



Mossberg's Investor Digest

Best Idea Profile

Carriage Services, Inc. (NYSE: CSV)

DESCRIPTION:

Headquartered in Houston, TX, Carriage Services operates 136 funeral homes in 25 states and 32 cemeteries in 11 states. The company provides death care services and merchandise including funerals, cremation, caskets, etc.

KEY INVESTMENT CONSIDERATION:

Death & Taxes – Death is a part of life and death rates are not going to change significantly because the economy is bad. Death care is not a discretionary spend, it's a stable business in all types of economic conditions. According to the National Center for Health Statistics, there were 2.4 million deaths during 2007. After four decades of a declining death rate, the baby boomer generation (currently 45 to 63) is expected to drive an increase in the death rate over the next 30 years. According to the National Funeral Directors Association, the death rate will climb from 8 people per thousand to 9.3 people in 2020 and 10.9 people in 2040. Carriage Services revenue reflects the stability of this business. Despite a challenging economy this past year, the company's revenue increased 6% in 2008.

High margin, leverageable business – According to the National Funeral Directors Association, the average family spends more than \$6,000 on a funeral (not including cemetery costs)...one of the most expensive spending event that families make. On it's cemetery and funeral business combined, CSV generates EBITDA margins of about 35% at the field level. Once corporate overhead is added, EBITDA margin ranges from 20 to 25%. The 10 to 15 percentage points of corporate overhead are very leverageable. Management can gain back these margin points by choosing to scale back growth and optimize the cost structure, or grow through acquisition, adding efficiencies of scale and scope. Either way, capturing the additional margin points should allow profits to grow faster than the top line.

Buying back shares – A \$5 million share repurchase authorization was completed in October 2008, representing 1.3 million shares (7% of outstanding shares) at an average cost of \$3.71. A new \$5 million authorization was put in place in November. Through January 2009, the company has bought back an addition half million shares at an average price of \$2.05, which leaves \$4 million left.

RISK:

Highly leveraged balance sheet – While the company does not have any long term debt coming due for at least another 6 years, it does carry significant leverage. A violation of a debt covenant, while unlikely, could cause interest payments to increase or make it difficult for the company to refinance its obligations.

VALUATION:

Most investors are staying far away from debt laden companies and CSV shares are priced like they a going concern is an issue. However, CSV has no near term debt maturity and they have ample stable cash flows to make required interest and principal payments. The company's long term debt is split into two categories. 1) \$130 million in senior notes that pay a low fixed rate of 7.875% and are not due until 2015. 2) \$93 million in junior debt that pays 7% fixed and isn't due until 2029. In a pinch, the company can defer interest payments for up to 20 consecutive quarters on its subordinated debt. The company also has a \$35 million revolving line to draw on if necessary. While interest expense is sizable, about \$18 million/ year, the company generated more than enough cash to cover interest and generated more than \$13 million in free cash flow in 2008. Cash flow generation should remain relatively stable. Shares trade at just 4x EPS and 6.5x EV/EBITDA.

(NYSE: CSV)

Investment Data (as of 3/27/09)

Recent Price	\$1.50
52-Week Range	1.10 - 9.25
Fiscal Year End	December
Dividend	N/A
Yield	N/A
Shares Outstanding	17.9 MM
Average Trading Volume (3 mos)	60,000
Market Capitalization	27 MM
Cash	5 MM
Long Term Debt	231 MM
Enterprise Value (EV)	253 MM
LT Debt/ Equity	N/A
BV/ Share	5.80
TTM Revenue	177 MM
P/ Revenue	0.2 x
2009 EPS Guidance	0.36 - \$0.40
P/ EPS	3.9x
2009 EBITDA Guidance	37 MM – 41 MM
EV/ EBITDA	6.5x

We attempt to provide subscribers with reasoned opinions based on our analysis of publicly available information from sources believed to be reliable, but make no representations as to its accuracy or completeness. Best Idea profiles are not based upon individual needs of subscribers nor are they an offer to buy or sell securities. Additional disclosures can be found under the Disclosures portion of the Mossberg's Investor Digest website.

www.mossbergid.com