has increased by 111% our ability to self-finance from Free Cash Flow a more rapid pace of acquisitions; substantially increased the returns on invested capital of both our existing Same Store and Acquisition Funeral and Cemetery Portfolios; the increasing margin trends will materially benefit long term investment returns on future acquisitions; and the increase in Adjusted Consolidated EBITDA margin has also allowed us to substantially increase our financial flexibility to pursue additional opportunistic value creation capital allocation decisions. We expect incremental margin improvement in the coming years as we continue the high performance execution of our three core models.

Our fourth quarter results were negatively impacted by weaker than expected funeral volumes and cemetery sales and discrete tax items that all but eliminated the additional tax benefit we had booked in the third quarter.

Funeral

Total Same Store Funeral Contracts decreased 1.9% in 2016 from the previous year and decreased 3.2% in the fourth quarter. This unexpected volume decline in the fourth quarter was primarily attributable to lower funeral volumes in our Central and Western regions. At this point in time, we have no reason to believe that these volume trends will continue into 2017.

Due to the decrease in funeral volumes, revenue in our same store funeral segment fell 1.6% from 2015, while our same store field EBITDA increased slightly from the prior year. A critical investment takeaway is that EBITDA margin improvement in a lower revenue environment not only shows the quality of our entrepreneurial Managing Partners and their teams, but also demonstrates the inherent discipline and consistency of the operating and financial results produced from the high performance execution of our innovative and unique Standards Operating Model.

Our Acquisition Funeral Home portfolio continued to perform at a very high level as almost all of the businesses we’ve acquired over the past five years have outperformed our expectations prior to these first class businesses partnering with Carriage. As shown in the operating results, we continue to execute on our Strategic Acquisition Model to acquire larger, higher margin funeral homes in larger strategic markets that fit our profile of higher future revenue once they partner with Carriage. While the Acquired Funeral EBITDA margin increased by 50 basis point for the year, it was lower by 250 basis points in the fourth quarter, which was entirely due to the timing of the acquisitions that closed in the third and fourth quarter.

Cemetery

Our cemetery segment continued a trend of strong annual performance with revenue increasing 4.9% and cemetery Field EBITDA increasing 3.2%. This performance capped a five year period where we made significant improvement in the quality of leadership at our cemeteries and we completed a series of growth capital projects throughout our cemetery portfolio. Over the past five years revenue in our same store cemetery segment compounded annually at 4.5%, while Field EBITDA grew 9.1% annually and margins improved an incredible 630 basis points in our overall cemetery portfolio.

Taxes

The discrete tax items in the fourth quarter equated to an EPS reduction of $.10. The additional discrete tax items we booked for the quarter were related to a calculation methodology change we implemented after we engaged two different tax consulting firms to perform and in depth review during the fourth quarter. We expect additional benefits from this review, particularly in regards to cash taxes paid, to materialize in 2017.

Diluted Share Count/Convertible Notes

Diluted shares rose approximately 500,000 for the year and 1.4 million for the fourth quarter due to dilution from our 2.75% convertible notes. As a reminder to investors, the notes have a conversion price of $22.50 and reported dilution occurs slowly as our stock price rises with the full amount of dilution occurring at $53 per share and amounts to 3.6 million shares. Carriage retains the option to settle any conversion in cash or shares.

During 2016, we performed an in-depth review of our capital structure and the variety of options available to Carriage when we execute our next capital structure transaction. Any contemplated transaction will be consistent with our objective to grow intrinsic per share value for our long term shareholders. In the meantime, we will continue to enjoy the low cash interest cost and the financial flexibility of the convertible subordinated notes.

Overhead/Good To Great Achievement

Throughout the year we continued to make progress in improving our Overhead structure and costs as a percentage of revenue. Absent one-time large severance and retirement costs, Overhead as a percentage of revenue would have fallen 140 basis points to 12.9%. We expect this trend to continue in 2017 as we improve and leverage our operating and consolidation platform.

We were also very excited to announce the achievement by 12 of our Managing Partners of our long term 5 year Good To Great incentive program in 2016. The Good To Great incentive award is a unique opportunity for great entrepreneurial leaders to share in the long term value they create in their businesses. This was the first group that was eligible to receive this award and as a group they compounded revenue at 5% and Field EBITDA at 10% annually over the past 5 years. A truly remarkable performance!

Acquisitions/Corporate Development

Carriage completed four acquisitions in 2016, including two in the fourth quarter; Becker-Ritter Funeral Home in the greater Milwaukie market and Rich & Thompson Funeral Services in Burlington and Graham North Carolina. All six of the funeral homes acquired scored high on our strategic ranking criteria and we are honored to partner with these first class operators who share with us a vision of continued success of the businesess in their local market. Together these four transactions had a total purchase price of $37.4 million, with $23.9 million paid at closing and the remaining $13.5 million in future consideration.

As noted in our release, we are excited that Shawn Phillips will be leading our Corporate Development department going forward. Shawn will be joined by another long time member of our Operating and Strategic Growth Leadership Team, Gabriel Ngo, in accelerating the evolution of our Corporate Development function. These two leaders are uniquely qualified to engage with the best independent funeral home and cemetery owners to explain how we have differentiated ourselves within the industry and why we believe that Carriage offers the best succession planning solution. We are excited by their progress in only a few short months and we look forward to reporting their progress going forward as we view the next ten years as the greatest strategic opportunity for value creation due to an acceleration of consolidation in our industry.

CapEx

We completed approximately $17 million of capital expenditures the past year, which was down significantly from 2015. We expect to spend between $16 - $18 million in capital expenditures during 2017, split about evenly between maintenance and growth. This will include the completion and opening of one new funeral home that we had originally planned to be complete in 2016.

Proforma leverage

We have previously stated that we are comfortable operating our business with a Total Debt to EBITDA ratio between 4 and 5 times given the revenue and free cash flow characteristics of our industry, along with our improving Adjusted Consolidated EBITDA Margin. Using the midpoint of our Adjusted Consolidated EBITDA rolling four quarter forecast of $81 million, our proforma leverage ratio currently stands at 4.5x, which demonstrates our progress in reaching our previously stated expectation that leverage would fall to 4x over time.

Trust Performance

Our preneed trust investments had a total return of 19.7% and outpaced our reported benchmark by 3.8% for the year. The performance of the trust funds continued our long term track record since the fall of 2008 at the depths of the financial crisis when we took control of all investment decisions in the trusts. We took a number of steps in early 2016 to reposition the portfolio and take advantage of dislocations within the high yield fixed income markets. This allowed us to increase the amount of recurring income within our trust fund portfolio and improve the overall credit quality. Our trust fund performance in the fourth quarter benefited from the significant outperformance of our long term positions in regional bank and insurance company TARP warrants, energy infrastructure companies and other core equity positions.

Rolling Four Quarter Outlook

Given our current outlook we have for our business, we raising our rolling four quarter outlook for Revenue and Adjusted Consolidated EBITDA. This outlook does not include any acquisition activity as we currently have no signed letters of intent. The outlook for our Adjusted Diluted EPS is lower than our previous outlook entirely due to the increase in reported share count from the convertible notes, as I discussed earlier.

5 year roughly right scenario/Strong Finish

As shown in the press release, we have updated our 5 year Roughly Right Scenario through year end 2021. It is important to note that we don't intend for this to be a formal management forecast but instead a roughly right range of future performance. This scenario is in line with previous scenarios we have outlined and unlike our rolling four quarter outlook, includes estimates for acquisition activity based on our historical average of allocating 90-95% of free cash flow to acquisitions.

We made the decision to exclude a scenario for adjusted net income and diluted earnings per share due to the unknowable nature of any future capital structure activities we will pursue over the next five years.

Rest assured that all of us here at Carriage are working hard to ensure this roughly right scenario is completely wrong, to the upside of course. We also remain incredibly excited for the opportunities that are before us and recognize that the best days of Carriage are ahead. We appreciate everyone for taking the time to join our call this morning and we look forward to reporting our results throughout the year. For those wishing to ask questions, we would ask that any questions on the call pertain to Carriage's long term value creation dynamics that were discussed in detail in our press release. Any questions related to financial models or forecasts please address with Viki or I after the call.

And with that I will turn the call back over to Mel.

Mel Payne

Thank you, Ben. From the time we set off at the end of 2003 down a different path, with different ideas and concepts about how to consolidate and operate this wonderful industry, the funeral and cemetery industry, we had been called many names, most of them not repeatable on this call. We will continue to follow the path of independent thinking and thought about how to do things differently, but always trying to get better, experimenting and trying new ideas, many of which come up from the bottom and bubble up to the top.

We have a wonderful framework. It's very flat. It's very entrepreneurial. Our reporting of five-year trends is so transparent. You can't hide anywhere, and neither do we want to hide. What it does is show off the performance of the leaders and employees in our operating businesses. It also shows the overhead in support of them. What we try to do is support them better and better over time, so that they can achieve more of what we call being the best standards, not just annually, but over five year periods now, which we measure and reward and recognize.

It has been quite a journey over the last 13 years and especially over the last five years. Our people have responded in ways that I could not even have dreamed up. It's so good. Now, we have precise winners that I'm about to announce, but we also have a whole company full of winners that are yet to show up as winners. And we seem to be attracting more and more talent that is competitive, entrepreneurial and wants to win.

So with that, I want to say what an honor it is to announce our first class of Good To Great high performance heroes over a full five-year period. This means they've achieved high levels of standards achievement on an annual basis and then sustained that high level achievement over a full five years. And all the while, growing revenues, as I think Ben mentioned, well above 2 percent in field EBITDA compounded at around 10 percent.

The winners are:

Kristi Ah You	Franklin & Downs Funeral Home; Modesto, CA
James Bass	Twin Cities Cremation Services and Funeral Home; Niceville, FL; and Emerald Coast Funeral Home/McLaughlin Mortuary; Fort Walton Beach, FL
Kyle Incardona	Hillier Funeral Homes; Bryan, TX
Steve Mora	Conejo Mountain Funeral Home; Camarillo, CA
Ken Summers	P.L. Fry & Son Funeral Home; Manteca, CA
Robert Maclary	Kent-Forest Lawn Funeral Home; Panama City, FL
Chad Woody	Watson-King Funeral Homes; Rockingham, NC
Brad Shemwell	Latham Funeral Home; Elkton, KY
Michael Page	Allison Funeral Home; Liberty, TX
Patty Drake	Drake Whaley McCarty Funeral Home; Cynthiana, KY
Andy Shemwell	Maddux-Fuqua-Hinton Funeral Homes; Hopkinsville, KY
Tim Hauck	Cape Coral Group; Cape Coral, FL

We will see you soon in Costa Rica and it will be the trip of a lifetime, I promise.

The Annual Pinnacle of Service Award winners for 2016 -- we had 35. They are as follows:

James Terry	James J. Terry Funeral Home; Downingtown, PA
James Bass	McLaughlin Twin Cities Funeral Home; Niceville, FL; and Emerald Coast/McLaughlin Mortuary; Ft. Walton Beach, FL
Bill Martinez	Stanfill Funeral Home; Miami, FL
Richard Munoz	Connolly & Taylor Funeral Directors; Martinez, CA

Benjamin Friberg	Heritage Funeral Home and Crematory; Ft. Oglethorpe, GA
Brad Shemwell	Latham Funeral Home; Elkton, KY
Joseph Waterwash	Baird-Case Jordan-Fannin Funeral Home & Cremation Service; Ft. Lauderdale, FL
Jason Higginbotham	Lakeland Funeral Home; Lakeland, FL
Jeff Moore	Sterling-White Funeral Home; Crosby, TX
Kristi AhYou	Franklin & Downs Funeral Homes; Modesto, CA
Kyle Incardona	Hillier Funeral Home; Bryan, TX
Jason Cox	Lane Funeral Home - South Crest Chapel; Rossville, GA
Michael Nicosia	Chapel of San Ramon Valley, Danville, CA; and Ouimet Brothers Concord Funeral Directors; Concord, CA
Robert Maclary	Kent-Forest Lawn Funeral Home; Panama City, FL
Tim Hauck	Cape Coral Group; Cape Coral, FL
Andrew Cumby	Cumby Family Funeral Homes; High Point, NC
Chris Duhaime	Funk Funeral Home; Bristol, CT
Chris Chetsas	Cataudella Funeral Home; Methuen, MA
John Fitzpatrick	Donohue Cecere Funeral Directors; Westbury, NY
Chad Woody	Richmond County Memorial Park; Rockingham, NC
Ken Summers	P.L. Fry & Son Funeral Home; Manteca, CA
Matthew Simpson	Fry Memorial Chapel; Tracy, CA
Justin Luyben	Evans-Brown Mortuaries & Crematory; Sun City, CA
Curtis Ottinger	Heritage Funeral Home; Chattanooga, TN
Verdo Werre	McNary-Moore Funeral Service; Colusa, CA
Andy Shemwell	Maddux-Fuqua-Hinton Funeral Home; Hopkinsville, KY
Steve Mora	Conejo Mountain Memorial Park; Camarillo, CA; and Conejo Mountain Funeral Home; Camarillo, CA
Patty Drake	Drake Whaley McCarty Funeral Home; Cynthiana, KY
Brian Binion	Steen Funeral Homes; Ashland, KY
Roger Allen	LaGrone-Blackburn-Shaw Funeral Directors; Amarillo, TX
Jeff Seaman	Dwayne R. Spence Funeral Home; Canal Winchester, OH
Ashley Vella	Deegan Funeral Chapels; Escalon, CA
Mike Conner	Conner-Westbury Funeral Home; Griffin, CA
Tim Miller	Fuller Funeral Home & Cremation Service (East); Naples, FL
Kim Borselli	Fuller Funeral Home & Cremation Service (Pine Ridge); Naples, FL

We will see all these winners and their spouses, significant others or a guest, in Playa Del Carmen, Mexico in May. And it takes a little time to go through this group and name them, but I want to make a point. From the time we began our journey, really 13 years ago and especially five years ago, people have told us don’t do this and don’t do that. And every time they tell us that it makes me realize we should have done it sooner and louder.

These are the people that I just named that are the wonderful leaders of our wonderful businesses, creating the performance that somebody gets the benefit of owning over time. These are indeed, the owners of the Company, along with their employees, because if they didn't produce high and sustainable performance, we wouldn't have a reason, economically and financially to continue to exist, and therefore we would have no reason to continue a Good To Great journey that never ends to a point that where Carriage becomes so highly valued that it is determined to be a company that was built to last.

The only way that happens is to get the best talent in your businesses, let them do what they can, and don't put limits on them, and then support them to be successful forever. This is who we are. It will continue to be who we are, because it works and the power of really highly motivated and talented people is beyond what you could do if you had a budget and control environment.

So, I'm proud to have announced all these names and will be more than proud to be with them in the next month or two.

And with that, I'd like to turn it over to questions.

Q&A

Operator

(Operator Instructions)

Scott Schneeberger from Oppenheimer.

Greg Charpentier

Good morning, everyone. This is Greg on for Scott. I was hoping you could elaborate on the reorganization of your corporate development function and how this has evolved to take advantage of unexpected acceleration of industry consolidation?

Mel Payne

Yes. It's very difficult to explain the standards operating model. And I've seen really smart people come into the Company and look at it, see it discussed, but really what we call here a concept of getting to the other side, they never get to the other side, where the rest of us work and play and live on a daily basis.

It's really difficult for people to comprehend the profoundly simple nature of the high performance standard, like in the funeral business, we only have eight. And in order to go out and explain this concept to owners, or really first class businesses, we finally got to a place where we needed to have operating people do that.

Shawn Phillips has 10 years within our Company. He came from other companies. He had to unlearn what he had learned was the right way to do things, in terms of operations and consolidation. It took him a while to get to the other side. He got to the other side and he's thrived. He ran our West, he ran our Central as a regional partner. And so, we ask him, rather than to go outside, to step into this position, because we realized having him discuss with owners how we operate and how this framework works will ring bells.

And when they hear it from an operator, they honestly don't believe it's true, but when he explains it and then says you can call anybody here, do it, it puts us in a competitive advantage where you have no competition, because no one has ever done this before this way. And it didn't work when we had other people out trying to explain it with other backgrounds. It just simply didn't work, no matter how much they tried or the good intentions or their efforts.

So, we reorganized and put Shawn in charge of it. Gabe knows the support side of our company, all parts of it. He's been in all parts of it. So if you have Shawn and Gabe paired up as a team, believe me, they're already out there making waves. This is not going to take long.

And we're all shocked at how simple and how quick it happens now versus in the past, so, we're very excited. We want to accelerate the growth. We don't want to just do deals. We want to be highly selective, bigger, better, higher margins. We had a Board meeting yesterday. We talked about some people they're talking to and it's an exciting time for our Company.

How you model it out? Don't have a clue.

Greg Charpentier

Great. Thanks for that color, Mel. Just wondering, continued strong performance in your trust portfolios. Could you touch upon how you're positioning them in 2017?

Ben Brink

Yes, I think we'll be pretty consistent with what our strategy has been over the past couple years. We ended the year and we still have kind of a larger portion of cash than we normally have, which we've been selectively putting to work more so in our core equity and new core equity positions versus high yield fixed income market, that spreads are pretty narrow right now.

We feel pretty good about the portfolio. We think there'll be opportunity. We're excited about the investment landscape over the next four years, so, yes.

Mel Payne

So look, he's off to a great start. He's being very immodest. If you had to dream up a portfolio that was a Trump portfolio, I don't know, Ben must have known he was going to win or something. The thing took off and it's still taking off so far this year, so we're looking really good.

Operator

Chris McGinnis from Sidoti and Company.

Chris McGinnis

Just a follow up on the acquisition side of the business or consolidation, you mentioned living longer and cremation is kind of maybe spots where sellers might be inclined -- maybe a little more so now -- to sell, are you seeing a bigger opportunity in the marketplace and that's why you kind of did the reorg?

Mel Payne

I mean, I just explained that a minute ago. We repositioned so that we could have better explanations of who we are when we get in front of people, but it's not like we just had 50 candidates show up on a list wanting to sell their business, so we reorganized. That's not it. We're much more strategic than that. We're looking at 10 years.

Now, we hear this from independents. I've been around at different conferences, been on the speaking circuit, which I won't do anymore because it didn't make a difference. We got no deals out of me going to conferences and speaking. But we've been out one on one and we've been having key industry owners come here to look under our covers and frankly, what we see is the industry itself is struggling with revenue challenges. And I don't care who you talk about but people are living longer. That's not a secret.

And when I started the Company 25 plus years ago, everybody was talking about the baby boomers beginning to die the next year or two, thank God that didn't happen. And so, we had to learn how to be a great operating Company and produce performance without the benefit of those demographic baby boomers dying and even with cremation mix changes, all the bad stuff you could have dreamt up has already happened. And when you look at our Company, you see we don't talk about that stuff and our performance is what it is.

Now, the independents talk about it. They talk about it and they're out of ideas about what to do about it. We have lots of ideas here. One way to think about it and one way we're explaining it to independents is Carriage is a laboratory, an experimental lab of ideas, how do deal with these trends creatively, innovatively, but most of all, looking at the people in your business, their mindset and their skill. The industry is notorious of not dealing with the brutal honesty of people. We don't have that issue here and we think that is the solution.

And we have lots of ideas and lots of people working on all the ideas all the time. It's not tied down. It's across the board and it's a brain trust of the best and it is what it is. That's what's being produced. That's why I called these names out. So we reorganized because we see the industry struggling, while Carriage is thriving, that's why.

Chris McGinnis

Great. I appreciate that. Same question, just on the Roughly Right Scenario, the increase in the EBITDA margin, at least in the model itself, is that driven more off the SG&A leverage or benefits on the gross margin line? And I appreciate it.

Ben Brink

It's really two parts, continued improvement in our existing portfolio of businesses incrementally over the next five years, along with like I said, leveraging the consolidation platform so that we add acquired EBITDA and revenue at a faster rate than increase in overhead, and that's where the leverage comes in on the consolidation platform.

Mel Payne

I would suggest a very comprehensive study of our Company and investment profile --

Chris McGinnis

Okay.

Mel Payne

That's what I would suggest; I would study it. Take the whole weekend.

Operator

(Operator Instructions)

Alex Paris, from Barrington Research.

Alex Paris

So, I have a number of smaller questions to follow up with Ben and Viki on, but I'll stick to the longer term here. So in following on the last question, the next five years, building on the success of the last five years, you're looking for 7.5 percent growth in revenues. That differs from the rolling four quarters, because it includes acquisition. I'm just wondering, do you have a target for organic revenue growth within that revenue number excluding acquisitions? What would it be?

Ben Brink

Yes, I think as we've historically said, in the long term scenarios we put out publicly, 60 to 70 percent of the topline growth comes from acquisition activity, so we're at 30 to 40 percent of any growth is going to come from organic and that's kind of how we look at it.

Mel Payne

On that point, Alex, the 7.5 percent is the midpoint of what we consider a Roughly Right Range over a full five years. It's not a target. And it's not an estimate. It's not a specific plan. It is a Roughly Right Range midpoint. Now, if the market gets in a black swan mood and goes way south and our stock goes with it and the Company's getting better in producing more free cash flow, we won't do any growth other than grow our value per share by buying shares in.

So, we're not stuck like some companies seem to be with some specific thing they have to do to get bigger. We want the thing that gets bigger to be the intrinsic value per share. How we get there might vary at different points because of our capital allocation decisions. We will always make capital allocation decisions with intrinsic share maximization in mind. That's how we look at the long term and the short term.

Alex Paris

And then within organic growth, in the last few years, you've opened up several new locations in particularly strong markets. I think you had opportunities from time to time to expand existing funeral homes. What's your thoughts on that going forward? Do opportunities like that exist today, where you have certain really strong markets, where you're at or near capacity opportunities to greenfield new operations in existing territories?

Mel Payne

Yes, we're opening two of those this year I think. Right, two? And we expect both of those to show good organic growth. One is a completely new business in a different submarket of a major city. And we always bet on the winning horses, those are the managing partners that have shown that they are where we should allocate more capital if the opportunity is good enough and in this case it's good enough in both cases.

There's one more that might be something to seriously consider along those lines, in one of the newer businesses we've acquired. The easiest investments to make are with the people locally who know their markets and have ideas about where to deploy capital at high rates of return, because they already have the brand, they have the community knowledge. They know where the demographics are moving. These are the easiest investment decisions to make.

Alex Paris

Makes sense. Well, thank you very much I appreciate that. Congratulations on the last five years and we're looking forward to more good things from you going forward. And I'll follow up with Ben and Viki on some of the smaller questions that I had.

Operator

And I'm showing no further questions at this time. I would like to turn the call back over to Mel Payne, CEO for closing remarks.

Mel Payne

Thank you very much. It’s been quite a ride over the last five years. It's been the most fun I've ever had in my career; I speak for my team as well. And to see the excitement around the company, and in our Managing Partners and our sales managers and in our employees is really a joy to behold and I thank you all.

Operator

Ladies and gentlemen, thank you for your participation in today's conference. This does conclude the program and you may now disconnect. Everyone, have a great day.