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PRESENTATION

Operator

Good day, and thank you for standing by. Welcome to the Carriage Services Third Quarter 2021 Earnings Conference Call. (Operator Instructions) Please be advised that today's conference is being recorded. I would now like to hand the conference over to your speaker today, Steve Metzger, Executive Vice President, Chief Administrative Officer and General Counsel. Please go ahead.

Steve Metzger ***Carriage Services, Inc. - Executive VP, Secretary, Chief Administrative Officer & General Counsel***

Thank you, Catherine, and good morning, everyone. Today, we'll be discussing our third quarter results. Our related earnings release was made public yesterday after the market closed, and we posted the release including supplemental financial information on the Investors page of our website. This audio conference is being recorded, and an archive will be made available on our website later today. In addition to myself, on the call this morning from management are Mel Payne, Chairman and Chief Executive Officer; Ben Brink, Executive Vice President and Chief Financial Officer; and Carlos Quezada, Executive Vice President and Chief Operating Officer. Today's call will begin with formal remarks from Ben, Carlos and myself, who together with Mel comprise Carriage's Strategic Vision & Principles group, a team whose members and purpose Mel wrote about in our June 2 press release. Formal remarks will be followed by a question-and-answer period, during which time they will join us to address any questions.

Before we begin, I'd like to remind everyone that during this call, we'll make some forward-looking statements. Any comments made by our management team that state our plans, beliefs, expectations or projections for the future are forward-looking. These forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially from those contemplated in such statements. These risks and uncertainties include, but are not limited to, both factors identified in our earnings release and in our filings with the SEC, both of which are available on our website. During this call, we'll also discuss certain non-GAAP financial measures. A reconciliation of these non-GAAP measures to the appropriate GAAP measures can also be found in our earnings release as well as on our website. Thank you all for joining us this morning. And now I'd like to turn the call over to Carlos.

Carlos R. Quezada ***Carriage Services, Inc. - Executive VP & COO***

Thank you, Steve, and good morning, everyone. Thank you for joining our call as we share our excitement and amazing news on our record third quarter performance with all of you. What a spectacular time to be with Carriage. But before I start, I'd like to recognize all of the Carriage Services team for continuing helping families day in and day out with compassion, determination and commitment to excellence under such difficult conditions, consequence of this pandemic. On behalf of our Executive Team and Board of Directors, we thank you, as you demonstrate our Being the Best mission and vision and our 5 guiding principles in all that you do and is a consistent driver for this record high performance. To have the honor of representing all of you on this call is a privilege that we take with humility and gratitude.

Over the past 12 months, I have been visiting many funeral homes and cemeteries and spending quality time building relationships with our amazing managing partners and their phenomenal teams, while getting to know their communities and unique opportunities for each business. During these visits, I have witnessed the carriage high-performance culture framework in full force and the reason why we're gaining market share over many independent firms as well as some consolidators regardless of COVID-19 restrictions.

At Carriage, it's about people. And it starts with what we call the Right Who. Let me share some examples. Courtney Charvet, managing partner at North Brevard Funeral Home in Titusville, Florida, continues to be a shining star, having his competitors shut their doors permanently. For September year-to-date 2021, Courtney is up 40% in funeral volume compared against pre-COVID '19 volumes over the same period in 2019, and 20.5% of that growth is beyond COVID-19 cases.

Tripp Carter, managing partner of Bradshaw-Carter Memorial & Funeral Services in Houston, Texas. After partnering with Carriage and getting the support he needed by eliminating his time on back-office items, he has now redirected his focus to what he loves, growing his business. For September year-to-date 2021, Tripp is up 52% compared to the same period in 2019 and 37.9% of that growth is beyond COVID-19 cases.

Geneva Chitty, managing partner of Darling & Fischer Garden Chapel in San Jose, California. Geneva became the new leader at the end of 2019. She is a highly driven managing partner who has grown her business by 59% September year-to-date when compared against the same period in 2019, and 45% of that growth is beyond COVID-19 cases.

The correlated characteristics in all of these managing partners is that they are hungry, competitive, and they want to win. And this is just a very small sample of the Right Who high-performance managing partners that are gaining market share across our portfolio of businesses and evident by the following results.

Our funeral segment third quarter 2021 field operations results are as follows. Total Funeral contracts of 12,403, an increase of 1,342 contracts or 12.1%. Funeral average revenue per contract of $5,372, an increase of $129 or 2.5%. Total funeral operating revenue of $64.9 million, an increase of $8.8 million or 15.7%. Total funeral field EBITDA of $28.9 million, an increase of $6.1 million or 26%, and total funeral field EBITDA margin of 44.6%, an increase of 390 basis points.

These outstanding results reflect the operating leverage in each business in alignment with our annual Being the Best high-performance standards, which were updated in November 2018 by our Standards Council members made of high-performance managing partners. The changes made to the funeral standards, which are fully explained in our 2018 Shareholder Letter, were the catalysts of this higher performance. Since by the time of COVID-19 pandemic hit the nation in February 2020, the team was well prepared and ready to maximize every opportunity, and have continued to do so, driven by the passion of our teams and the nature of our managing partner Being the Best 1-year and Good to Great 5-year incentive programs, which Steve will speak to in more detail today.

Now let's go over our high-performance cemetery third quarter 2021 results. We continue to deploy capital and growth cemetery development projects with creative and innovative products as our supercharged high-performance cemetery sales teams keep accelerating sales velocity with our preneed property program. Since the inception of the plan for the creation of sustainable high-performance streams across the portfolio of cemeteries, our sales growth has been exponential. Our third quarter 2021 total preneed cemetery sales performance was $16.5 million, an increase of $4.1 million or 33.3% higher than last year and an increase of $7.4 million or 81.4% higher than the first quarter of 2020, which was the preceding quarter to the beginning of our cemetery transformational high-performance journey.

The intrinsic nature of cemeteries allows for significant growth opportunities. Starting with our at-need sales professionals who attend to those families with immediate needs while presenting them with all of their options of products and services they can choose from, regardless of burial or cremation as their final disposition. However, the big opportunity is with advanced planning teams, which were just in the early stages of development. Since we revamped this program in August 2020 and through 2021, we have been able to find the Right Who high-performance 4E [Sales] (added by company after the call) leaders at Rolling Hills in Richmond, California, where Nadu Stackhouse is having tremendous success at a rate of 213.4% to her target for the 9 months ending September 2021.

We have also created advanced planning teams at Oakmont Memorial Park in Lafayette, California, Rest Haven Cemetery in Oklahoma City, Oklahoma, Kent-Forest Lawn Cemetery in Panama City, Florida, and Bunkers Cemetery in Las Vegas, Nevada. These newer teams are building up their sales force and teaching the skills and are using all of the tools that generate high performance sales. Moreover, we have other cemeteries where we will be adding advanced planning teams like Fairfax Memorial Park in Fairfax, Virginia and Rest Haven Rockwall in Rockwall, Texas, just to name a few.

As you hear the following cemetery third quarter 2021 field operation amazing higher performance, you will know that the best is still yet to come. Total cemetery operating revenue of $22.7 million, an increase of $3.1 million or 15.8%. Total cemetery field EBITDA of $10 million, an increase of $1.5 million or 17.8%. And total cemetery field EBITDA margin of 44.1%, an increase of 80 basis points. And for the 9 months ending September 2021, total cemetery operating revenue of $69.4 million, an increase of $20.4 million or 41.6%. Total cemetery field EBITDA of $32.5 million, an increase of $14.9 million or 84.5%, and total cemetery field EBITDA margin of 46.8%, an increase of 1,090 basis points.

We have completed the implementation process of Microsoft Dynamics 365 CRM, and the result is a robust and dynamic sales and marketing system, which we have named Sales Edge, and will accelerate high-performance sales even further than ever before. We have launched the program at 5 pilot cemeteries with more to join in early 2022. This new system will give the edge to our 4E sales leaders to communicate, interact and stay connected with families while growing our teams of Right Who sales managers and sales professionals to educate the community in the value of preplanning their final goodbyes. We expect Sales Edge, our new high-performance sales tool, to be fueled by savvy investments in lead generation programs and deliver significant organic growth and continued sales trends over the foreseeable future.

Our seminars program test during the second quarter of 2021 was extremely successful and is now in full force and we have conducted seminars in Oklahoma, California and Texas. And some already scheduled in Florida, Virginia and Louisiana before the end of this year. This program has resulted in a number of attendees above our own expectations, and the new generated leads are now part of our preneed sales funnel, which will start to reflect in our fourth quarter preneed cemetery sales performance.

Our third quarter was an amazing quarter in both funeral and cemetery segments, and it's truly a great time to be with Carriage. And the best is yet to come. As we continue to grow organically, we're looking for those right acquisition partners that meet our highly selective strategic criteria to which Steve will speak to in more detail today. In closing, I can say that we have entered a per ownership share value creation sweet spot. And in addition to our savvy but flexible capital allocation discipline, we will continue to close the gap between our current stock price and our intrinsic value per share, while accelerating momentum on our Carriage Services High-Performance Flywheel. Thank you, and I will turn it over to Steve.

Steve Metzger ***Carriage Services, Inc. - Executive VP, Secretary, Chief Administrative Officer & General Counsel***

Thank you, Carlos. All of the outstanding performance you just described has positioned us well to execute on several of the capital allocation opportunities we've discussed and written about throughout the year. Ben we'll talk more about our view of the intrinsic value of our stock based on key valuation metrics and how that drives our current approach to share repurchases. Despite significant share repurchase activity this year, we finished the quarter with a net debt-to-EBITDA ratio in line with our previously articulated target of 4x, which allows us to continue to focus on a number of exciting capital deployment opportunities.

For example, in addition to the share repurchase activity, we also spent much of the third quarter continuing to meet and talk with a number of select funeral home and cemetery owners who we believe will make great additions to the Carriage family. As we learn more about these owners and their businesses, and they've gotten to know more about Carriage, we believe now more than ever, we're entering a great time for growth. We invite all owners interested in learning about our company to reach out to former owners and hear about their personal succession and transition experiences with Carriage. We share many of these stories via video testimonials on our website and invite all of you to check those out when you have some time. We also encourage owners to come and visit the talented team here at our support center, who will partner with their business to help ensure a transition and legacy of which these owners can be proud.

We recently hosted just such a visit, and it was exciting to hear the feedback from one particular owner about his impressions of our team and how they could help his business.

The timetable for the owners who we're currently talking with to learn more about Carriage and how we can provide the best succession plan solution for their business, is different in each case. And we're working closely with them to ensure they're comfortable and have all the information necessary to make the best decision. With that said, we're excited about these conversations and look forward to providing more updates next quarter and throughout 2022.

You'll note that we don't create quarterly or annual acquisition investment targets, and that decision is driven by a couple of key reasons. First, it's impossible to predict when the select high-quality businesses that fit our strategic acquisition criteria will be ready to talk about their succession plans. But when they are, we'll be ready. Additionally, not all capital allocation opportunities are created equal at a given time. Before making a decision on how best to invest our capital, we compare that opportunity to other capital deployment options to ensure the strongest long-term return for our shareholders. Currently, that's a very high bar, as Ben will discuss in more detail here shortly, and it requires us to exercise discipline and truly focus on only the best remaining independent businesses, and that's a great position to be in.

It's also worth noting that our pause on acquisitions for the past 1.5 years is a strong example of our deliberate and careful approach to capital allocation. As those of you who follow Carriage know, we made several significant acquisitions at the end of 2019 and 2020. We proceeded to then dedicate our focus to successfully integrating those large businesses while also paying down our debt throughout 2020. We are now well positioned with our new low-cost balance sheet to get back to growth through acquisition while continuing to take advantage of other attractive capital allocation opportunities and maintaining our target leverage ratio.

As we look down the road at 2022 and beyond, our outlook for growth through acquisition is bright. Our performance, balance sheet and allocation framework allow us to remain highly selective in our efforts to partner with the very best businesses as more and more of those owners become ready to transition to the next chapters of their lives. When we visit with these owners who are considering Carriage as a succession plan option, they often want to know what will happen with their employees. This provides us with a great opportunity to talk about not only our focus on the people in the business, but also what we believe is the best incentive compensation approach in our industry. Our one and 5-year incentive compensation plans directly align performance with pay and provide significant upside for top performers. A good example of this pay-for-performance approach and how it benefits our employees and shareholders can be found by simply looking at our adjusted diluted earnings per share for 2020, which was $1.86. Our field and corporate incentive compensation paid in 2020 totaled an amount that equaled approximately $0.38 per share at the time. If you add that $0.38 per share paid to our employees to the EPS of $1.86, you'll note that the team directly responsible for driving the outstanding performance in 2020 was rewarded with approximately 17% of the total earnings upside, while our shareholders received the remaining 83%. Now that's great math for both groups, and it's this alignment that we believe not only helps motivate talented people and drive performance, but also helps us attract and retain top talent while shareholders benefit from that incentivized incremental higher performance.

Relatedly, total overhead margin as a percentage of total revenue has been elevated this year due to the large increase in incentive compensation accruals as performance continues to accelerate, and nonrecurring items such as prior separation-related expenses and pandemic related costs. We expect the nonrecurring items to normalize over the course of 2022, with the overhead margin as a percentage of revenue settling within our target range of 11% to 12%. This forecast contemplates continued elevated performance and associated incentive compensation accruals to continue to motivate and reward the men and women directly responsible for these impressive results.

As Carlos said, we all believe that the best is in front of us here at Carriage. And with the current team in place, along with new members who we look forward to welcoming into the Carriage family through acquisitions, there's much to be excited about as we finish 2021 strong and look forward to an exciting 2022. With that, I'll turn it over to Ben.

Carl Benjamin Brink ***Carriage Services, Inc. - CFO, Principal Financial Officer, Executive VP & Treasurer***

Thank you, Steve. I'll echo yours' and Carlos' comments on our record third quarter performance that showed the incredible transformation that has occurred here at Carriage over the past 2 years. The broad company-wide, high-performance execution by our managing partners and their teams across the country gives myself and our entire leadership team a tremendous amount of confidence that the Carriage High-Performance Flywheel will only continue to accelerate.

Now on to the results. For the third quarter, revenue increased 12.6% to $95 million. Adjusted consolidated EBITDA increased 17.1% to $32.4 million. Adjusted consolidated EBITDA margin increased 130 basis points to 34.1%, and adjusted diluted earnings per share increased 60.8% to $0.82. Year-to-date, revenue has increased 17% to $280 million. Adjusted consolidated EBITDA has grown 26.1% to

$95.8 million. Adjusted consolidated EBITDA margin has expanded 250 basis points to 34.2%, and adjusted diluted earnings per share has increased 74.6% to $2.27.

For the first 9 months, adjusted free cash flow has increased 12.5% to $65.4 million, while adjusted free cash flow margin has decreased by 90 basis points to 23.4%. The 23.4% of adjusted free cash flow margin demonstrates our ability to turn $0.234 of every dollar of revenue into cash available to grow the intrinsic value per share of Carriage. This ability to generate a high amount of reoccurring and growing free cash flow will enable Carriage to fund the majority of our value creation capital allocation through internally generated free cash flow equity while maintaining a more modest total debt to adjusted consolidated EBITDA ratio.

Post the completion of our senior note refinancing in May, we believe we have positioned Carriage with the necessary financial flexibility to wisely allocate capital to more shareholder value creation opportunities. In the third quarter, we repurchased approximately 1.2 million shares at an average purchase price of $44.24 for a total purchase amount of $53.2 million. This brought our year-to-date share repurchases to approximately 1.5 million shares for an average purchase price of $42.89 and a total amount invested of $65.5 million. The 1.5 million shares repurchased represents approximately 8.5% of the shares outstanding prior to the resumption of our repurchase activity in the second quarter. The full impact of our share repurchases will be reflected in our reported GAAP basic and diluted shares outstanding in the first quarter of 2022.

On a pro forma basis, our diluted shares outstanding as of the end of the third quarter was $16.885 million, consisting of 16.5 million actual basic shares outstanding, plus 235,000 of in-the-money vested option equity grants. The pro forma diluted shares outstanding excludes 511,000 of vested shares related to our long-term shareholder-aligned, Good to Great value creation incentive plan where the shares are only available to the 50 participants at the end of 2024. In order to fully recognize the incredible high-performance transformation that has occurred here at Carriage over the past 24 months, we believe it is appropriate to use this pro forma share count and include a lower annual interest cost of $9.5 million from our recent senior note refinancing. Therefore, on a pro forma basis, our third quarter adjusted diluted EPS was $0.89 versus the reported $0.82, a 74.5% year-over-year increase. Our year-to-date adjusted diluted EPS was $2.64 compared to the reported $2.27, which equals 103.4% increase versus the first 9 months of last year. And our last 12 months pro forma adjusted diluted earnings per share was $3.36 compared to $2.84 as reported.

We are excited to announce the approval by our Board of Directors for an additional $75 million authorization to our current share repurchase program. This brings the current available to approximately $85 million, equal to 11% of our current equity market capitalization. Based on our updated intrinsic value per share range of $65 to $75, we believe the repurchase of our own shares is the highest and best use of our capital at this time, and we intend to continue to actively repurchase our shares if they remain highly discounted to that range.

We are also pleased to announce the approval of our Board of a $0.05 annual increase to our annual dividend, beginning with the next dividend payment on December 1. This represents only an additional $825,000 in cash dividends paid per year and is in line with our stated goal to maintain a dividend at a 1% dividend equity yield. Year-to-date, we've invested $15.3 million back into our businesses through $9 million of maintenance capital expenditures and $6.3 million of growth capital expenditures. Our growth CapEx has and will continue to be primarily focused on development of high-quality and differentiated cemetery inventory across our portfolio. We will also continue to spend the necessary maintenance CapEx to keep our facilities fresh and inviting.

We remain excited about the opportunities to wisely and with discipline allocate capital within our existing businesses in support of the accelerating Carriage High-Performance Flywheel and generating growing returns on that invested capital.

Our total debt to adjusted consolidated EBITDA leverage ratio, as defined by our bank credit agreement, remained essentially flat at 3.98x at the end of the third quarter. We were able to maintain our leverage around our stated goal of 4x, even as we invested $53.2 million in share repurchases due to the continued strong operating performance and free cash flow generation in the quarter. Additionally, we are working with our banking partners on an amendment to increase the size of our current credit facility by $50 million to a total of $200 million, and we expect to complete that process in the coming days.

Given the accelerating operating and financial performance, coupled with our lower outstanding share count, we are once again excited to raise our Roughly Right 2-year scenario and rolling 4-quarter outlook. The Roughly Right Ranges are realistic estimates of our future performance and takes into account known factors that are within our control. The only capital allocation we have included in this updated Roughly Right scenario is an allocation of approximately 75% of our adjusted free cash flow towards accretive share repurchases while maintaining our total debt to adjusted consolidated EBITDA ratio at around 4x.

For 2022, we currently expect total revenue to be in the range of $370 million to $375 million, adjusted consolidated EBITDA to be in the range of $124 million to $127 million, adjusted consolidated EBITDA margin Roughly Right Range of 33.5% to 34%, adjusted diluted earnings per share as reported, $3.03 to $3.08. On a pro forma basis, again, using lower share count and lower interest expense for the full year, we expect adjusted pro forma diluted earnings per share to be between $3.45 and $3.55, while adjusted free cash flow range expectations of $77 million to $82 million.

For next year, 2022, total revenue range of $380 million to $390 million, adjusted consolidated EBITDA growing, range of $128 million to $134 million, and adjusted consolidated EBITDA margin of 33.5% to 34.5%, industry leading. Adjusted diluted earnings per share of $3.50 to $3.60, and adjusted pro forma diluted EPS for a full impact of continued share repurchases of $3.75 to $3.85. Adjusted free cash flow range of $82 million to $87 million and adjusted free cash flow margin for next year of 21% to 22%, truly remarkable growth over just a short amount of time.

In our press release for the closing of our senior note refinancing dated May 13, we introduced a new methodology for how we view the intrinsic value per share of Carriage to illustrate the significant gap in our bond pricing at 4.25% unsecured over 8 years, aka, Tom Brady, compared to our equity free cash flow yield of almost 11% at the time, aka, Rodney Dangerfield, getting no respect. It was also intended to provide investors with a framework for how we would allocate capital towards share repurchases versus other opportunities moving forward.

Our current weighted average cost of capital is 6.4%, a reduction of 100 basis points from 7.4% due to the decrease in the interest rate on our new senior notes from 6.625% to 4.25% annually. Given our ability to produce and sustain a high amount of free cash flow, we believe it is appropriate to calculate our Roughly Right intrinsic value per share range using a free cash flow equity yield range of 6.4% to 7.4%. By using the midpoint of our Roughly Right Range of adjusted free cash flow for next year of $84.5 million and the pro forma diluted shares outstanding as of September 30 of $16.885 million, equals a Roughly Right expectation of $5 per share of free cash flow in 2022. Applying our free cash flow equity yield range would equal intrinsic value per share range of $67.57 to $78.13, which we conservatively round down to an updated Roughly Right intrinsic value per share range of $65 to $75. This range represents a $10 or 16.7% increase from the second quarter press release and a $15 or 27.3% increase since we first introduced this methodology a little over 5 months ago. We intend to provide investors with an update to our Roughly Right intrinsic value per share methodology on a regular basis.

I want to thank everybody who joined us on this call this morning. If you are new to Carriage or our story, I would highly encourage any serious long-term investor to visit our Investor Relations website, read Mel's Shareholder Letters beginning with 2016, and all of our recent press releases, which provide an incredible amount of depth and insight into our vision for Carriage and the incredible high-performance transformation that has occurred over the past 2 years. Then give us a call and we'll be more than happy to answer any great questions you might have. And with that, I'll open up the call for even more great questions.

QUESTIONS AND ANSWERS

Operator

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

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

Thanks for taking my call this morning, and congrats on another beat and raise. You covered a lot in the press release and your prepared comments, so rather than get into the nitty-gritty, I'll ask a couple of bigger picture or qualitative sort of questions, starting with market share gains. As you said in the press release, it's come from both independents and some consolidators as they've been unable or unwilling to adapt to new ways to serve families. I was just wondering if you can give us a little bit more color or some examples of these new ways that you're serving families in 2021 and 2022.

Carlos R. Quezada ***Carriage Services, Inc. - Executive VP & COO***

Absolutely. Thank you, Alex. This is Carlos. So yes, absolutely. What's going on is not just that some funeral homes are not willing or able to serve other families. It's also how our amazing managing partners go above and beyond offering incredible services and options to those families that are in need. And by doing so, they do it in such creative and innovative ways, that families feel attracted. Many times, not even it's related to price. They end up even paying a higher price than with another competitor just because who we are and how we go about doing things. Some of the examples that I made in my prepared remarks today are just a few of many that we have across Carriage. On Thursday, we have an operations call where all of our directors of operations shared some of these amazing stories where we have been able to gain market share over other whether individual firms or competitors like consolidators. And these stories are just incredible to hear because they go into the detail of what managing partners are willing to do to customize services in ways that maybe some other people can't. And so that's why we've been able to gain significant market share broadly across our portfolio of funeral homes and cemeteries.

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

Great. I appreciate that. That's good color. Next question, death rates. Obviously, they've been elevated, for sure, due to COVID. But also due to the aging of America and market share gains, I guess, for Carriage. You said that in Q3, 60% of the volume was related to COVID related deaths, suggesting the balance, two other things, market share, perhaps aging of America. What has been the annual death rate historically? I've always recalled that it's 50 to 100 basis points per year. Obviously, elevated during COVID. In the process of normalizing now, what's your expectation for death rates going forward? Are we going to be -- are we going to remain at a new normal, higher elevated death rate due to the aging of America?

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

This is Mel, Alex. And Carlos covered in the press release and in his comments, even the COVID deaths, in many cases, were market share gains. Just because it was COVID didn't mean it was a family we had served before, and in lots of cases, it wasn't. But when that family has a choice that's a non-COVID, you have won their hearts and minds about what you were able to do when somebody else told them they could do or wouldn't do. And so a lot of the COVID deaths were in fact also market share gains. And when I started the company 30 years ago, the death rate was about 1% per 100,000 or something like that. And the concept was, over time, there would be a change in mix, more cremation, less traditional. So you'd lose revenue, but the death rate would actually start to increase when the baby boomers started to die. Which I was convinced back then from a lot of sources would be tomorrow, the next day. Well, that didn't happen. And instead, the death rate ticked down to about 0.8% per 100,000 over the 30 years. And so I quit even thinking about death rate going up and started focusing entirely on how do we get to be the best at what we do, so we can grow market share? Whatever the death rate is, we want more of it. And so all this time, the industry of nursing homes, assisted living grew much bigger, and the older people didn't necessarily grow much healthier. There was advances in medicine and science, but they weren't necessarily more healthy and living better lives the older they got. And I think COVID, unfortunately, was this perfect virus designed almost bizarrely to attack that vulnerable group, and it did with a vengeance. And now you've had a lot of people not getting maintenance, medicine, checkups, procedures that will keep them if not healthy, then at least being able to live their life. So I do think first of all, COVID will be endemic. I think that's becoming the consensus around the world. And that will also, depending on the year and the degree and the variant, lead to a higher normalized death rate than pre-COVID. And I think the baby boomers, without even COVID, will begin to die at a higher rate as well. So I think looking forward, as opposed to looking at the last 30 years, we'll have a higher normalized death rate for various reasons. And yet, the main reason for us and what we focus on, is not what we can't control, it's getting better so we can get more. Whatever the death rate is, we want more share 100% of the time. And that's what drives everything about Carriage.

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

Great. Well, thank you for that. Yes, I remember 20 years ago, aging of America was the investment theme for the industry and people living longer, access to medicine, that sort of thing. I would just note that the oldest of the baby boomers are now 75 years old. So unfortunately, we can't all live forever, but I would agree with that, that we should start seeing a higher annualized death rate. So my last question is repurchase versus M&A. I appreciate your comments in the press release and in your prepared comments. It sounds like you'll be more aggressive on share repurchases in the fourth quarter. But 2022 might be a mix of more share repurchases as well as potential M&A. First of all, what are your thoughts on that idea? And secondly, could you maybe give us a little color, additional color on that pipeline? You said that there's a number of players there that are considering succession planning. I'm assuming they're larger players and high-growth markets, that sort of thing.

Steve Metzger ***Carriage Services, Inc. - Executive VP, Secretary, Chief Administrative Officer & General Counsel***

Yes. Alex, this is Steve. I'll cover the pipeline a little bit and let Ben comment on the share repurchase approach. So yes, we're having several conversations with a number of businesses that quite frankly, we have developed relationships with over the years. And so as mentioned in the remarks, timing is important for them, and they need to make sure that they're ready, and we're seeing more and more of them who are ready. So in terms of geographic footprint, they're spread out throughout the country. These are bigger, better businesses, as we like to describe, so you're seeing fewer rooftops and more calls, which is a more efficient business in our model that we look at. So yes, we think Q1, there will be more to talk about there. Right now, those conversations have progressed over the past quarter to a point where we want to share that with everybody. In terms of how we look at that versus repurchases, and I mentioned this a little bit in my remarks, it forces us. Because, as Ben mentioned, the repurchase opportunity is significant based on our own intrinsic value. It forces us to be really selective and only focused on these businesses that we think are real standouts. And that's the kind of discipline that we appreciate and are following right now. And with that, I'll turn it over to Ben if he can comment a little bit on the share repurchase piece.

Carl Benjamin Brink ***Carriage Services, Inc. - CFO, Principal Financial Officer, Executive VP & Treasurer***

Yes, Alex, I mean, I think it's pretty simple, right? The discount where we believe our shares trade compared to intrinsic value is wide. And so there's a high bar for acquisition activity to kind of get through from a capital allocation standpoint. But I think with what we've been saying here, is with the flexibility that we have, there's not like an either/or decision. We believe that we can partner and acquire high-quality acquisitions in growth markets and where we want to be, while maintaining an aggressive and active share repurchase program. And have the flexibility as we go along versus how we're doing from an operational perspective, how cash flow is coming in, where leverage is, what that opportunity is compared to our intrinsic value, and then weighing what those acquisition opportunities are. It's a very different time here at Carriage than where we've ever been before, and this flexibility gives us those opportunities. It's incredibly exciting.

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

Alex, Ben hit it in his written remarks, but what's going to be really interesting, not just for investors outside Carriage, but for the 49 participants in the Good to Great II 5-year shareholder value creation plan and everybody else who's really got an investment, a stake in Carriage, and how well it does. And that's throughout the company. We're going to put out, at the beginning of the year, a new 3-year scenario ending '24. That's the time frame of the second Five Year Good to Great Journey. It's also the 5-year compounded share returns for the 49 participants in the incentive plan. What we will do is we will put out -- I think what everyone is seeing now, a very high priority we will not shut off, is cemetery product development. We want more large sales. We have the talent. Carlos has built this. You build it and they will get it. They will sell it. Very high margin. So that's one thing we will not cut back on. I mean, those returns on invested capital are simple. And I always look forward to doing something that was central but legal. Now I get to see it in action. And so we're going to put out a 3-year scenario with 3 different capital allocation scenarios for the full 3 years. And it will be something like this. This is just me off the top of the head. We'll have some amount for internal growth projects, call it 20%. And then the other 80%, we will put that into 3 different scenarios. Maybe it's 25% acquisitions, 75% share repurchases for the full 3 years, 50/50, and then 75/25. And then on top of that, we will put those Roughly Right Ranges of performance in each of those years. We'll put a valuation range using our methodology for -- maybe we'll use EPS, enterprise value to EBITDA, but especially free cash flow equity yield. And we'll see the range of possible shareholder values using each of those capital scenarios. And this is very sophisticated stuff. It's not for the people who don't want to go back and learn why we're able to do this now and why they should take it seriously. This will be a serious thing. And any other company wouldn't do it, because the lawyers wouldn't let them. That's how good the company has become and how predictable it has become. Now we're all becoming great investors of our free cash flow to create the optimum intrinsic value per share. This is always where I wanted to get the company, and I'll say something about that in my last remarks.

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

Great. Thanks, Mel, thanks, team. And again, a hearty congratulations on the strong third quarter results.

Operator

Our next question comes from George Kelly with Roth Capital Partners.

George Arthur Kelly ***ROTH Capital Partners, LLC, Research Division - MD & Senior Research Analyst***

Hi, everybody. Thanks for taking my questions. Just to start with, to make sure I understand your 2022 targets, you have, and you talked about this a bit in your prepared remarks, but you have debt growing a bit next year. And so is that just to give yourselves more flexibility towards all these different capital uses? But you're not sort of including any M&A in your income statement projections, are you?

Carl Benjamin Brink ***Carriage Services, Inc. - CFO, Principal Financial Officer, Executive VP & Treasurer***

No. There's no M&A in there. It's being conservative on kind of where debt might land with really just thinking about, in this scenario, share repurchases and then internal growth Capex. So the capital allocation scenarios that are in there. No M&A. Like Mel said, we're going to -- as we get towards, as we report year-end in February, we'll provide more of those different capital allocation scenarios.

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

There will be M&A, just like Steve covered and Ben covered. But we decided as a team to wait until the beginning of the year. We'll have more news on the M&A front. We'll have more news on Mr. Market Price, getting closer to our intrinsic value opinion. So there'll be a lot more news to talk about, and we'll have those 3 scenarios. And anybody will be able to judge whether we should be biased towards one or the other.

George Arthur Kelly ***ROTH Capital Partners, LLC, Research Division - MD & Senior Research Analyst***

Okay. Okay, great. And then next question for me, sticking with your 2022 targets. Can you share anything just about how you're forecasting price versus volume? I mean, there's been such nice growth in both. And I'm curious, just are we, especially in this most recent quarter on the burial side that the pricing growth is material, so are we at kind of a new level in pricing? Or is there additional opportunity going forward?

Carl Benjamin Brink ***Carriage Services, Inc. - CFO, Principal Financial Officer, Executive VP & Treasurer***

George, it's not looking at pricing and volume, right? We believe there's continued opportunity for our managing partners and their teams to grow the average revenue per contract, both on the burial and the cremation side, by serving families better, by providing more families, more value to the families that we have the opportunity to serve. That is really the opportunity. Cremation, in particular, how we're able to engage with families, plan a meaningful memorial service, celebration of life for that loved one that families oftentimes don't even know that they are able to have during those times. That's really the focus. Now as we look forward, as we kind of project or put these ranges in there, being very conservative in what the expectations are for next year in terms of volume growth on a same-store basis and as we bring it down from a margin perspective. So that's how we're looking at it. Really, the focus is growing that average revenue per contract.

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

So George, this is Mel. Look, this may come as a shock, but we do no pricing here on the funeral side. There is no pricing. So I wouldn't have any idea of what individual managing partners price their products and services. What they're incentivized to do is grow the compounded revenue over 3 years at very high margins. So they know that, and that's a layered incentive program anywhere from 0, if you can grow compounded revenue growth, to anything over 4%, over 3%, you get 35%. So it's 0% to 35% of 100% of your standards are compounded growth in revenue. And that includes pricing, but they have to know we also have a 3-year volume compounded. So 50% is related to volume and compounded revenue, however they get it. We don't care as long as they get it because we know what the operating leverage will do. It will begin to look simple and we'll convert 80% of the incremental revenue over 3 years into EBITDA. So we don't get into all the nitty-gritty of pricing. We got rid of that process when we got rid of budgets.

George Arthur Kelly ***ROTH Capital Partners, LLC, Research Division - MD & Senior Research Analyst***

Okay. That's helpful. And then last question for me, just about this new tech platform, I think it's called Sales Edge. Curious if you could talk more just about -- I may have missed this, but what are some of the features of that that you're most excited about? And how long is it going to take to fully implement it? Just any more background on that would be helpful. That's all I had, thank you.

Carlos R. Quezada ***Carriage Services, Inc. - Executive VP & COO***

Absolutely, George. This is Carlos. So Sales Edge is a CRM, right, that it's founded upon Microsoft Dynamics 365 CRM. And basically, as you know, when you get on one of these softwares, you have to customize it to your needs. Those are very broad packages that then you have to really customize to the specific needs of a process in sales in this case. We have done that process through a third-party implementation company already, and we have launched the pilot program of our end product in 5 different cemeteries. What will this do for our business is that now all of our sales consultants, whether they're advanced planning teams or family service counselors that serve at-need, will be able to have basically a personal assistant into the system where they can track absolutely all activity that is going on. Create a funnel, understand their presentation ratios, closing ratios, appointment ratios, but also reminders on families. Reminders on anniversaries of death or birthdays or even reminders for follow-ups. They also will be able to launch marketing campaigns that are designed based on a customer journey that will accelerate your technology, whether it's tech, direct mailing, website inquiries and things of that nature. So it is something that we never had before broadly at Carriage, even though some managing partners had some sort of system prior. This will definitely accelerate our sales velocity over time. And we continue to launch in every other cemetery that we have, other than these 5 pilot cemeteries, by the beginning of 2022. Does that answer your question, George?

George Arthur Kelly ***ROTH Capital Partners, LLC, Research Division - MD & Senior Research Analyst***

Yes. Yes. That was great. And congrats on the quarter and t hanks for taking my questions.

Operator

Our next question comes from Liam Burke with B. Riley.

Liam Dalton Burke ***B. Riley Securities, Inc., Research Division - Senior Research Analyst***

The burial contracts increased year-over-year, and that seems to be going against the general overall trend of burials as a percent of mortality rates. Is it all market share gains that are driving your contract growth there?

Carlos R. Quezada ***Carriage Services, Inc. - Executive VP & COO***

So thank you, Liam. Great question. So think about it this way. When the family goes in, let's say it's an At-need family, they may be asking cremation, burial. But the process of educating that family by our family service counselor team of explaining all of their options may change their initial idea because they don't really know what they want. They may think they want cremation. They may think they want burial. But that process of presenting all of the different options, products and services that we have and really become very creative with ideas on how to celebrate the life that lived for that specific family, makes a tremendous difference. We believe that that process is actually driving some of that burial rate. In addition to now after COVID, families are willing to have that service that during COVID perhaps they didn't want to have.

Liam Dalton Burke ***B. Riley Securities, Inc., Research Division - Senior Research Analyst***

Okay. Fair enough. And Carlos, you touched on after the course of your prepared comments about the cemetery sales force and the development and the use of software. Sales are double digits. Where are you in terms of the revamping of the sales force? And are you at the right size or do you still have more work to do there?

Carlos R. Quezada ***Carriage Services, Inc. - Executive VP & COO***

A lot more work to do, mainly because we started with our family service team At-need, right? And so it was an educational process to find the right who, which we already have and change compensation programs that would enable accelerated sales broadly across the cemetery portfolio. And then we move into our advanced planning team, which is just on the early stages of development. That's where we have the most opportunity moving forward, even though we will continue to grow our family service teams on the cemeteries broadly. But advanced planning teams is where we see the most opportunity for 2022 and the foreseeable future.

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

This is Mel. I just wanted to add something there, and I'm going to put Carlos on the spot, like I do everybody. So if you think about Houston is in the World Series again. The Houston Astros, they won last night, way to go, going back to Atlanta. But if you think about a baseball game being 9 innings, where are we with a sales team in terms of high and sustainable performance in all those areas where we weren't before? That would include master plans at all the bigger parks, it would include build-out of product for the various demographic groups in alignment with master plans. And then it would include not only what Carlos is talking about, advance planning, which we never really had, but also large sales on a more frequent basis. Which we used to have them like, oh, we have one. When was the last time we had one? And I think that's still in front of us, and Carlos can say which inning does he think we're in, in a 9-inning game.

Carlos R. Quezada ***Carriage Services, Inc. - Executive VP & COO***

Absolutely. Thank you, Mel. I would say we're probably at the bottom of the fourth with a full house in every single base with big hitters already lined to hit home runs.

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

Bottom of the fourth. Hey, that sounds good for the rest of the game.

Liam Dalton Burke ***B. Riley Securities, Inc., Research Division - Senior Research Analyst***

Fair enough. Thank you, Mel. Thank you, Carlos.

Operator

(Operator Instructions) We have a question from Chris McGinnis with Sidoti.

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

Congrats on obviously a really strong all-around earnings release. Just in terms of the M&A, can you just talk about maybe how you maybe refocus that in the sense that if you look back 5 years ago, you may have looked at opportunities a lot differently than you look today. Can you just talk about how you've maybe transformed that M&A team to look at the opportunities going forward?

Steve Metzger ***Carriage Services, Inc. - Executive VP, Secretary, Chief Administrative Officer & General Counsel***

Yes. It's a great question, Chris. This is Steve. I think where we start is we look back at the end of '19 and '20. And we referenced it a lot because it really was part of our transformation, particularly on the acquisition approach. Those were bigger businesses for us. They all came at one time. We dug into them. We really focused on them, and the integration went really well. And when we stepped away from it, we realized that's the type of model that we want to bring into Carriage that really accelerates our performance. So we highlighted this in Mel's Annual Shareholder Letter this year and actually broke down performance of those acquisitions, so encourage folks to take a look at that. It set the model for us. We kind of went back to the drawing board as a team, an executive team, to say, what do we want our strategic acquisition criteria to look like based on the performance of those businesses? In short, what we took away from that was, obviously, strategic markets, let's redefine that. What does that look like for us? Bigger businesses. And when I say bigger businesses, not just call volume, but also again, the efficiencies with fewer rooftops. And obviously, cemeteries. Carlos has spoken to this quite a bit. We are really getting our sea legs when it comes to the cemetery world. And so cemeteries become more attractive for us. And then in terms of your question about the team that works on this, it is truly a team. We have folks across the executive team who are weighing in on this. We have multiple folks that go out on these trips. I mentioned this in my remarks. We invite folks to come here. And fortunately, they take us up on the offer to meet with leaders and different support functions. So our goal is to get out there and have them meet more people on the Carriage team. I'll give you one anecdotal story from a recent visit. We were talking with an owner who basically halfway through the dinner said, well, this all sounds great, how might I know that this is actually what it looks like in practice? Everybody, when they sit in front of us gives us a great pitch, right? And we'd given them a name of an owner who we had recently partnered with a few years ago and said, call this person, ask them about their story. Don't just take it from us. And what we left with was, look, our goal if you partner with us, is in a few years for us to be able to provide your name to somebody. And the only way that we know that that conversation will go well is if we honor everything we've just told you. And that's absolutely our practice. We are patient with it to find the right owners, and we've now got a larger team focused on it. I'm not sure if that answers your question, but that's a little insight into the change in the process.

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

Steve, that was Dewayne Cain, the owner. 2 years today is his anniversary joining Carriage. And 2 years today, we had our earnings call at this place, and had him, first time we had an owner on a call who had just joined Carriage, and he spoke about why he joined Carriage then. And now he's able to speak much more comprehensively and in detail about whatever he said then being just a down payment. And so he's become not only a wonderful partner, Dewayne Cain and Ann, a great business, a lot of upside over many, many years. He's become one of our biggest advocates in terms of other owners having any doubts about Carriage.

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

Great. No, I appreciate that. I remember that call. Mel, just one question for you. Looking back over the last year, year plus now, significant change in the business. What was most surprising to you when you look back at this point? I know you've obviously written a lot about it, but I don't think I've heard you say that anything caught you off guard, if anything?

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

Well, I have been surprised. I've always had a vision of the future that might have been a little bit more aggressive, optimistic about what could be achieved. My worst nightmare or fears would be having a vision of the future that you actually achieve and it was too easy. So I've always had very high visionary and missions that were in most people's mind, a little on the crazy side of what is possible. And I would say the biggest surprise here is that if I had imagined, which I did, stepping back into the operating side of the business in September '18, to turn it around, most of the funeral portfolio at the time, there was no way I could have imagined then even in my most optimistic way what has actually turned out. And it wasn't one thing. It was a lot of different things, and all of those have been listed. Top rating of talent, updating the standards model, Carlos joining the company, a lot of talent coming into the company better than anything we ever had before. Growth of the existing executive team, the acquisitions just being crazy. I mean, I knew they were fantastic, but they've achieved what I thought might be a 5 or 8-year goal. We're there within the first 2 years, and now the upside is beyond what I could have imagined. And so all of these things coming together, the crash in the market, able to put a lot of money to work at the very bottom of the coronavirus market crash. Now we've got all this recurring income and gains. So you just got everything, and then the balance sheet, oh my gosh, I always wanted to get a balance sheet like this. And now we got the balance sheet and we got the operations, leadership. Just like I wrote in the '20 Shareholder Letter about London versus Paris in the 1775 - 1992 period, these are truly the best of times. That's what we, you talk about here every day if you walk around the halls, it's all over the walls. These are the best of times with everything before us. And I told the team this the other day, the only thing that can mess this up is the person you look at it in the mirror every day you get up. So we can't let that person mess it up individually or his teams. And I'd really encourage people to come here. I mean this team has -- we extended the lease. We got all renovated floors. But if you come and look at the walls and just everything that's around, you could be here for 3 or 4 days and not know what business we're in. Other than talent, exceeding expectations individually and through collaboration with other talent, you would never even know what business we're in, other than whatever we're in, we're damn good at. So that's been the surprising part to see how it's all come together, all parts, and it will never go back.

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

Great. Well, thanks again for answering my questions and good luck in Q4.

Operator

And I'm showing no further questions in the queue. I would like to turn the call back to Mr. Mel Payne for closing remarks.

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

I cofounded Carriage on June 1, 1991 at 48 years of age with no history and no knowledge of the funeral and cemetery business and the industry. I only had a mission and vision of being the best at what we do, guided by 5 guiding principles. Over the last 30 years, we first had to get really good as an operating company. So we ditched the budget and control model in '03, and we innovated a radical business model at the end of '03 called a standards operating model. Which over the last 18 years, has evolved into a portfolio framework that produces performance, operating and financial performance, at each business in alignment with our mission of being the best at operating our businesses. Then we used this advanced operating business model to develop our strategic acquisition criteria in '06 and the model that we use to vet acquisition candidates over the last 14 years. So we believe we have achieved our Being the Best mission as a consolidator of the best remaining independent businesses in the best large strategic markets. So we believe strongly, and we believe this performance this year, this quarter and in future years, is obvious that we achieved those too. Upon reflection about this evolutionary learning journey and history, it becomes clear that only over the last 2 to 3 years of high-performance transformation in every aspect of the company, which I mentioned a few minutes ago, have we finally matured into being the best shareholder value creation platform. We're operating and consolidating the still highly fragmented funeral and cemetery industries. I could never have achieved this last and critically important mission, our shareholders, of Being the Best company in our industry, to produce long-term superior compounded shareholder returns, without the friendship and support of 3 people who have fundamentally changed the way I think about capital allocation and value creation. So with gratefulness and honor, I would like to personally dedicate this third quarter performance and release to Alan Weber, Tom Treforest and Will Thorndike. Thank you all for calling in and being interested in our company.

Operator

This concludes today's conference call. Thank you for participating. You may now disconnect. Everyone, have a good day.