Carriage Services 3rd Quarter 2024 Earnings Webcast

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Operator: Good day and thank you for standing by. Welcome to the Carriage Services Third Quarter 2024 Earnings Conference Call. Please be advised that today's conference is being recorded. I would like now to hand the conference over to your speaker today, Steve Metzger, president. Please go ahead, sir.

Steve Metzger: Good morning, everyone, and thank you for joining us to discuss our third quarter results. In addition to myself, on the call this morning from management are Carlos Quezada, chief executive officer and vice chairman of the board of directors, and Kathy Shanley, chief accounting officer. On the Carriage's website, you can find our earnings press release, which was issued yesterday after the market closed. Our press release is intended to supplement our remarks this morning and include supplemental financial information, including the reconciliation of differences between GAAP and non-GAAP financial measures.

Today's call will begin with formal remarks from Carlos and Kathy and will be followed by a question and answer period. Before we begin, I'd like to remind everyone that during this call, we'll make some forward-looking statements, including comments about our business projections and plans. Forward-looking statements inherently involve risks and uncertainties and only reflect our views as of today. These risks and uncertainties include but are not limited to factors identified in our earnings release as well as in our SEC filings, all of which can be found on our website.

Thank you all for joining us this morning. And now I'd like to turn the call over to Carlos

Carlos Quezada: Thank you, Steve. And thank you, everyone, for joining our third quarter earnings call. We're excited to share our continued progress driven by our three strategic objectives, which have led to another strong financial performance this quarter. But first, I want to take a moment to express my sincere appreciation to every Carriage employee for their unwavering commitment to excellence. Your dedication truly impacts the families we serve and drives our company forward. We deeply value your support and alignment with our shared vision, values, and purpose.

In today's call, I will highlight some of our key financial metrics and provide updates on some of our key initiatives. Kathy will then cover topics such as overhead, cash flow, and the progress we have made to pay down our debt and lower our leverage ratio.

For the third quarter, we reported total revenue of 100.7 million, a significant increase of 10.2 million, or 11.3%. This marks the third consecutive time we have surpassed the 100 million revenue mark in a single quarter, driven by organic revenue growth, despite the disposition of several divestitures of non-core assets to accelerate paying down our debt. Our most notable growth was in preneed cemetery sales, which increased by 4.9 million to 22.9 million, a remarkable 27.1 increase compared to the same quarter last year.

This robust performance is a testament to our strategic initiatives and the dedication and focus of our team, setting a promising tone for our future. When breaking down revenue, we observed that while total funeral home contracts experienced an expected slight decrease of only 1.2%, total funeral home operating revenue saw a positive growth of 814,000, or 1.4%, to 59.3 million. This growth is primarily due to our funeral home pricing strategy, which continues to boost our funeral average revenue per contract. Contributing to these results on a per-contract basis by $142 or 2.6%. This strategy has proven effective in enhancing our financial performance and reflects our sound financial analysis, planning, and execution.

Our preneed funeral sales strategy boosted general agent commissions, which ended at an impressive 1.6 million, or 415.4%, compared to 312,000 for the same quarter last year. We continue to be excited by the ongoing success of our pre-arranged funeral sales strategy and its positive impact on our performance.

Turning to cemetery operating revenue. Our preneed Cemetery sales strategy continues to deliver outstanding performance. We closed the quarter at 33 million, up by 8.7 million, or 35.7%, compared to the same quarter last year. Total cemetery field EBITDA came in at 15.9 million, an increase of 6.9 million or 76.9%. We totaled cemetery field EBITDA margin of 48.1%, an increase of 11.2 percentage points from 36.9% during the same quarter last year. These results highlight the dedication to excellence and commitment that drive our preneed cemetery sales teams to protect families through education and advanced planning.

Moving on to adjusted consolidated EBITDA. We finished the third quarter at $30.7 million, an increase of $6.5 million, or 26.7% over the prior year quarter. The higher average revenue per contract and our cost management initiatives contributed to this success. As reflected in our adjusted consolidated EBITDA margin of 30.5%, an increase of 370 basis points compared to the same quarter last year. From a GAAP perspective, net income was 9.9 million, a 5.2 million increase from the prior year. Kathy will share more details related to overhead later in the call.

Our GAAP diluted EPS for the third quarter was $0.63 per share, up by $0.33, or 110%, and adjusted diluted EPS for the third quarter was $0.64 per share, up by $0.31, or 93.9% versus the prior year quarter. With the recent amendment to our credit agreement, we're all well-positioned to reduce near-term interest expense and unlock additional value for our shareholders. This marks the seventh time in the last eight quarters that we have outperformed expectations, demonstrating the long-term commitment to our focus on disciplined capital allocation, purposeful growth, and relentless improvement.

As we look at the year through the third quarter, total revenue ended at 306.5 million, an increase of 22.8 million, or 8% over the same period last year. While adjusted consolidated EBITDA ended at 96.9 million, an increase of 16.2 million, or 20.1%, and adjusted consolidated EBITDA margin of 31.6% compared to 28.5% last year, an increase of 310 basis points, and adjusted diluted EPS of $2.02, an increase of $0.60, or 42.3%, when compared to $1.42 during the same period last year. As it relates to GAAP, net income was 23.1 million, an increase of 1.3 million, or 6.1%, and GAAP Diluted EPS was $1.48 per share, an increase of $0.09, or 6.5%.

We are proud of these results, and after reviewing our key operational metrics and forecasts, we are raising our 2024 guidance. We now expect to finish the year with total revenue in the range of 395 to 405 million, adjusted consolidated EBITDA of 120 to 125 million, and adjusted diluted EPS of $2.45 to $2.55. Adjusted free cash flow guidance will remain at 55 to 65 million. Kathy will provide more details related to our revised guidance.

We are full steam ahead and fully committed to our strategic objectives, while we continue to identify new ways to enhance our performance, creating long-term value for our shareholders. As part of this commitment, our competitive request for proposal process for Urns and caskets is currently underway, marking an important milestone in our broader supply chain strategy. Our recent meetings with partner vendors were highly productive as we focused on refining our merchandise options and selling strategy to serve our clients better and enhance their experience.

These initiatives are prime examples of our ongoing commitment to continuous improvement. They are designed to leverage our scale, leading to greater financial benefits that we expect to materialize in 2025. There's more to come from our supply chain strategy as we continue to identify both near-term and long-term opportunities.

Lastly, the search for a chief financial officer continues with deliberate care. This continues to be a thoughtful and detailed process during which we have seen several talented candidates. However, the search remains ongoing. We are committed to finding the ideal strategic partner with the right skills and experience that aligns with our values, culture, and long-term vision. This is a critical role for Carriage's future growth, and we are determined to make the right choice to ensure we have a leader who can help drive our financial success forward. We look forward to providing additional updates as we identify the best person for this critical position.

Over the past two years, we have focused on building a strong foundation at Carriage, grounded in our values and centered around our three core strategic objectives. Disciplined capital allocation, relentless improvement, and purposeful growth. These efforts align closely with our purpose of creating premier experiences through innovation and power partnerships and elevated service. We are very proud of our significant progress. Our strong third quarter and year-to-date financial performance represents the hard work of many talented individuals driving these efforts. And while we still have many opportunities in front of us, there is a clear sense of excitement across the Carriage organization regarding what is to come on this journey.

Thank you. And with that, I will hand it over to Kathy.

Kathryn Shanley: Thank you, Carlos, and thank you to everyone joining us today. As Carlos highlighted in his remarks, we increased our full-year guidance given our continued strong performance for several quarters. I will start by providing the cash flow and overhead highlights for the quarter, and then talk about what we can expect for the remainder of the year.

Q3 2024 results included cash provided by operating activities for Q3 2024 was 20.8 million, which was down 1.9 million from the prior year quarter of 22.7 million. Adjusted free cash flow for Q3 2024 was 20 million, which was down 1.4 million from the prior year quarter of 21.4 million, primarily driven by the company's shift and revenue mix towards preneed cemetery sales, which have a slower cash conversion cycle and 813,000 of expense coming from Trinity. We paid $15 million towards our outstanding debt this quarter as we continue to drive down our leverage ratio, which is now at 4.3 times down from 5.3 times at Q3 of 2023.

This reduction in leverage illustrates our commitment to disciplined capital allocation, along with the impact of our strong performance. We experienced a reduction in interest expense for the quarter of 1.2 million as a result of a more favorable fee schedule provided by the amendment to our credit agreement and our continued focus on reducing our debt. Turning to our progress as it relates to capital expenditures. Year to date, we have invested 6.7 million for growth CAPEX, 5 million for maintenance CAPEX and 2.2 million for Trinity.

Now shifting to overhead. Overhead was 14.2 million for the quarter versus 12.8 million in the prior year quarter, resulting in just over a 1.3 million increase in overhead. The overhead variance was driven by 813,000 relating to Project Trinity costs as we prepare for our exciting implementation of this new ERP and customer experience platform early next year. And 400,000 of accrued expense for leadership and development opportunities as we focus on the continued education of our team to ensure the successful implementation of our various initiatives.

Overhead as a percentage of revenue was 14.1% for the third quarter of 2024, which is down ten basis points from the prior year quarter of 14.2%. If you exclude costs associated with Project Trinity, overhead as a percent of revenue was 13.1% versus 14% in the prior year quarter, which is within our previously communicated range.

Now, let's shift to what we can expect for the remainder of the year. Although we have increased our revenue guidance as we continue to grow our businesses organically, the growth is projected to be primarily driven by preneed cemetery sales, which are collected over time. Additionally, the timing of certain payments for taxes, interest, and an additional payroll will also impact our adjusted free cash flow.

For these reasons, adjusted free cash flow for the year will remain within the range of 55 to 65 million. For the full year, we expect to spend about 7 million for growth CAPEX, 8 million for maintenance CAPEX, and 3 million for Trinity or roughly 18 million, which is slightly lower than our initial expectation of $20 million. For overhead, as we continue to focus on our strategic objectives, we expect to experience slightly elevated overhead costs driven by Trinity. However, in the long term, as previously communicated, we anticipate overhead efficiencies after implementation is complete and in connection with other internal initiatives.

For the full year, we expect adjusted overhead to finish within the 13% to 14% of revenue, which is within our expected range. We expect the leverage ratio to end the year in the 4.3 times to 4.6 times range, primarily due to the timing of our bond interest payment, cash tax payment, and the extra pay period previously mentioned. We expect to see a reduction in interest expense of approximately 1 million to 1.5 million in Q4 2024, as a result of a more favorable fee schedule provided by the amendment to our credit agreement and our continued focus on paying down our debt.

That concludes my prepared remarks, and I will turn it back over to the operator to open it up for questions.

Operator: Thank you, ma'am. If you would like to ask a question, we are now going to conduct the question and answer session. Please press Star One on your telephone keypad. If you're using a speakerphone, please make sure your mute function is turned off to allow your signal to reach our equipment. And again, please press Star One to ask a question, and we'll pause for just a moment to allow everyone the opportunity to signal for a question. Our first question comes from Alex Paris with Barrington Research.

Alex Paris: Good morning, everyone. Thanks for taking my questions and congratulations on the beat and raise in the quarter.

Carlos Quezada: Thank you very much, Alex.

Alex Paris: First off, I wanted to talk about the guidance. You had a super strong Q3 and you raised full-year guidance. Given the results year-to-date and the updated guidance, consensus Q4 estimates at the midpoint will need to come down a bit again, at the midpoint. A couple of questions. Why would revenue be down sequentially in the fourth quarter? Did Q3 borrow something from Q4, perhaps related to prenatal, I suspect? Number two, what are the underlying assumptions for the balance of the year? And then three, what would it take to be at the high end of the updated range? Because the revenue range is about $10 million, the EBITDA range is about $5 million, and the adjusted EPS range is about $0.10. So everything I just said was based on the midpoint. But what would it take to be at the high end?

Carlos Quezada: That's a great question, Alex. I appreciate it. When you think about where we are, the third quarter, as you know, it's always been the lowest quarter of every year when you have a normalized and seasonalized year. I thought that would be the case, but we had a few surprises on the third quarter, which includes large sales above our expectations from preneed Cemetery. And so as we were forecasting the fourth quarter and we're pretty close, we of course, got October in the books and we know what that's looking like. We wanted to be very cautious and optimistic about elections are coming up just a couple of months. Economic data coming up. You hear news about discretionary spending being decreasing. And we wanted to keep it somewhat within the – well, we wanted to increase our outlook, keep it within – reasonably expecting achievement range.

As it relates to what it takes to get to the higher end of our outlook, I truly believe that's really where we're going to end up at the end of the day. We could have tightened a little bit more of the range. We just wanted to keep it somewhat consistent. But our expectations is to be more on the higher side of the range than the middle point.

Alex Paris: That's great. Thank you for that. And if you were at the higher end, fourth quarter revenue would not necessarily be a sequential line or sequential decline. It would be flattish sequentially, but up. So second question related. What were the monthly trends in Q3, particularly on the funeral side? I know cemetery's been going gangbusters here, but last quarter, for example, you had said that July volumes the first month of the third quarter were up slightly, but you still expected it to be down for the full quarter. So same question. What was the trend in volumes in funeral during Q3 and then since October is in the books, what does October look like?

Carlos Quezada: Yeah, that's another great question. So we continue to see, as you remember, at the beginning of the year our expectation was to have a decline of volume from a comparable perspective due to the pull forward effect from COVID. And that has been the case from Q1, Q2, and actually Q3. Q3 being the lowest decline that we have seen for this year at 1.2% on total contract volume. However, you could see that same trend July, August, and September. But October ticked up a little bit more on the decline.

So that's one of the reasons why we also wanted to be cautious. Not too much, but enough to decide to not extend the range too much and to keep the numbers as tight as we could. We don't expect – it's a little off honestly on October to have like a 2.5% on that need decline. However, there is two businesses we closed down. We closed down a commission business out of Bakersfield. So that from a comparison perspective, you see that volume going away.

And then we have a business in Buffalo, New York, that we also showed that the building, that building was not providing the business that we required. It was not really giving any positive EBITDA and so actually, we got some savings while the volume is negative. So not that too concerned about that, to be honest with you and we continue to be very optimistic about being a more normalized year through 2025.

Alex Paris: Got you. And then a related question to the shutdowns that you just talked about. On the Q2 conference call, you had already closed a couple of divestitures for around $11 million in proceeds. You talked about some excess real estate that could be sold as well, that doesn't have any EBITDA associated with it. And then in total, this might have been on the Q&A. You had the opportunity to get to 20 to 30 million with a relatively minor impact on EBITDA. I'm wondering, did you close any other divestitures in the third quarter, and what are your expectations for the balance of the year?

Steve Metzger: Good morning, Alex. This is Steve. So we did close a real estate focused transaction in Q3 and we have a couple of opportunities here in Q4. So the previously communicated range of 20 to 30 million, we're still on target for that. And I think at the end of the day when we're looking at total EBITDA that we give up with these transactions for full year 2024, it's around probably 3.5 million. And we do anticipate the proceeds to be on the high end of the $20 to $30 million range.

Alex Paris: Great. And that $20 to $30 million range at the high end, do you expect to complete that in 2024? Hello?

Steve Metzger: Yeah. I'm sorry. Yeah, we do. We expect to close them in 2024.

Alex Paris: Great. And then last question. It seems to me you're a little ahead of schedule in your debt reduction. You had previously communicated a year-end target of 4.50 to 4.75 times, and now you're saying 4.3 to 4.6 by year end. To what do you attribute that to, first off? And second off when would you think you'd become more engaged in the M&A market?

Carlos Quezada: Thank you. Thanks again for that question, Alex. It's a really good question. So yes, we're a little bit ahead of where we thought we would be. Our approach to disciplined capital allocation has paid some very significant successful results. As a consequence to that, we have been able to allocate more cash to paying down our debt. And of course, the amendment provided a much better result than expected as well.

And please don't forget that what we also did through the amendment, as we reported on Q2, was the alignment between the adjusted numbers from the strategic review process and fees that – not fees, but separation agreements out in the first quarter of 2024. So that alignment also allows us to have a full financial leverage calculation ratio with the bank leverage calculation ratio and so that decrease those numbers as well. So that's why it feels a little bit ahead than we expected.

We do believe we will continue to be, other than the Q4, for the timing of those payments that we have to do with our bond and interest deals, the extra payroll, and tax payments, we truly believe we will continue to accelerate paying down our debt, especially as we close the divestitures that Steve just mentioned by the end of the quarter. We should be able to be in a very good spot as we kick off 2025. Our expectation and we have verbally heard the support from the banks that we will be able to go back to full M&A shape in 2025. So that's our goal and that's the expectation.

Alex Paris: Great. Very helpful, guys. Thank you so much. I'll get back in the queue.

Carlos Quezada: Thanks, Alex.

Steve Metzger: Thank you, Alex.

Operator: And our next question comes from John Franzreb with Sidoti and Company

John Franzreb: Good morning everyone and thanks for taking the questions. I'd like to go back to the preneed cemetery sales. I understand you collect some of the revenue over time and I'm assuming some upfront. Should we be thinking about that business at an elevated level? Are the changes that you've made there sustainable so that it can continue at this kind of a revenue run rate? Or is that an anomaly that we've seen in the last two quarters?

Carlos Quezada: So good morning, John. When you think about when we started with cemetery preneed sales, that was back second half really of 2020. We put the structure, created the compensation plans, got the recruiting going and we really kick off our cemetery preneed strategy in 2021. It has been an evolution of performance through every quarter to quarter since then.

What has happened since 2024 now, we had more than two and a half years of CRM that is working better than and we're still working on tweaking a few things. All of that is new when it comes to preneed cemetery sales at Carriage, but it's working better than before. Marketing is doing an incredible job, generating leads that are now more efficient, more firm than ever before. And of course, Shane Pudenz, our senior vice president of cemetery sales and marketing continues to recruit the right people.

We did make some changes. If you go back to our announcement in last summer, not last summer, but the summer of 2023, we had some overhead leadership challenges in some cemeteries. Since then, we have been able to recruit all the right leaders in the right cemeteries, all the right counselors and provide the training, the lead generation, and of course, the programs to sustain sales. We believe the growth we have received this year, it is sustainable from the point of view that will continue to grow, maybe not at the same rates.

Keep in mind that since Carriage is somewhat new on the preneed cemetery world, we had a lot to capture from. I do think we will continue to grow, and I've always been talking about low double digits, so between 10% to 20% on a year-to-year basis over the next, probably four to five years. And that has been true since we started.

John Franzreb: Impressive number, Carlos. Very impressive. And then when we think about the sequential outlook in the quarter that Alex's pointed out. It's kind of muted relative to historical patterns, which typically the start of the winter and maybe more seasonality kicks in. Is there any reason that you see that not playing out, other than the anomaly that you said that October was?

Carlos Quezada: No, I do think there will be seasonality in 2025. I think depending on the winter for Q4 what happens with that? And it's been interesting to see how in some areas the winter starts late, in some other starts early so that's very difficult to predict. However, at the end of the day, once you put all the fourth quarter together, it ends up being somewhere around the same trends.

And so I continue to expect first quarter of the year being the highest quarter. Fourth quarter being the second highest quarter for a full year. Second quarter being the third and third quarter being the fourth. This of the quarter is really an exception because of the large sales I mentioned, but I do expect to have a normalized seasonality in 2025.

John Franzreb: Fair enough. And you highlighted the contract volume was down 1.2%. Do you think that when we start to hit the fourth quarter that we've anniversaried all the COVID impacts?

Carlos Quezada: I think we'll experience a decline in the fourth quarter. Maybe not aligned to the 1.2% in the third quarter. I'm hoping that it is less, but it is also for us, a little bit more analytical than just the pull-forward effect because we're in the process of reviewing pricing throughout the funeral homes. And this is a quarterly meeting that happens. I shared some of that in our last call.

And what happens is that we're improving pricing by evaluating through our data if that's the right pricing for that specific business, in that specific community, and with the competition around it and based on our market share gains or losses. And so we're adjusting. In some cases, we increase prices. In some cases, we leave the price flat. In some cases, we decrease price because we may be losing volume.

So some of those volume losses may be blended within the pull-forward effect as we continue to adjust and maximize and find the perfect balance between price and volume growth. Now we are focusing on more volume growth and pricing because I believe we've been able to do some pretty significant progress in getting the price to where it is absorbing most of the inflationary costs we have experienced over the last probably two years. And so now it's the business by business, making sure that we're not leaving any family behind, that we are able to keep those families, and continue to grow market share business by business.

John Franzreb: Okay. And one last question. I got back into queue. It's something that Kathy said that caught my attention about overhead costs being 13% to 14%. I guess two things about it is that a full-year number or fourth quarter number, and is that a GAAP on a GAAP basis or on an adjusted basis?

Kathryn Shanley: I would say it's on an adjusted basis. We are taking out the unique items more specifically with regard to Trinity and what we're looking for is a more normalized 13% to 14% in 2025.

John Franzreb: Okay. Thank you. Yes, sir.

Carlos Quezada: I'll just add to that. Our purpose statement in the three strategic objectives call for a few additional positions. We created a continuous improvement department within Carriage. We created a supply chain department. And when I say department, it's really one person in each one of these points. So we created supply chain and we're really, really – and customer care. I apologize for that. I skipped that one. So there's an additional overhead compared to what we had in 2023.

But you can see on the results that the focus on experience, the focus on improvement, the focus on growing with purpose, and showing organic growth in these industries is not easy. It's quite challenging. And we're able to show that we can. It is a result of some of those additional team members. And of course, the focus that everybody else at Carriage has in making this happen.

John Franzreb: Fair enough. Thank you for the additional color. I appreciate it.

Carlos Quezada: Thank you, John.

Operator: And our next question comes from Liam Burke with B Riley.

Liam Burke: Thank you. Good morning, Carlos. Good morning, Steve and Kathy.

Carlos Quezada: Good morning, Liam.

Liam Burke: Can we go back to funeral home and margins? There are a couple of things in your discussion, both in the Q&A and prepared statements, in terms of working with vendors to get down costs and also your pricing strategy being market-specific and where you sit in terms of volumes. Could you give me a sense using this quarter's EBITDA margin of 37% as a benchmark? Do you think you can move up from that level, or is this just to maintain the steady state of the high 30s EBITDA?

Carlos Quezada: That's a great question, Liam. When you think about the Carriage model, that's always been very decentralized. They will continue to be somewhat decentralized, but more to a central-led operation, especially as it relates to supply chain. And while we're not going to be choosing the vendor for each one of the businesses, we are creating agreements that are more beneficial than ever before between the largest vendors of caskets and urns across the United States.

When we did our analysis, we realized that that provides a significant opportunity to expand our margins, but not just focus on expanding the margins. It is also a focus on generating more volume by making sure we provide better pricing to those families and keep those families in our funeral homes. And so it's not just about expanding the margins. It's also about what tools can we create to maximize the number of people that visit our businesses in each one of the markets. And so I wouldn't commit yet to say this is something to expand our current funeral margins, but I would say that the margins we have today on the funeral home side are within a range of sustainability for 2025.

Liam Burke: Great. Thank you, Carlos. And just going back to preneed, is this a function of a larger sale? The growth in the pre-need sales, is this a function of a larger sales force or a more productive sales force?

Carlos Quezada: It's a function of three things, both of which you mentioned. So it is a larger sales force. It is a more efficient and productive sales force. But we also have two off-cycle or not normal large sales. For all large sales are not as big as other competitors. But we did had a one point, almost $1.5 million sale in one cemetery and this is probably the largest sale of the cemetery ever had. And we had another one in another cemetery of 400,000. So combined that is just shy of 2 million. So 2 million are pretty much not normal and difficult to repeat or predict from a large sales perspective.

We do have a very strong strategy for large sales within the range of 100,000 to half a million, but when you go above the half a million, it is more challenging to say we're going to be able to repeat that. That's one of the reasons why the strength of the performance of the cemetery sales teams in the third quarter came out that impressive. And so just keep that in mind for your numbers.

Liam Burke: Great. Thank you, Carlos.

Carlos Quezada: Thank you, Liam.

Operator: And our next question comes from George Kelly with Roth Capital Partners.

George Kelly: Hey, everybody. Thanks for taking my questions. So maybe to start, a follow-up on one of the prior questions. You mentioned that in 2025, you expect to have the financial flexibility again to be able to contemplate getting back in the M&A market. So I'm just curious, what does the market look like right now? What have you seen with respect to multiples and just any kind of commentary on the M&A environment would be helpful?

Steve Metzger: Yeah. Good morning, George. So yeah, the past year, while we've been focused on paying down debt, we've been really working to continue our relationships with the different partners that we are looking to work with next year. So we think it looks good for 2025. We've got a group of businesses that we are focused on as we get back to growth for next year. And we do think that as interest rates come down, the environment becomes a little bit more friendly for folks, that we'll see more and more folks out there looking to execute on their succession plans.

So what we've also been doing this year is really preparing to accelerate growth over the next five years. So Carlos has alluded to this, but from systems to people to teams to approach, we're making sure that the integration playbook is really refined so that we can grow at an accelerated rate.

I think the other thing that we've talked about that we're excited about is the call it a little under four years right before we got back to paying down debt. We only did seven transactions, but those seven transactions today account for 25% of all of the company's revenue and about 38% of all of the company's EBITDA. So we did that in a very short period of time with very few transactions, and that blueprint is the one that we're going to follow as we get back to growth next year. So like I said, as Carlos mentioned in his opening remarks, it's kind of full steam ahead for us, and we're excited to get out of the gate next year.

George Kelly: That's really helpful. So what I'm hearing is you've been kind of building the pipeline over the last couple of years, while you've been focused on debt paydown and the assets you're looking at are meaningful. You're kind of focused on larger assets. Is that a fair characterization?

Steve Metzger: That's right. Like I said, if you look at what we've done from 2019 to Greenlawn in 2023, everything we're focused on will fit into those couple different categories very, very large with a Fairfax or a Greenlawn, then really nice combos like what we have in Charlotte and up outside of Dallas. And then there'll be some smaller tuck-in businesses that make a lot of sense for us based on significant presence in certain markets. That's going to be our focus moving forward.

George Kelly: Okay. That's great. And then second question also kind of a follow-up, I guess, to one of the prior questions that Carlos you mentioned, I'm thinking high level here for 2025, and you mentioned your expectation that you can continue on the preneed cemetery side. You can keep doing kind of low double-digit growth for the foreseeable future. I'm curious about in 2025, just sticking to that kind of high level. How should we think about the funeral business? Is there more pricing tailwind to be realized next year and do you anticipate like volumes to grow next year?

Carlos Quezada: That's a very good question, George. So when you think about the funeral home side business, if the volumes go flat just from a comparison perspective related to the pull-forward effect, that will be a phenomenal thing because now we have a good baseline. The pricing will make a significant difference as it has, continues to be a significant difference and make up revenue that we lost through that 1.2%, for example, in the third quarter on volume loss.

However, I do think where the strategy is more compelling is our passion for service program is going to be rolled out in the first quarter of 2025. That's an experienced approach to elevating service for families. That's going to be a significant piece to gaining market share in every business and business by business. Of course, it's going to be a rollout throughout the year. It's not going to be everybody in the first quarter but we should be able to see the impact as we continue to grow that.

The second thing we have been testing, I won't share too much about it, but we've been testing ways to enhance our website visits and improve our e-commerce strategy. I do believe for funeral homes and I believe that's going to be significant. The results we have seen over a 60-day period is compelling enough for us to do a full rollout for 2025, and so that's going to be another significant story.

And the third piece to this one, George, is pre-arranged funeral sales. That strategy continues to be on the early stages of performance. And when you think about it, even though we signed the agreement in May of 2023, the launch started really in September. A slow rollout business by business in September of 2023, and it's just been over a full year of fully being rolled out. We still have a lot of counselors to hire for selling pre-arranged funeral.

We still need to find funeral directors that have a license, of course, to sell burying funeral in some states that have regulation around pre-arranged funeral with the license and still have some other strategies related to literation. And our partnership with RCoA and NGL continues to grow, continues to know each other better, continues to partnership growth and collaborate in such a way that I have high expectations from that point of view.

I believe if we would use baseball as a metaphor for this one. I know Mel used to like to use those metaphors, and it's probably appropriate after last night's game. We're probably on the fifth inning of pre-arranged funeral.

George Kelly: Okay. That's great. And then last question for me is kind of similar. Curious again, high level for 2025. What are the most significant headwinds and tailwinds with respect to margin? You've been this year fairly consistent above that kind of 30% consolidated EBITDA margin and I know you've got I don't think you brought it up on this quarter's conference call, but that $2 million of cost savings that you've articulated before for next year. Any other kind of major headwinds or tailwinds for margin next year?

Carlos Quezada: Nothing that we could forecast other than unexpected black swan events or things from an economical perspective that we have no control over. We believe the 30% is sustainable. We certainly are creating the systems process and management of cost to that performance and I feel pretty positive about that.

George Kelly: Okay. Thank you.

Operator: And we'll move to our next question from Alex Paris with Barrington Research.

Alex Paris: Hey, guys. Sorry. Just one more question and point of clarification. Kathy, you said adjusted overhead in the range of 13% to 14% of revenue for this year. I think you also said for next year. What are you excluding from overhead in terms of the adjusted overhead projection? For example, Trinity. You said Trinity will be $3 million for the full year, so that gets excluded also. And then just a related question. I'm just trying to get to a fourth quarter estimate. What was adjusted overhead as a percentage of revenue year-to-date for the nine months?

Kathryn Shanley: Okay. So other things that were excluded for the full year include things like Severance expenses and Project Kirby. Those would be the things that would be excluded from a full-year perspective, which we do not expect to reoccur in 2025.

Alex Paris: Got you. And how much was Severance and Project Kirby for fiscal 2024? You've said that Trinity would be about $3 million impact for the full year. What was the Severance impact and what was the Project Kirby impact?

Kathryn Shanley: Combined, they're about 11.5 million.

Alex Paris: So Trinity, Severance, and Kirby is about 11.5 million?

Kathryn Shanley: No. Trinity is by itself, Project Trinity through September. Yes.

Alex Paris: Got you. Okay. That's helpful. Thank you.

Carlos Quezada: Thank you. Alex.

Operator: And ladies and gentlemen, there are no further questions in queue at this time. I'd like now to turn the conference back to Carlos for any additional or closing remarks.

Carlos Quezada: Thank you, operator. This quarter's performance reflects the hard work, the commitment to our purpose statement, our strong partnerships, and the dedication of every Carriage team member. We are proud of our progress, and we are energized about what lies ahead as we continue to elevate our services, grow with purpose, and deliver meaningful experiences to those we serve. We're building on our legacy and unlocking new potential every day. Thank you for your trust in Carriage, and we look forward to sharing more success with you when we report our fourth quarter and full year. Have a great day, everyone.

Operator: And ladies and gentlemen, this concludes today's conference call. Thank you for your participation. You may now disconnect and have a great day.