Q2 2021 Earnings Call

Company Participants

- Debbie Young, Director, Investor Relations
- Eric D. Tanzberger, Senior Vice President, Chief Financial Officer
- Thomas L. Ryan, Chairman of the Board, Chief Executive Officer and President

Other Participants

- A.J. Rice, Analyst
- Daniel Erik Hultberg, Analyst
- Joanna Gajuk, Analyst
- John Ransom, Analyst

Presentation

Operator

Good morning, and welcome to the SCI Second Quarter 2021 Earnings Conference Call. All participants will be in listen-only mode. (Operator Instructions) After today's presentation, there will be an opportunity to ask questions. (Operator Instructions) Please note, this event is being recorded.

I would now like to turn the conference over to SCI management. Please go ahead.

Debbie Young {BIO 16531204 <GO>}

Thank you, and good morning. This is Debbie Young. Welcome today to our company's review of business results for the second quarter of 2021. Hope everyone has had a chance to review our press release issued yesterday. Before the prepared remarks commentary, let me remind you that we will be making some forward-looking statements today. Any comments made by our management team that state our plans, beliefs, expectations, or projections for the future are forward-looking statements. 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 those factors identified in our earnings release and in our filings with the SEC that are available on our website.

During this call, we will also discuss certain non-GAAP financial measures. A reconciliation of these measures to the appropriate GAAP measures can be found in the tables at the end of our earnings release and also on our website under the Investors Webcast and Events section.

With that out of the way, I'll now pass it on to our Chairman and CEO, Tom Ryan.

Thomas L. Ryan {BIO 3505123 <GO>}

Thanks, Debbie, and hello, everyone, and thank you for joining us on the call today. I'll apologize in advance for my voice. Gerry promises me I look worse than I sound. This morning, I'm going to begin my remarks with a high-level overview of the quarter, followed by a more detailed analysis of our funeral and cemetery results and finally, comment on our guidance and outlook for the year. But before I begin, I want to give special thanks again to my SCI family. You worked so hard to deliver the impressive operating results we reported this quarter. But more importantly, you continue to stay relentlessly focused on what we do best, helping our client families and the communities that we serve gain closure and healing through the process of grieving, remembrance and celebration. During these difficult times, I just can't say enough about how you continue to rise to the occasion. You truly are my heroes, and you have my heartfelt appreciation.

So, let's get right to the highlights. For the second quarter, we generated adjusted earnings per share of $0.92, a 59% increase over the prior year. The primary driver of earnings per share growth was our 34% increase in cemetery revenues for quarter, which was generated by our continued strength in preneed cemetery property sales production, atneed cemetery revenue growth and highly profitable increases in recognized preneed merchandise and service revenue.

The funeral segment delivered strong funeral sales average growth, which more than offset expected declines in funeral volumes when compared against the quarter severely impacted by COVID-19 in the commercial restrictions imposed at that time. The preneed funeral sales productions came roaring back with a 57% increase over the prior-year quarter.

At a high level, adjusted operating income grew $58 million and contributed over 70% of the increase in adjusted earnings per share. The remaining increase was a result of fewer shares outstanding, lower interest expense and a lower adjusted tax rate.

Now, let's take a look at the funeral results for the quarter. Overall, the funeral segment performed better than we expected. Total comparable funeral revenue grew $48 million or 10%, primarily due to significant improvements in the sales average, which helped to offset anticipated lower volumes when compared to the elevated pandemic volumes of last year.

Core funeral revenues grew $25 million, led by an impressive 14% increase in the core funeral sales average, more than offsetting a 7% decline in volume. We are very encouraged by the rebound in the funeral sales revenue. Our core average revenue per service is up almost 3% versus the 2019 pre-COVID second quarter.

You'll recall that in last year's second quarter, we saw a concerning drop in the percentage of customers with a service, when the services were limited by COVID-19 and the related restrictions. We have seen this percentage approach pre-COVID levels as our client families continue to place significant value on memorialization and celebration.

Preneed funeral sales production for the second quarter grew an impressive $106 million or 57%, which exceeded our expectations. Both our core funeral and SCI Direct businesses posted strong increases (inaudible) an easier comparison quarter in 2020. We continue to see significant growth in marketing leads for both digital and direct mail that very successfully generated preneed sales production.

In addition, lead growth from seminars grew over five times from the same quarter in 2020, which was severely impacted by COVID and related restrictions. On the non-marketing lead front, we saw significant rebound in grassroots events at both our locations and venues, as well as enhanced willingness of the customer to meet with us at our location or the privacy of their homes.

Within some of our robust leads, our highly effective sales teams have increased lead to sell rate to almost 17% versus historical average, which hovered in and around the 14% range. From a profit perspective, funeral gross profit decreased approximately $8 million, resulting in a lower gross profit percentage of 20.5%. The incremental margin generated from the core revenue increase was slightly reduced by elevated staffing and service level costs associated with operating at full service facilities in the current quarter as compared to the limited service structure we operated under during the second quarter of 2020. Additionally, facilities costs were higher as temporarily deferred repairs and maintenance expense from the pandemic and the Texas freeze combined with higher utility costs put additional pressure on our margins.

Remember $15 million of our revenue increase this quarter was other revenue. Primarily, general agency revenues associated with our 70% increase in insurance-funded preneed funeral sales production. These revenues were almost entirely offset by sales (inaudible) and therefore, have a negative impact in the immediate term on our funeral profit percentage.

Finally, this quarter saw elevated expense associated with incentive compensation for our field leadership as financial results for the first half soundly exceeded both prior year and our own expectations.

Now, shifting to cemetery. Our cemetery sales performance continues to exceed even our lofty expectations. Comparable cemetery revenue increased $117 million or 34% in the second quarter. In terms of breakdown, recognized preneed revenues accounted for about $89 million or 76% of the revenue growth. This remarkable increase was driven by higher-than-expected preneed cemetery property sales production as well as higher recognized preneed merchandise and service revenue, as cumulative trust earnings on delivered contracts were significantly higher during the quarter. Atneed cemetery revenue accounted for $18 million or 15% of the growth, driven by more interments performed due in part to the effects of COVID-19.

Additionally, we experienced a $10 million increase in perpetual care trust fund income due to the timing of capital gains. Preneed cemetery sales production grew an impressive $94 million or 36% in the second quarter. Core velocity for the number of preneed contracts sold increased by more than 20% and accounted for 56% of the quarterly preneed cemetery sales production increase.

(inaudible) sales production increased over $25 million or 60% over the prior year quarter, accounting for 27% of the quarterly increase while our higher quality core average sale contributed to the remaining 17% of the sales production growth. As I mentioned in my preneed funeral discussion earlier, we continue to see improvements in the lead to sales rates across various marketing channels, coupled with a more productive and more efficient sales team, utilizing Tools like Beacon and Salesforce CRM to drive superior sales performance.

Cemetery gross profits in the quarter grew by approximately $57 million and the gross profit percentage increased 490 basis points to over 35%. The incremental margin on the revenue increases more than offset slightly elevated staffing and service level costs associated with operating full-service cemeteries as compared to the limited-service structure during the second quarter of 2020.

Similar to the funeral segment, this quarter saw elevated expense associated with incentive compensation for our field leadership, as financial results for the first half soundly exceeded both prior year and our expectations.

Now, let's talk about our revised outlook for 2021. Back in May, we raised our adjusted earnings per share guidance to a range of $2.70 to $3. Based upon the results in the first half, we are again raising our guidance range to $3.20 to $3.50. This increases the midpoint by an additional $0.50 and represents a 17% increase over our 2020 results. The two most significant adjusted assumptions for the back half of the year from our previous guidance are, number one, higher preneed cemetery sales production and, secondly, higher funeral case volumes than we had originally anticipated. As the impact of COVID-19 variants had put upward pressure on the adjusted IHMA projections for COVID deaths in the back half of 2021.

Within our funeral segment, we're anticipating comparable volume decreases in the high-teen percentages for the back half of 2021 versus 2020, resulting in being down mid-single digit percentages for the year 2021. Meanwhile, we would expect the average revenue per case to continue to compare very favorably in the back half of the year, resulting in mid single-digit percentage growth for the year 2021. Finally, we would expect preneed funeral sales production to continue growing in the high single-digit to low-teen percentages for the back half of 2021, resulting in a mid-to-high teen percentage growth for the entire year.

As this sales production revenues defer, it will have a slightly negative impact on funeral margin percentage in the near term as selling costs should offset general agency commission. But it will enhance our market share, funeral revenue and profits in future years.

On the cemetery side of the business, we would expect atneed cemetery revenues to decline in the mid-to-high teen percentages in the back half of the year, similar to the funeral volume trends. However, at levels that are well above 2019 revenues, resulting in low-to-mid single-digit percentage growth for the entire year versus 2020. As far as preneed cemetery sales production goes, we would expect a mid single-digit percentage decline in the back half of 2021 as compared to the robust levels of 2020. However, sales production should be a double-digit percentage growth over 2019 levels, resulting in mid-to-high-teen percentage growth for the year 2021 over 2020. As far as the future years, I wish I had a crystal ball for you. Not having one, I will convey what we expect with the information that we have at this time.

We still expect future periods earnings per share and cash flow results to be negatively impacted temporarily by the pull-forward of funeral case volumes in atneed cemetery sales into 2020 and early 2021. Still, the efficiencies we have gained by improving processes and leveraging technology have allowed us to produce more competitive and profitable operating platform. This combined with the capital structure improvement, particularly the share buyback activity, should allow us to produce exceptional earnings per share compounded average growth rate even in these negatively impacted years. And once those pull-forward effects fade and demographics set in, the mid and longer-term outlook for SCI is even more impressive. As an example, even in 2022, where we might expect funeral case volume to be down double-digit percentages versus 2021, performing some 25,000 fewer funeral in 2022 than we did in 2019.

Remember, we generated earnings per share of $1.90 in 2019. We would expect 2022 earnings per share even with a high single-digit percentage volume decline compared to 2019 to be in the 11% to 15% compounded growth rate, offset $1.90 2019 pre-COVID earnings per share value. That would equate to a $2.60 to $2.90 per share approximate result for 2022.

Our models post 2022 would see the pull-forward effect should begin to wane and an accelerated year-over-year growth should begin as we approach a favorable demographic impact with a linear, more technologically efficient and effective operating model. Last quarter, I mentioned, we could see 2023 earnings per share approaching $3 to $3.25. I believe we're even more comfortable with $3 and 25% possibility today.

In closing, I just want to say thank you again to our entire SCI team for your selfless dedication to our client families in the communities that place their trust in us.

With that, operator, I'll turn it over to Eric.

Eric D. Tanzberger {BIO 1877182 <GO>}

Thanks, Tom, and good morning, everybody. First, we hope that you, your friends and your family are remaining safe and healthy during these really trying times. I want to first, and most importantly, echo Tom's comments that our positive quarterly results discussed today are a testament to the dedication and hard work of all of our team members here at

SCI, which are putting our client families first in one of their most dire times of need. We appreciate each and everyone of you.

So, this morning, I'd like to begin by walking you through our cash flow results and capital deployment for the quarter and then briefly touch upon our revised full-year cash flow guidance and financial position. So, let's start with cash flow. We generated adjusted operating cash flow of $192 million in the current quarter compared to $184 million in the prior year, which exceeded our expectations, primarily due to the strong preneed cemetery sales production that you saw yesterday in our release and Tom just walked you through. In addition to strong operating cash flow results, which again resulting from EBITDA growth of over $60 million, we also benefited by a decrease in cash interest payments of about $25 million, primarily resulting from the timing of our recent debt refinance and transactions.

I wanted to again highlight the transaction that we completed after our last earnings call. In light of the continued historic low interest rates, we took the opportunity to issue new 10-year $800 million senior notes at a 4% rate. We used these proceeds to refinance our 2021 notes, set to mature later this year, and improved our liquidity tremendously by repaying the $450 million outstanding on our revolver, trading almost $1 billion of availability. We also experienced a net source of working capital during the quarter, which was primarily due to a timing difference of cash related to one less payroll funding this quarter, partially offset by an increase in payroll taxes, as we were able to defer these taxes last year under the CARES Act.

These positive cash flow items more than offset an increase in cash taxes of about $89 million, partly associated with the higher earnings and partly due to timing of quarterly cash tax payments last year. Recall that in the second quarter of last year, we were able to defer close to $50 million of federal and state income tax payments as allowed by the IRS into the third quarter of 2020.

So, let's talk about capital deployment. We deployed a $185 million of capital during the quarter reinvesting in our businesses, expanding our footprint and returning capital to shareholders. Now, in terms of the breakdown. We invested $51 million in our businesses with $36 million of maintenance capital and $15 million of cemetery development capital spend. Our cemetery development capital spend is still a little lower than our expectations, as we've talked about with you last quarter, as we continue to experience certain construction delays, primarily on the permitting side, on some of our larger development projects. Even with that said, we believe we will still achieve our target of around $105 million for the full year.

From a growth capital perspective, we invested about $10 million towards the new build and expansion of several funeral homes. These new builds should provide us with great low double-digit percentage returns going forward and expand our footprint in desirable markets.

So, touching on the acquisition pipeline for a moment. Through today, our acquisition spend is just under $10 million in 2021. On the heels of COVID, we are coming out of the gate with acquisitions a bit slower than we would have hoped for. So, we have a really good pipeline of opportunities and we believe we can hit our targeted capital deployment range for acquisitions of $50 million to $100 million for the full year.

Finally, we deployed $116 million of capital to shareholders through dividends and share repurchases. Dividend payments in the second quarter totaled $35 million or $0.21 per share.

Sounds like the shift to a few comments on our updated outlook. On the expected higher earnings that Tom just described, we are increasing our cash flow guidance from $650 million to $725 million to a new revised guidance range of $700 million to $775 million.

This increases the midpoint by $50 million to $738 million or just over 7%. All the pieces together, the $50 million increase in cash flow guidance at the midpoint is driven by approximately $100 million increase in cash earnings, which associates with the $0.50 increase at the midpoint in today's revised earnings per share guidance.

This increase is partially offset by $30 million of increase in cash taxes that are expected and $20 million of other working capital usage. And when you think about cash taxes, we are now expecting closer to $210 million of cash tax payments in 2021 or an additional $30 million over the $180 million we've got it to you in May, as a result of these higher earnings we've been describing today.

Our expectations for maintenance and cemetery development capital spending for the year remain unchanged at $235 million to $255 million.

So, in closing, let me just say a few words about our financial position. We continue to have a solid balance sheet bolstered by a tremendous amount of liquidity, consistent with about $400 million of cash on hand plus about $1 billion available on our long-term bank credit facility. On the continued growth in EBITDA, our leverage ratio at the end of the quarter remains below three times, actually at about 2.5 times.

As we look beyond the impacts of this pandemic, we continue to expect to naturally lever back up to our targeted leverage range of 3.5 to 4 times net debt to EBITDA. The underlying stability of our cash flows, as well as our strong financial position that I just described to you, gives us tremendous confidence and flexibility to continue being opportunistic and deploying capital to the highest return opportunities for the remainder of this year.

And as we conclude the first half of this year, we are extremely proud of the achievements that we have accomplished and again, the credit goes to all of our 24,000 SCI associates out in the field, serving the families and putting the families first at their time of need. We entered the second half with a lot of momentum. And I'm confident we will continue to execute our strategy and deliver strong operational and financial results throughout the remainder of this year.

So, with that, operator, that concludes Tom's and my remarks and we'll go ahead and pass it back to you and open the call up for questions.

Questions And Answers

Operator

We will now begin the question-and-answer session. (Operator Instructions) The first question is from Joanna Gajuk from Bank of America. Please go ahead.

Q - Joanna Gajuk {BIO 16689444 <GO>}

Good morning. Thanks so much for taking the question here. So, I guess, appreciate all the commentary about the second half growth rates and what is in place for the year. Can you just flesh out other more -- the dynamics around the cemetery pre-sales strength? I mean, you clearly said that it's surprised you. So, any kind of ideas in terms of what's driving that and kind of what gives you confidence that it will continue in the second half? Are these kind of pull-forward sales, as in like just people obviously are thinking more about their own mortality and whatnot, so kind of making these decisions faster than prior. So, can you flesh out that dynamics -- those dynamics for us? Thank you.

A - Thomas L. Ryan {BIO 3505123 <GO>}

Sure, Joanna, thank you. First of all, I would say, obviously, we believe that COVID deaths have had an impact on our ability to generate leads and generate production. So, some of this is, for lack of a better term, pull forward, but I guess the preneed cemetery sales side with so many potential customers, I don't (inaudible) it's not like -- it's really an opportunity to capture it. We still think a significant portion of this relates to, I think, people realization and focus on what we do and I think as long as COVID is around and maybe a while after that, I think, their aperture for what we do is going to continue to be available. In the last piece, that I think is just true, and I think Gerry Heard, who runs our sales force would agree with this comment, we have found a better way to manage and we're managing with less travel, leveraging technology focused on leads, what we do with those leads. So, you heard me reference the lead to sale percentages at 17% and it used to be at 14%.

So, we're getting better leads, we're following up better, we're utilizing our tools, sales force, customer relationship management of Beacon. And so, I think there is an element of continuation. The other thing that gives me confidence on the -- and we referenced this a little bit on the cemetery side, we've been selling a lot of merchandise and services. Remember those get deferred and put into trust fund. And if you look at our numbers at this time, those are up pretty significantly. Why is that? We sold a lot of preneed customers and those money we invested in trust funds. There is a cumulative trust earnings in there that roll out as we deliver merchandise and services. So, that again will be something that ought to benefit the back half of the year 2022 going forward for all those reasons. So, hopefully, Joanna, that helps answer your question.

Q - Joanna Gajuk {BIO 16689444 <GO>}

Right. No, that's good color. And I guess I could see a point, similar dynamics between funeral sales production, also up very nicely. Right? So, I guess it's kind of similar dynamics as an introspect, but you have obviously mentioned salespeople being more efficient, but just the whole point of them being out there, right, and we're more kind of able to do those events in person, right, that's driving that specific bucket, right?

A - Thomas L. Ryan {BIO 3505123 <GO>}

Exactly. So, -- and I think what's slightly different about funeral that has made it a better comparison in growth and probably will be, as you think about the back half of the year, funeral leads, a lot of them were dependent upon seminars. Remember, the seminars effectively shut down last year. The other thing about funeral is, we do follow-up events with the families. So, once we've got a funeral, we'll follow up and that typically generates leads. While last year, no one was going to let us in their home or hubs. So, I think the dynamics of markets opening up again, people feeling more comfortable, that tends to give a boost back to funeral maybe more relatively than even cemetery.

And in cemetery, we can do it outside. We're generally showing people through the cemetery. So, there is just a different dynamic. But we feel very positive about the momentum in both channels. And I just think funeral has got an easier comparison as I think about in the second half of the year versus cemetery. The cemetery will continue to be very strong.

Q - Joanna Gajuk {BIO 16689444 <GO>}

Well, I appreciate. If I can squeeze a followup to something you said before in terms of the funeral average sales, essentially slightly above 2019 levels. So, things really came back pretty nice there. But are there still some markets essentially close for activities or pretty much open? Thank you.

A - Thomas L. Ryan {BIO 3505123 <GO>}

It's pretty much open. The last one at Canada was pretty shut, California's going back in certain pockets to (inaudible) inside, but as of right now, we're seeing people, as you can see in the numbers, choosing to celebrate, memorialize, get into gatherings and we think that's such a positive thing. I mean, you probably noticed in here, the cremation rate was flat for the last couple of quarters.

I don't expect that to continue, but I do think people are focusing on what's important in their life of the people that is important and that aligns well with what we do. So, we're happy to be of service to our families.

Q - Joanna Gajuk {BIO 16689444 <GO>}

Great, thank you.

Operator

The next question is from Scott Schneeberger from Oppenheimer. Please go ahead.

Q - Daniel Erik Hultberg {BIO 17269993 <GO>}

Good morning. Hi, it's Daniel on for Scott. Could you guys elaborate a little bit on the expectations for cemetery and funeral margins, please, in the back half, and also discuss the efficiencies you guys have gained that can be sustained with some perspective on how margin should expand a bit longer term as well, please? Thank you.

A - Thomas L. Ryan {BIO 3505123 <GO>}

Sure. Eric, do you have some margins to (inaudible)

A - Eric D. Tanzberger {BIO 1877182 <GO>}

Yeah, the margins essentially for the -- as you know, we had a little bit of pressure relative to the incremental revenues that Tom has already described in a lot of detail. The question is for the back half of the year, what will that look like and what will it look like as it relates to the revenues in the back half because of the volume declines that will ultimately potentially occur during the quarters and that's hard for us to predict as it relates to the Q3 and Q4 volumes. Tom did mention that we do not have a crystal ball, but we do use the IHME statistics from the University of Washington and there is no doubt that things appear to be picking up from a COVID perspective in the back half of the year. I do think some of the things that put pressure on the margins during this quarter, such as part time and over time to some extent, has now been ramped up and I think there could be some pressure as a comparison in the back half of this year because of 2020. But there's other cases where ICP, for example, or incentive comp plan.

I think we have that in a place where we're very comfortable with based on our projections through the second quarter. So, I think the punch line is, I don't really expect it to be too much pressure as it relates to the back half of the year. But really from those fixed costs that we just described and ultimately, it's going to be a question of throughput. And what you saw in the second quarter is that the model that we have in terms of incremental margins based on more volume clearly works, 80% drop to the bottom line. And then we had some fixed cost pressure. So, the fixed cost release itself and according to what the margins are going to do or are going to be a function of, what do we think the volume is going to be in Q3, Q4 is a little bit out of our control.

Ultimately, I think we could see a little bit of headwinds related to it, but it's going to be somewhere in the ballpark of the very high teens and maybe with some volume of help, we can get into where we kind of were in the second quarter as well.

Q - Daniel Erik Hultberg {BIO 17269993 <GO>}

Got it. Thank you. And I also follow up (Multiple Speakers) -- I'm sorry.

A - Thomas L. Ryan {BIO 3505123 <GO>}

(Multiple Speakers) question you asked about what are some of the sustainable things from the model. And I think in that regards what we're finding is, from a selling cost perspective, both from a leads management cost per sale -- cost per lead and in looking at travel and entertainment and utilizing technology to leverage more, those are tools that are allowing us to reduce the cost of sales when you think about selling.

The other thing is, by utilizing a lot more technology, if you look at our staffing metrics, just to give you an example, our full-time staff as you think about a quarter probably runs about 7,100, 7,200 FTEs in the funeral segment. And that's pretty consistent whether you go back to '19, '20 or '21. The difference is the way we utilize the part-time metric. Pre-pandemic were 2,100 on average in the quarter personnel for the pandemic. In the pandemic, we dropped to 1,400. So, pretty significant. Now, that was because we didn't have as elaborate funerals. We had a more simple structure because we couldn't operate at full tilt. Now, we've moved that back to about 1,700 or 1,800 in this quarter, where we did a lot more funerals than we did in 2019.

So, I think the way to think about this is, we found a staffing metric model that's more efficient, more effective in how we service clients even in a full-service mode that we're in today. So, a lot of little things like that that have -- I think, a lot of learnings to over the long term manage more effectively when you think about the cost equation.

Q - Daniel Erik Hultberg {BIO 17269993 <GO>}

Got it. Very helpful color. Thank you. Just a quick one on cremation. Not changed so much on a year-over-year basis recently. I understand the comps is a factor there as well, but could you speak to where you see the cremation mix going near term and what kind of trends you've seen in the quarter?

A - Thomas L. Ryan {BIO 3505123 <GO>}

Yeah. So, what we saw was effectively flat this quarter, last quarter. Historically, that range has been about 100 to 150 basis points per year. There is a lot of different opinions and I trust our Chief Operating Officer very much on this. And I think what he sees on the feedback, I think we would expect that maybe the 150 basis point move is over for a while, that a lot of people are seeing value in memorialization, value in the you're seeing in cemetery sales production. So, again, we don't know but I think our expectation is we will slowly begin to grow in and maybe not at the historical levels we've seen.

Q - Daniel Erik Hultberg {BIO 17269993 <GO>}

Got it. Thank you very much. Good luck.

Operator

The next question is from A.J. Rice from Credit Suisse. Please go ahead.

Q - A.J. Rice

Hi, everybody. Just maybe quickly to follow up on that last discussion around cremation rate. Do you think much of what you're seeing there was just that cremation was elevated a year ago because of the inability to have normal services, or do you think that's really not part of it?

A - Thomas L. Ryan {BIO 3505123 <GO>}

I think there's a little bit of that, A.J., for sure, but I think we even saw it in the first quarter, where you are preparing back to as much. And so, again, I agree with you, I think the flat of this has a little bit of what happened last year. But I think again just from the talking to people that are in the field and what people are doing. And I think it's a sentimental thing, where people are saying life's too short and I'm going to celebrate the people I love and it's important to me. So, again, I just provided that feedback. I don't know where it will normalize out again. We do anticipate it to begin to grow. Maybe just not at the levels we saw, though -- But you're right, there is a -- surely in the second quarter, there is a comparison (inaudible).

Q - A.J. Rice

Okay. When you think about the funeral averages and the strength you saw there, is there any way to discuss what you're seeing in terms of the averages coming out of the backlog to -- from preneed to atneed versus the walk-in atneed, and does that give you any gauge on how far you bounce back and how far you may still have to go as we return to normal?

A - Thomas L. Ryan {BIO 3505123 <GO>}

Yeah, A.J. I think if you look at, for instance, for this quarter, I believe, our atneed walk-in average was about $5,800 in the core part of our business, something to talk not SCI Direct. And our preneed going atneed was about $6,400. So, you've got about a $600 delta. This is what's coming out of backlog and so when you think about the robust nature of that backlog and our ability to continue to grow it. And what we're putting into the backlog today is just over $6,000 on the core side.

So, again, I think what that tells us is that customers are paying up more premium. They want remembrance, they want celebration, they want to be able to grieve, they want to do a lot of the traditional thing. So, we view it as two things; one, there is probably room on the atneed side for increases and we like what's coming out of our backlog and more and more will come out of our backlog as you think about how this rolled up in the future.

Q - A.J. Rice

Okay. And then maybe finally on capital deployment. You're expressing confidence, Eric, on the acquisition pipeline. Does that mean that there's deals that are pretty far along? You update your -- You haven't done much, but you're still saying you could think you could do 50 or 100. And then on the buyback, I know in this quarter, you did about $81 million. Is -- That seems a little above average for sure. What -- Is there any updated thoughts on a quarterly run rate to contemplate for that?

A - Eric D. Tanzberger {BIO 1877182 <GO>}

A.J., I'll take share repurchases first. The $81 million is pretty much in line with what you've seen in the first quarter. I think we did $106 million. In last year, we did over $500 million deployed to the shares. The answer to your question is, we're going to deploy capital to the highest relative return opportunity. And ultimately, we believe shares are good value where they are and we've been purchasing through 10b5 volumes all during this period and will continue once we get out of this period to do an open market repurchases. But in terms of the level of those repurchases, that's going to depend on the relative valuation with other opportunities -- excuse me, in the relative opportunity with how we feel about the intrinsic value of the company. But what I'm trying to say very clearly is, we will continue our expectations are to continue to deploy capital towards our share repurchase program at these levels. So, here, that's very clear subject to what I've already described.

In terms of the acquisition pipeline, I think things have been slow and with COVID, there's always some timing issues and things being delayed. But I think what we're trying to communicate to you is that there is a pipeline out there that we are involved in and we are active in and that gives us optimism and confidence that we will continue down that path. I don't really want to say any more than that at this point in time, but it's a good pipeline.

Q - A.J. Rice

Okay, great, thanks a lot.

Operator

The next question is from John Ransom from Raymond James. Please go ahead.

Q - John Ransom {BIO 1535724 <GO>}

Hey, good morning. I was just remembering that your stock used to be $1 a share back in the late '90s. Think about that. Take that basis. The question I have, Eric, is, (inaudible) 25,000 fewer funerals and here's our earnings compared to 2019. Could you just help me understand how much of that is just structurally better cost structure, how much of that is higher preneed and how much of that is anything else you want to help us with?

A - Thomas L. Ryan {BIO 3505123 <GO>}

Well, I think, John, as you think out to 2022, the capital structure loan is probably $0.45, $0.50 and I am doing this from memory, so forgive me if I'm off (inaudible). I would think the cost side of it is again probably another 15 -- the high-teen cents. And then I think there is real upside. Clearly, we're going to make less money on the funeral side, right? We did 25,000 plus funerals. In cemetery, because of the levels that we operate in today and the effectiveness of our model and in leads, it's going to be significantly higher. We think about -- You heard me reference last time. I kind of went back and said take a 2019 level and we believe we can grow cemetery sales 7% compounded.

So, if you believe that is the right way to think about it, then you can come up with a number of reserves. Now, I know of my excess '20 and '21 sales are, but there is nothing we believe that should stop us from compounding at 7% and a lot of our models now run higher than that. When you think about what type of levels preneed cemetery should be in a given year 2022, 2023. So, that allows you some pretty spectacular numbers on that lower share count, more effective operating platform.

So, you get to these numbers, like we're saying for 2023, $3.25. If I told you in 2019, we'll grow EPS 10% a year, I think it's like to 268, 270, Eric? That's right? And so, I'm telling you -- Okay, we got these at pandemic, we're now at 325. So, that tells you that's really cemetery, both property production and merchandise and service revenues that will be delivered combined with, again, better operating structure, better capital. And we're still -- And now, we've got a really good trend for funeral, right, because funeral is going to be challenged, but the good news is that pull forward in a way.

So, year-over-year comparisons are going to get actually kind of tailwinded. So, I feel really good about -- as we think about moving out to 2025. what type of growth you can see in the SCI.

Q - John Ransom {BIO 1535724 <GO>}

Hey, Tom, did you just turn tailwind into (inaudible). I like that, what you said. Okay, all right. No more. I'll just be serious. No more comedy act. The other question I had was, the surprising thing last year to us was how much cemetery preneed correlated to stronger funeral volume. So, as you go down the other side of that slope, just -- is there a rough rule of thumb, say, for every 100 points of funeral volume declines that equals that dollars of maybe pressure on cemetery preneed, or is it not that easy to think about it that way?

A - Thomas L. Ryan {BIO 3505123 <GO>}

I don't think it's so easy to think about it that way. Jerry, is there -- would you have any comment on that? So, I don't think so. I think obviously every time you have a case, there is an opportunity to follow up, which we think is a way to generate a lead. And I'd tell you the one thing that's slightly different today about our model and a lot of this is with our new Chief Marketing Officer, Jamie Pierce (inaudible). But Jamie has really turned up the capabilities as it relates to digital leads and that actually feeds into direct mail. No, we don't think about direct mail with digital, but there is a lot of science behind the technology that we have a much lower cost of direct mail and a much more effective piece. And so, that has taken what used to be marketing leads in the 10% to 15% of our lead proces, now within the 25% to 30%. And those are much more effective workable leads. And so when you think about that, that really is driven off the customer walking in. So, I think we're less leveraged to the funeral volume as we think about our ability to drive cemetery sales production going forward than the pre-COVID SCI is where I think about it.

So, that's why I think we're pretty confident about we can continue to do this. And one nice thing about cemetery is, it really is a heritage sale. When you get Tom in, there is an opportunity to get Tom's brother, Tom's sister, everybody who loves Tom and, John, I know you're part of that group, and I would make you a potential (inaudible). I everybody loves (inaudible). So, it reminds me, Beacon in cemetery got a lot of discussion a couple of years ago. And part of that, let's say, we've been vessel fire product offerings not have 87 earns that we're selling, where are you in that process? Is there's still more upside or what the chopper you kind of through that process? We've kind of guided in most of our -- 90% of the network. And I would tell you it's hard to understand what the impact is, but here's what I know for sure. It's a much more robust efficient sale. So, when you think about our ability, (inaudible) to keep referenced the lot number of contracts. Our sales counselors can do a lot more in a day than they used to do. The other thing that we're finding because you have the ability to control the price of this and everything else is, we're seeing less discounting. So, higher average sale, more throughput through the system. And I'd say that's a big function of Beacon's contributing to that, I also would tell you that I think our embracing our customer relationship management system, which we've had for a while and we were good at it. But now, when you could travel, it was your lifeline. And I think it's become the lifeline for our sales organization and all of the potential that was wrapped up in that. And so, we're actually making it so useful and now, we're trying to make adjustments through it to make it even more useful. People are embracing. So while it was always embraced, I think it's embraced throughout the entire sales organization now. Those two things are very big reasons why we are confident about the future.

Q - John Ransom {BIO 1535724 <GO>}

That's it for me. Thank you.

A - Thomas L. Ryan {BIO 3505123 <GO>}

Thanks, John.

A - Eric D. Tanzberger {BIO 1877182 <GO>}

Thanks, John.

Operator

This concludes our question-and-answer session. I would like to turn the conference back over to SCI management for any closing remarks.

A - Thomas L. Ryan {BIO 3505123 <GO>}

Well, thank you, everybody, for being on the call. Stay safe out there, and we look forward to talking to you again in October (inaudible).

Operator

The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.