Carriage Services, Inc.
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<<Ben Brink, Co-Chief Financial Officer>>

Good Afternoon. My name is Ben Brink along with Viki Blinderman, we are the Co-Chief Financial Officers of Carriage Services. Carriage is owner and operator of funeral homes and cemeteries. We own 200 individual locations across the United States. We are committed to being the best at operating funeral homes and cemeteries within our industry, committed to being the best consolidator of independent family businesses and being the best at creating long-term shareholder value. We believe strongly in our corporate culture and who we are.

We have five guiding principles that were written down before we ever bought a funeral home. The first one of those is honesty, integrity and quality in all that we do, these are words that we live by at Carriage each and every day. Carriage is a high performance culture company that just happens to be in the funeral and cemetery industry. We look forward over the next 20 minutes or so showing you what high performance looks like at Carriage. We have a 10-year long term vision to affiliate and partner with the best remaining independent funeral homes in the country in markets that we've deemed as large and demographically attractive. The second one is to become recognized as a superior consolidation operating and investment platform by consistently allocating our precious capital, particularly our recurring and growing free cash flow to maximize the intrinsic value of Carriage for long-term shareholders.

This is a good graph of our -- what we call our learning journey. We were founded in 1991 by Mel Payne, who is our current Chairman and CEO, along with two other co-founders. We grew rapidly in the 90s through what was called a consolidation and acquisition mania. Like many in our industry we got out over our ski’s in terms of leverage and poor operating performance which led to an industry-wide crash at the end of the 90s. Over the next couple of years we had to rapidly de-lever the balance sheet and get -- and came to the realization at that point that we needed to be a great operating company before we could be the acquirer of choice within our industry. That led to the evolution of our unique and innovative standards operating model. We abandoned the budget and control model for operating funeral homes and cemeteries in our industry, what that of all do is a decentralized entrepreneurial operating model which we'll talk about here a little bit later.

In 2007 we introduced our strategic acquisition model, and we began to grow again through acquisitions in '08 and '09 at the depths of the financial crisis. We showed our commitment to creating long-term shareholder value by repurchasing 15% of our company for $10 million this time. Late in 2011, we had a strategic decision to change our leadership and some of our board composition which led into the start of our five-year good to great journey, which started in 2012. Over the last five years we have significantly improved operating performance across the entire business. We've been able to close on 22 acquisitions over the time, and we continue to evolve our high performance culture.

This slide here outlines our high performance culture framework; it shows all the linkages within Carriage from our guiding principles to our operating models and how we create long-term shareholder value. So our Standards operating model; we talked a little about this earlier, really underpins everything that makes Carriage successful over the long-term. These are quantitative and qualitative operating standards that when achieved at a high level by each of our managing partners creates significant financial performance. It's focused on revenue growth which is the hardest thing within our industry. So as you can see here, 30% is weighted towards market share growth serving more client families through your funeral home each and every year. The second largest weighting is 15% at average revenue per contract growth. We expect people to grow their averages consistently and slowly and responsibly over time. The other drivers are financial characteristics of EBITDA gross margin and FNB margins along with two what we call people standards more on the qualitative side.

If we think about our business in our industry it's really a people business. It's driven by the quality of people within each of our local businesses. And so we asked our managing partners and their teams to continue upgrading of staff and to make sure they have the right quality of staff. We believe strongly in having the right people on the right seats in our bus in both our local businesses and our Houston support office. We link incentive compensation for our local managing partners with standards achievement. So if they make 50% of their standards or above in the given year them and their teams are all eligible for annual incentive compensation, which is calculated based on EBITDA, and that's field level profitability, we don't allocate any corporate resources down to them. They're only responsible for what they can control at the local level. We also have a long term five-year incentive program that if a managing partner is able to grow his business at 2 plus % compounded annually over five years, we have a very nice incentive package for them at the end of five years.

We get a lot of questions from investors when we talk about a decentralized entrepreneurial business model about how it can create a consistency in results. And along with an operational discipline within our business. I want to give a few examples of how we recognize operational discipline. So far as same store funeral segments, which are businesses we've owned over five years and it's our largest segment. First part of the year was a little tough in terms of death rates, revenue has been down through the first nine months at 1.2%. There's a lot of operating leverage inherent within the funeral business when times are good and volumes are rising margins can expand when revenue and volumes are down typically we see margins contract. What's been impressive about this year and we've shown consistently improving margins is that we have field EBITDA margins in our same store cemetery businesses up 70 basis points.

Consequently on our same store cemetery results they've been performing very strongly for the past four or five years. We've increased through the first nine months revenue by 8%, field EBITDA margin is up 10.5% and margins continue to expand by 80 basis points. Over the long term since we started our five-year good to great journey, our funeral field level EBITDA margins has increased 360 basis points, our Cemetery same store margins have increased over 700 basis points, which is why the total field EBITDA margin increasing 5% over the same period. So a core part of our strategy is to be the acquirer of choice within our industry. This industry remains highly fragmented and 80% of the industry is currently independent and unconsolidated. We are one of three publicly traded consolidators out there today. We are not focused on acquiring everybody that's currently independent. We have a very select criteria for who we acquire -- we publicly stated and we practice it that we are interested in acquiring the best remaining independents in this industry.

We are focused on acquiring larger businesses in larger strategic markets. The reason why we're focused on larger businesses because of the performance of our own portfolio businesses that we've owned for a number of years over the last five years. Businesses doing over 250 funerals a year have grown over 2% revenue annually and they've grown EBITDA almost 5% annually. We're looking to acquire more of those types of firms. We’re an attractive succession planning solution because of our strong corporate culture and our decentralized operating model. We don't rebrand the business. We protect the local heritage. We don't mandate pricing. We don't mandate vendor relationships at the local level. We leave that up to the local managing partner and their teams to make those decisions. That type of operating model is to a local owner is very attractive solution. When we evaluate the business under our strategic acquisition model we do a lot of work on a qualitative nature of the ownership.

We want to make sure that the local owners' and perspective acquisition targets are aligned with Carriage's vision for the business. We do a lot of work on proving up revenue and so we ask for 10 years of contract history and three years of contract detail so we can ensure that we know the client family revenue profile of the businesses we are acquiring. With that we are able to determine what we believe EBITDA margins should be under our standard's operating model and we price the business off of that. We also ensure that we are earning based on our forecast for what the business will do in the future. We are earning a return on invested capital above our cost of capital to continue to accrete value to shareholders over the long term. We believe and we've shown this model can be highly predictive of future results in our acquisition program. We believe that there are plenty of targets out there for Carriage to still acquire. We've done a lot of work over the past couple of years to tell our story within the industry.

It's resonating with individual and prospective owners in the industry and we believe that acquisition activity will be higher going forward than what we've shown in the past couple of years. This is our long term stock price performance. We've had a pretty good performance over the past few years. Yet we still believe that valuation remains compelling trading at a 40’s PE just over 13 times and a free cash flow yield at low double digits.

With that I'll turn it over to Viki.

<<Viki Blinderman, Co-Chief Financial Officer>>

Good afternoon, everyone. After lunch crowds. So we're going to go through pretty much our good to great journey, our historical performance here – sorry. This slide in particular definitely demonstrates how we've been able to leverage our single digit growth into larger increases on adjusted consolidated EBITDA and adjusted diluted EPS. Since 2011 respectively in these areas 7%, 9%, and 24%. The key metrics on this sheet is to really look at your adjusted consolidated EBITDA margin at 29.4% over 200 basis points from where we were in 2011. Year-to-date 2016 we're at 29.6% ever reaching our 30% goal, which is the highest leading EBITDA margin in the industry.

Adjusted free cash flow our CAGR right now is at 9%. This industry alone really produces high reoccurring free cash flow and really lends to our ability to allocate our capital very wisely and as high returns to our shareholders whether they're for acquisitions, share repurchase programs, dividends or internal capital projects. Our estimated 2016 as a percentage of revenue is coming in a little lower than 2015. In 2015, we became a cash tax payer. We had NOL’s for about 25 years. So we're estimating that right now it is going to be anywhere from flat to slightly above from 2015. Overhead, relatively fixed overhead, a very flat lean operating structure.

When you look back in some of the prior years, we recognize the fact that our overhead as a percentage of revenue was a little high. And we've been working very diligently on that in trying to reduce it. As we acquire businesses, the goal is not to add overhead and that the incremental EBITDA will flow directly to the bottom line. Currently, in our last trailing 12 months, we did take out about $4.1 million of one-time reoccurring retirement charges.

Credit… capital structure we have $144 million of convertible junior notes, 150 million of term loan, $150 million revolver in which $50 million is outstanding. We took advantage of refinancing our balance sheet back in 2014 to really take advantage of the low interest environment. We've been able to reduce cash taxes, improve our cost of capital and we have substantial financial flexibility to go out there and do acquisition activity. Leverage ratio anywhere from 4.5 to 5 times. We do anticipate that to come down over the next few years as we go through our acquisition activity.

So we talked about the previous five years, now let's look at the next five years. We produce growth scenarios. These are roughly right ranges. If you ever look at our earnings releases, we do a rolling four quarter outlook, we say these are roughly right. We don't have a crystal ball or they're not necessarily forecasts but what we do is we do incorporate incremental improvement in our existing portfolio and we do look at the acquisition landscape right now and add in acquisition activity but that's over the course of the five years and never in particular to predict what's going to happen on an annual basis.

And most importantly, this right here that we firmly believe that long term shareholder value is created by disciplined and consistent approach to allocating capital among various investment options. We believe our capital allocation and the way we make decisions is extremely important to our shareholders. And our number one goal is to maximize intrinsic value to each of our shareholders.

So here we provided five year scenarios on revenue, adjusted consolidated EBITDA and adjusted net income. Again like we've done in the past is that single digit increases in revenue will be leveraged using larger increases and adjusted consolidated EBITDA and adjusted net income and here we're going to be about 8% revenue, 9% of EBITDA and 11% of net income. Again, all this incorporates improvement in our existing portfolio and an increased activity level of buying other companies previous in what we've done in probably the past few years.

So a little Q&A, that's a part of our presentation. We talk to a lot of investors or potential investors and usually what comes out is they have questions about our standards operating model, our operating performance and metrics, why we think we're the consolidator of choice as succession planning and the sustainability of our capital structure. Hopefully we have touched base on some of these areas for you. But we just go into a little bit of detail to have you understand the company.

Most importantly why Carriage? We really and truly believe we have the best talent in the industry. We believe our standards operating model and our high performance culture is extremely attractive to independent funeral home and cemetery operators out there who want to join us; high reoccurring free cash flow, we've proven track record, I can go over to numbers till we bleed. But in the past five years proven track record of revenue adjusted consolidated EBITDA and EPS. We're approaching 30%, like I said we're at 29.6% of adjusted consolidated EBITDA margin, we're approaching 30% - something that's never been accomplished in our industry. And our dedicated and tenured management team, our CEO Mel Payne is one of our founding members and one of the largest shareholders and we've been around since 1991. So that's it. Questions, yes?

Q&A

<Q>: [Question Inaudible] (17:12). Future growth - % organic – acquisition activity?

<A – Viki Blinderman>: Organic about 1% to 2% and the remainder through acquisition activity.

<Q>: And how does your pipeline look right now?

<A – Viki Blinderman>: Pipeline looks good. We have a very - a dedicated team of two people in particular that goes out. It's forming the relationships, meeting people, but the whole management team is very much involved in all of our acquisition activity.

<A – Ben Brink>: We just closed, we just closed one acquisition in October. We have announced two more under letter of intent that will close before the end of November within the next 30 days. We feel we've laid a really strong foundation within the industry differentiating ourselves, we do have a different operating model than what's out there in the industry, and I think that is resonating with people. So we expect the level of acquisition activity to be higher than what's been in the past couple of years.

<Q>: What are - what are your evaluations of the…

<A – Ben Brink>: Yes it has been fairly consistent, you know the last time we talked about -- the last time we talked about multiples was when SCI bought Stewart enterprises and they spun off a bunch of businesses. What they talked about was eight times what they got for those businesses and we participated in some of those 8 times EBITDA multiples on that. That is on the very high end rage for us so…

<Q>: [Question Inaudible] (18:49).

<A – Ben Brink>: It's what we believe under our standards operating model what these businesses should -- should run at. And we have a range within our operating model of what -- what EBITDA margin is at a local level and we look at the low end of that range and price it off of that.

<Q>: [Question Inaudible] (19:09).

<A – Ben Brink>: What I would -- what I would say is that we run…

<Q>: [Question Inaudible] (19:19).

<A – Ben Brink>: Right, –StoneMor is a publicly traded and a limited partnership. They are more focused on cemeteries, so there're about 75% cemeteries versus 25% funeral, we're exactly the opposite. We're much different model than they are. I can't really speak much of what happened last week.

<Q>: [Question Inaudible] (19:44).

<A – Ben Brink>: So the way -- so the way we look at it, is we follow all the trusting laws and regulations that are out there and some differ by state. When somebody on a preneed basis or somebody gives us money on a preneed basis, we put it in a trust that is future revenue, deferred revenue. So we'll recognize at the time of delivery, the time that somebody passes away. The other cemetery trust, perpetual care trust where we deposit 10% of the revenue from each property sale into that trust. We earn the income off of the principal of that trust to offset care and maintenance expenses within our cemeteries.

<Q>: [Question Inaudible] (20:36).

<A – Ben Brink>: Yes, I think – I think for us it is what we're seeing within the industry now. I think the landscape of the consolidation. You know we differentiate ourselves significantly from others within the industry. SCI is a comparable comp at the public company much, much larger different business model than what we run, there is some private money out there. We - we run a very differentiated business model which I think resonates with people not rebranding businesses, not mandating pricing or vendor decisions, really focusing on local ownership, local control of the business. And you know we have a strong corporate culture where we focus on people, that people are our most important asset.

And I think that's resonating within the industry. We've done a lot of work over these past couple of years to tell a story within the industry to make relationships. So you know we believe strongly in who we are and it’s about getting our there and telling the story to folks and it's resonating within the industry.

<Q>: [Question Inaudible] (21:52).

<A – Ben Brink>: I think from a standpoint of our cemetery acquisition program, we don't actually buy a whole lot of cemeteries, we bought two in the last five years, one came as a divestiture baggage. We mostly focus on acquiring funeral homes. So what we've seen within our cemeteries, we've grown top line revenue in our cemeteries by 5% compounded annually over the last five years. We've invested a decent amount of capital in developing differentiated inventory within those and some of that has been focused on either different cultures or folks choosing cremation as an option as the place to place the urn of a loved one in a cremation garden or niche or something of that nature, so finding different ways to repurpose our cemetery inventory is something that we've shown success in and it's really resonating with our customers.

<Q>: [Question Inaudible] (23:13).

<A – Ben Brink>: So our three largest states are California, Texas and Florida. We have a large presence in the northeast as well. And a lot of activity in the Carolinas areas, North Carolina in particular…

<A – Viki Blinderman>: About 200 businesses overall.

<Q>: [Question Inaudible] (23:35).

<A – Ben Brink>: Yes absolutely. You know that's a question we get a lot. So as a company our cremation rate in our same store businesses has grown from 43% to 50% over the last five or six years. We've been able to and so cremation is a much lower dollar value. So $8500 for a burial contract versus $3500 for a cremation contract. There's been a large focus within our organization to provide additional value for our client families that choose cremation as an option. So we've been able to increase the average revenue per cremation contract by 9% since 2014. And that's not by raising price, that's by engaging with our client families in a different manner, changing the mindset that cremation doesn't equal cheap, doesn't equal that somebody doesn't have money, it's just a matter of disposition. And so we've shown a lot of progress.

<A – Viki Blinderman>: Do you have another question. Okay.

<Q>: [Question Inaudible] (23:35).

<A – Ben Brink>: So the last equity, we went public in '96 I think we did a secondary in '97-'98.

<A – Viki Blinderman>: '99 was the last in the industry.

<Q>: [Question Inaudible] (24:50). These convertible notes…They are traded?

<A – Ben Brink>: Yes they are traded. 144, yes but they're traded.

<Q>: [Question Inaudible] (25:06).

<A – Ben Brink>: Two and three quarters.

<Q>: [Question Inaudible] (25:10).

<A – Ben Brink>: 22.50 right around. Full diluted effect of the note is 3.6 million shares and the full dilution comes in at $5.53.

<A – Viki Blinderman>: Any questions?

<Q>: [Question Inaudible] (25:34). Which areas in Florida…?

<A – Ben Brink>: So we're really all over the state and we're from Miami up into the panhandle for Long Beach area, in the State of Florida off the top of my head; 20-25 businesses, kind all over. Some really, really strong, really great businesses.

<Q>: [Question Inaudible] (26:02).

<A – Ben Brink>: We'll add that- we'll add that. We have a few businesses in Georgia, one outside of Atlanta and a couple outside of Chattanooga areas.

<A – Viki Blinderman>: We'll say that we like to refer everyone to our website. We self-publish on a lot of material. We think it's really important for you all to get to know us and that we tell you our story and the right story. So, please go there. We do have our company investment profile here, we have our 2015 shareholder letter, a lot of materials to really help you understand our platform and our models.

<<Ben Brink, Co-Chief Financial Officer>>

Thank you.