Q2 2023 Earnings Call

Company Participants

- Debbie Young, Director of 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

- Analyst
- Joanna Gajuk
- John Ransom
- Scott Schneeberger
- Tobey Sommer

Presentation

Operator

Good morning, and welcome to the SCI Second Quarter 2023 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, Director of Investor Relations. And on behalf of the SCI team, thanks for joining us today. We're going to have some prepared remarks from Tom and Eric in just a moment, but before that, let me quickly go over the safe harbor language.

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. Today, we will also discuss certain non-GAAP financial measures. A reconciliation of these measures can be found in the tables at the end of our earnings release, as well as on our website.

I'd like to now turn it over to Tom Ryan, Chairman and CEO.

Thomas L. Ryan {BIO 3505123 <GO>}

Thanks, Debbie. Hello, everyone. And thank you for joining us on the call today. This morning I'm going to begin my remarks with some high-level color on our business performance for the quarter, and then provide some greater detail around our solid funeral and cemetery results.

For the second quarter, we generated adjusted earnings per share of $0.83, which was on par with our results from the prior year quarter. We were able to achieve this result despite absorbing a $19 million or $0.09 per share increase in interest expense, resulting from a more than 400 basis point rate increase in our variable rate debt.

We continue to see significant earnings per share growth over pre-pandemic results. Compared to a second quarter 2019 of $0.47 per share, we have grown earnings per share at a compounded annual growth rate of 15% over the four-year period.

Funeral metrics were strong and performed at or above our expectations. Cemetery preneed sales production increased slightly quarter-over-quarter, however, they fell short of our internal expectations, as we experienced a decline in the number of contracts sold primarily within the entry-level price-sensitive consumer segment.

We believe this is predominantly attributable to a decline in discretionary consumer spending by this entry-level consumer due to the actual and perceived impact of inflation on our preneed cemetery property sales and a variety of other discretionary purchases.

Below the line, higher interest expense incurred from the spike in interest rates on our variable rate debt, reduced earnings per share by $0.09, and was partially offset by the $0.04 per share favorable impact of a lower share count.

Now let's take a deeper look into the funeral results for the quarter. Total comparable funeral revenues increased $11 million or about 2% over the prior year quarter, primarily due to an increase in core funeral revenue. Although comparable core funeral volume declined 2% compared to the prior year quarter, volumes were high -- higher than we anticipated and about 9% higher than comparable second quarter 2019 levels.

Our core average revenue per service grew over the prior year by an impressive 4%, even after absorbing the negative effects of 120 basis point increase in the cremation mix. From a profit perspective, funeral gross profit declined slightly by $2 million, while the gross profit percentage remained about 21%, well above our pre-pandemic second quarter margin of 19.5%.

Inflationary fixed cost increases slightly outpaced our moderate funeral revenue growth. We encouraged slightly higher inflationary staffing and selling costs, which were mitigated in part by lower transportation costs and lower bonus incentive expenses, resulting in about a 4% increase in fixed cost.

Preneed funeral sales production grew an impressive $12 million, or about 4% over the second quarter of 2022. Both the Core and the SCI Direct channels experienced sales production growth that was primarily driven by increases in sales contract velocity. We continue to see consumers awareness and openness to pre-planning elevated, with continued strength in marketing leads and preneed funeral sales production.

Now shifting to cemetery. Comparable cemetery revenue increased $5 million, or just over 1% compared to the prior year second quarter. Core revenue accounted for the preponderance of the increase as compared to the prior year, as recognized preneed revenue increased by $6 million or 2%, offset slightly by a $1 million decline in atneed revenue.

Preneed cemetery sales production increased by $1 million in the second quarter. While we did see a slight growth, it was below our expectations. We saw impressive increases in our large estate property sales, particularly in both the western and eastern regions, and we also saw healthy increases in our core average sale across the network.

However, we did see a decline in our property sales velocity over the prior year quarter, a trend we also experienced in the first quarter. Again, keep in mind, our second quarter contract velocity is still 15% above our pre-pandemic 2019 second quarter.

As we bifurcated the sales data by price tiers, we noticed that our mid and premium level property price tiers had increases in velocity, while our more entry-level price sensitive tiers saw some unanticipated declines.

Based on examining a variety of consumer discretionary data sources, and from feedback from our customers, as well as from our frontline sales teammates, we believe that a significant reason our sales velocity has been negatively impacted is due to a more cautious consumer, particularly consumers that are more acutely impacted by the effects of accelerated inflation.

Additionally, as we get further away from the acute impact of the pandemic, there seems to be a slightly diminished urgency for this specific entry-level consumer to transact at the pace we've experienced over the last three years.

The good news is, that we believe these consumers are deferred, not lost, so we're developing selective programs and payment terms to enhance this specific customers ability to transact with us. Still, to put cemetery preneed sales in its proper perspective, our second quarter preneed cemetery sales production was about 47% above our 2019 second quarter, representing a 10% compounded annual growth rate over the four-year period.

Cemetery gross profits in the quarter declined by about $4 million and the gross profit percentage declined slightly to 33%. Still, well above our pre-pandemic second quarter gross profit percentage of just above just above 30%. Expected inflationary increases in our cost structure exceeded our modest revenue growth for the quarter, putting pressure on comparable cemetery profits.

Now let's shift to discussion about our outlook for the remainder of 2023. As you saw disclosed in our release, we have slightly reduced and narrowed the range of our annual earnings per share guidance, while slightly increasing our annual cash flow guidance, reflecting both favorable working capital trends, and an expected decrease in cash taxes associated with a tax accounting method change.

The primary reasons for the earnings per share change was a reduction in our preneed cemetery sales production assumption for the year, as well as the higher interest expense assumption associated with our variable rate debt, as the Fed continues to push short-term rates higher and communicating a willingness to maintain those rates for longer. This updated earnings guidance still reflects impressive growth within our 8% to 12% framework after considering the unique interest headwind this year and removing the beneficial COVID impact from last year.

So for the rest of the year in the funeral segment, we would expect to see low to mid single digit declines in funeral volume, as the impact of the COVID pull-forward slightly outpaces increasing volume trends. We would expect healthy low to mid single digit growth in our funeral average both from atneed cases, as well as preneed going atneed cases as trust fund income increases from recent strength in the financial markets, which should favorably impact our funeral sales average.

On the cemetery side, we would expect preneed sales production to range from slightly down to low single digit growth in the back half of the year. Positive trends in large estate property sales and core averages should be tempered by lower velocity, particularly with our price-sensitive consumers. It is our hope that our pivot to enhance the customer proposition for the entry-level customer through a more consumer-friendly payment terms on cemetery property will have a favorable impact on velocity in late 2023 and into 2024.

The impact from newly completed construction projects over the next two quarters should create favorable comparisons of recognized cemetery revenue for the third quarter and slightly negative comparisons in the fourth as the 2022 fourth quarter impact from completed construction was quite significant.

From an earnings per share perspective, we would expect to be able to deliver year-over-year growth in the back half of the year, particularly in the third quarter, as the favorable impact of higher funeral sales averages, higher year-over-year cemetery revenues, and the impact of our share repurchase program will more than offset the negative effects of slight volume declines and significantly higher interest expense associated with our variable rate debt.

Finally, I'd like to thank the entire SCI team for all that you continue to do every day for our customers, our communities, and each other. You guys are what makes this company great.

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

Eric D. Tanzberger {BIO 1877182 <GO>}

Thank you, Tom, and good morning, everybody. I guess I'll start the way that Tom just ended and really like to extend my sincere appreciation to all of our 25,000 SCI associates. Your dedication to the communities and the client families that you serve, that's basically in one of their greatest time of need, is really truly inspiring. So thank you. Thank you for all that you do to go above and beyond.

So this morning I'll walk you through our cash flow results and capital investments during the second quarter. I also want to then make a few comments on our trust fund income and corporate G&A, and then discuss our financial position and our recently raised cash flow guidance for 2023.

So starting with the quarter, generated strong adjusted operating cash flow in the quarter of $157 million. This exceeded our expectations as more than $16 million over the prior year. So let's talk about the factors that are driving this year-over-year increase. First, higher operating income of about $6 million, and you saw that as noted in the press release.

Additionally, we had lower cash tax payments of about $23 million on lower book income during the quarter, which were able to more than offset about $20 million of higher-interest payments, which as Tom mentioned, is primarily related to our higher floating rates and slightly higher balance.

Finally, favorable working capital changes during the quarter yielded a net source of about $7 million, and this is primarily associated just with some timing issues as it relates to payables and other customer receivables.

Let me give you a little bit more color on the cash interest. So, as I mentioned, interest payments are about $20 million higher on a year-over-year basis. This is primarily due to higher interest rates on our floating rate debt, which slightly exceeded our projections.

And as an update for the full-year of '23, we entered the year expecting a headwind of about $55 million associated with both interest expense, as well as cash interest. We now expect this will be closer to $60 million to $65 million headwind. And this primarily relates to floating rates rising a little bit more than what we anticipated.

And looking forward, we believe we are effectively positioned to manage this interest rate risk as we are targeting the lower end of our leverage range by limiting the amount of floating rate debt that we are utilizing. So as of quarter end, approximately 29% of our total debt was floating with a current rate of just over 7%.

So now looking at capital investment activity during the quarter, we invested a total of $258 million. This included investments into our current businesses, new growth opportunities, accretive acquisitions, in addition to capital return to our shareholders. Let's break this down a little bit further for you this morning.

We deployed $70 million back into our current businesses with $38 million of cemetery development and $32 million of maintenance capital into our facilities. We also had $20 million invested into digital systems and initiatives.

Cemetery development spend was accelerated in the quarter associated with large projects at our large Rose Hills Cemetery on the West Coast. We expect the back half of this year to spend on total maintenance capital will moderate and will be within our guidance range of $290 million to $310 million for the full-year of 2023.

We also invested close to $10 million in growth capital related to the construction of new funeral home facilities in several states including Virginia, California, Florida, as well as expansion of some of our existing funeral homes and cemeteries in Ohio, Louisiana, and Texas.

On the acquisition front, we closed three transactions in Illinois, California, and Tennessee for a total of just over $30 million, which brings our first half acquisition spend to almost $40 million. We remain positive and very optimistic about our acquisition momentum, and our full-year acquisition investment target range of $75 million to $125 million, which we still firmly believe in.

Finally, we returned nearly $127 million of capital to shareholders in the quarter, which is really $41 million of dividends and about $86 million of share purchases.

So now I'd like to touch briefly on both trust fund income and corporate G&A. And as we noted in the release trust fund income was favorably impacted by favorable market returns over the past 12 months, as well as trust fund income retained associated with some unclaimed property process during the quarter.

Corporate G&A during the quarter was $35 million, or $11 million lower than the prior year and slightly below our expectations. This decrease was primarily driven by lower incentive compensation expense versus the prior year quarter. Going forward, we anticipate the G&A expenses for the remainder of the year will fall within our expected range that I mentioned before of approximately $38 million to $40 million per quarter.

Now let me shift to a few comments on our financial position. We continue to have a favorable debt maturity profile and liquidity of just over $1 billion at the end of the quarter. This consists of approximately $170 million of cash on hand, plus approximately $860 million available on our long-term bank credit facility.

Our leverage at the end of the quarter increased slightly to about 3.6x, that's a net debt EBITDA number, and we expect to continue to manage our leverage towards the lower end of our targeted range of 3x to 4x, at least in the near term.

So now I want to address some changes to the full-year cash flow outlook as our cash flow has continued to be resilient. First, primarily due to the net sources of preneed working capital, we are increasing the low end of our pre-tax adjusted cash flow from operations, excluding special items. The guidance ranging from $910 million to $960 million, to $920 million to $960 million, so a slight change there.

Secondly, we're now expecting a material reduction of cash taxes to be paid in 2023, and this is as a result of a change in tax accounting method related to the timing of recognition of cemetery property revenue for tax purposes and the tax return.

Generally speaking, this tax accounting method change will result in the deferral of cash taxes into future years when the delivery of cemetery property occurs versus at the point of sale. We estimate the impact in 2023 as we transition to this new method will be about $80 million of lower cash taxes for '23, so we're adjusting our full-year cash tax guidance from $160 million to $170 million, down to $80 million to $90 million as a result.

We're not really prepared to give any further guidance for '24, but we would anticipate cash tax payments in '24 at this point to also to be lower before returning to more normal levels in 2025 and beyond. So when you take that together, we are raising our 2023 adjusted after-tax operating cash flow guidance range by $85 million from $740 million to $800 million, to $830 million to $880 million with a midpoint of $855 million. This also represents a $30 million increase over the $825 million generated in 2022.

So our strong cash flow and balance sheet position will continue to position us well to allocate capital prudently to the highest and best use to maximize shareholder value. I would again like to thank our entire SCI team for their contributions to achieving these strong cash flow and earnings results.

So, operator, this concludes our prepared remarks. And with that I'd now like to open the call -- turn it back to you and open the call up for questions.

Questions And Answers

Operator

(Question And Answer)

Thank you. We will now begin the question-and-answer session. (Operator Instructions) The first question comes from Tobey Sommer at Truist Securities.

Q - Tobey Sommer {BIO 6296228 <GO>}

Thanks. Good morning. I wanted to dig into that change in buying behavior of your more price-sensitive customer, maybe could you set the stage by describing what it was like in recent years and maybe giving us some color around the either the price sensitivity, sort of the price points at which this happens, or what your field reps are learning in terms of interactions with those prospective customers?

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

Sure, Toby. I'll give a shot at that. A couple things to, I think, be aware of. When you think about price sensitivity in the cemetery consumer or just let's look at the year-over-year comparisons. I think what happened is we saw a lot more volatility in the cemetery segment versus the funeral, and I think there's a reason for that.

The average consumer is younger in cemetery. We've talked about before, they tend to transact earlier. So, if you go back to kind of the COVID impact, younger people started getting concerned about what was happening. And so, we saw kind of, I'd say, a surge in interest, particularly around the cemetery product. So, what we're really seeing is a harder comparison back, let's say, relative, as an example, to a funeral customer. So, part of this is just the success that we've had in trying to compare back to it.

The other thing that we want to introduce is, because, again, we're seeing at this level, and this is based on feedback, based upon good consumer discretionary data, got to give a shout out to John for his piece, there's a lot of correlation in that. And so, I think what's happening is, when you saw a lot of inflation, particularly around food, and I'd say, from a consumer discretionary perspective, you're getting hammered by a consumer staple, right?

So as those prices went up and people had to make choices, this is a discretionary purchase, they're kind of backing away. So that's a factor that we think is impacting now that again should subside at some point, but I also want to make sure everybody understands some of this is the surge of volume that we saw particularly through the cemetery segment over the last few years and comparing back to that hard number.

Q - Tobey Sommer {BIO 6296228 <GO>}

Appreciate that. As a follow-up, I was wondering what does the cumulative surge over the last three years in this particular customer niche in cemetery sales, what does that total and how long -- over what period of time might demand need to normalize, do you think, going forward?

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

You know, I think it's normalizing now, and if you look back, there's a lot of, again, more volatility in the cemetery than on the funeral side. But if you take a compounded growth approach to cemetery, we're about 10% annually compounded from pre-pandemic levels. And that's what we saw in the second quarter, right? And I think we're kind of stabilizing, normalizing now, so that's a pretty good level.

On the funeral side, that same number is about 8%. Now the difference is, funeral didn't get nearly the spikes in 2020, 2021. So, if you go back and look at our, cemetery sales, particularly preneed cemetery sales, and I don't have the numbers in front of me, but my memory is, it was like 15% and 20% growth rates over a couple of years, and now beginning to normalize in the back half of 2022 a little bit, and really normalizing in 2023.

So, I think we feel like it is stabilizing. I do also think we're dealing with inflation, which is a newer phenomenon, but we feel really good about it. And part of it is, maybe we need to have some payment terms at this segment that make it more affordable for people to begin that process, because we still see an interest. It's probably not the same interest you saw three years ago, but we still see an interest in people taking care of this, and we're there to help them.

Q - Tobey Sommer {BIO 6296228 <GO>}

Thank you.

Operator

The next question is from John Ransom at Raymond James.

Q - John Ransom {BIO 1535724 <GO>}

Hey, good morning. Thanks for the shout out on the research.

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

You'll probably be the last one.

Q - John Ransom {BIO 1535724 <GO>}

You know Parker and Ned did all the work, I just take credit.

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

We know.

Q - John Ransom {BIO 1535724 <GO>}

Let's just, for argument's sake say that preneed cemetery production is down 5% in the back half of the year. What would be the two -- I know this is simplistic, but if we had two buckets of revenue, let's say you had the high-end versus the low-end, what's the decline in the low-end that's factored into that minus 5% versus whatever growth or trend you're seeing in the high-end, just to think about the impact of the low-end?

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

Well, first I don't think I ever said it'd be down 5%, so it's hard for me to quantify it for you. But we feel a little more excited about the back half of the year than that. But I do think we would expect our high-end to continue to grow, and probably in the low kind of teen double-digits, the 10%, 15% type of growth, John, that we would anticipate.

And I think, again, it's this lower tier of the things that we're seeing, we'd probably be looking at similar types of declines, high single digit, 10%, 12%, as you think about last year. But remember, you're beginning to compare against periods that experienced some inflation. And I think that's going to be the differences. Right now, inflation, second quarter last year hadn't kicked in as hard. And I think we're going to see, some more favorable comparisons, if you will, as you get to the back half.

Q - John Ransom {BIO 1535724 <GO>}

So -- okay. So up and down the same, what's the ratio -- what's percent of sales to the high end versus to the low end on the production side? Is it 50%, 70%, 30%?

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

Well, I think the high end is probably about 15%. I don't have -- because again, I think you'd have to decide where you'd want to cut that low end to compare to it. But, I think the high end is about 15%. And those are the large state sales, I think over -- we categorize them over $80,000, so it's not a lot of volume, but it's a good 15% of our revenue.

Q - John Ransom {BIO 1535724 <GO>}

And so the low end it wouldn't be 85%, would it be some like 20% or --

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

Yes. I would guess it's somewhere 15% of the lower than -- if you cut it at what lower than -- and lower than $10,000 contract about 20%.

Q - John Ransom {BIO 1535724 <GO>}

Okay. They're kind of similar numbers.

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

Yes. I think --

Q - John Ransom {BIO 1535724 <GO>}

But a high level -- think about the high end growing, the low end shrinking and then that middle kind of being flat that, that would seem to add up somewhat to your guidance.

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

I think that's right. The middle being flat is -- and you're talking about velocity wise, but again you should get some inflationary pricing, so think of that growing slightly and low to mid single digit.

Q - John Ransom {BIO 1535724 <GO>}

Yes. And you're just kind of pointing to the lag effects of inflation, so -- in the behavior. The second question, the recognition rate you guys are still pointing to is mid-90s this year, is that right on cemetery?

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

Yes.

Q - John Ransom {BIO 1535724 <GO>}

So, it was a little bit lower in the second quarter, so anything to call out there?

FINAL

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

Yes. I think if you remember, we talked about particularly on the West Coast with the rains in the first half of the year. We had some kind of delays and damages going on in some of those construction projects, which delayed the completion, so we do expect those, obviously, will get completed, probably in the latter parts of this year or may push into the first quarter of next year, but that's part of the reason, John, is just -- surprisingly, there's some pretty severe damage because the way the rains fell, and so we're a little bit behind, but again, that'll catch up.

Q - John Ransom {BIO 1535724 <GO>}

I was hoping I'd get to stop thinking about rain, but you've got to make me think about it for one more quarter. That's fine. Lastly, as you know there's been some chatter in the marketplace, again, about pricing and your funeral and like-for-like. Have you been able to chop any more wood on your relative pricing? And is there anything you could point to that would be quantitative or hard evidence that your prices are in line with your like-for-like competitors?

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

Hey, John, this is Eric. Good morning.

Q - John Ransom {BIO 1535724 <GO>}

Good morning.

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

You know, I think as an update, we continue to put -- look at our prices, continue to have pricing mechanisms online, such as starting at prices and the premium price experience that I talked about last quarter. Just to refresh your memory, that's about 500 locations of 1,500 that kind of have starting at prices. 400 or so that have like a premium price experience that walks you through a lot of things including cemetery and those combination facilities, and there are general price lists that are out there are probably around a 1,000 to 1,100, and we continue to hold market share and get good feedback. So, it's not really your question, but I want to reiterate that so everyone knows that how we kind of have level set that.

The second part of your -- what you're asking though is, if you equate it to kind of like the hotel chains as we've kind of talked about this before, and we say that we're really playing in the middle tier and the upper tiers. We obviously have SCI Direct at the very bottom, which is a different direct type business, and in that situation as you know, but when you look at our homes and our combination facilities and you take like-for-like, we're very comfortable with that, with those pricings. If you take our Ritz-Carlton's and JW Marriott's and compare it to a lower tier brand, you're going to be able to identify a difference, but that's not great analysis in our opinion. Our great analysis is you got to look like-for-like, you got to look at the customer satisfaction surveys, you got to look at market share. And as we've been reiterating time-and-time again, I think we're very comfortable with that and with those situations.

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Q - John Ransom {BIO 1535724 <GO>}

So last one for me, just kind of going one more level on that question, so let's just take a typical urban market and you look at your competitors, how real-time is your competitor pricing data? Are they now putting stuff online, or how do you kind of subside, what your competitors doing and what's the lag if any -- if they decide to have a big sale, what do you find out about that?

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

We'd find out about it pretty quick.

Q - John Ransom {BIO 1535724 <GO>}

(Multiple Speakers) cemetery and national, you know there's two for one plots, right? I'll show you -- I'll send you a picture from wells funeral home. You know, they were running (Technical Difficulty) it made me think of that.

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

We're pretty real-time with our market leadership and our market management and our general management of the combination facilities and location managers. There are independents that have pricing online and there's a tremendous amount of independents that do not have pricing online. Same with some of the consolidators. So it's very market specific, it's very funeral home specific as well. But even then, we're always understanding where we are in the marketplace. They're using mystery shoppers and we perhaps are using mystery shoppers as well. But that's not an issue at all. We're very comfortable with our market management and how they understand where specifically they are within the markets.

Q - John Ransom {BIO 1535724 <GO>}

All right. Thank you. That's it for me.

Operator

The next question is from A.J. Rice at Credit Suisse.

Q - Analyst

Hi. Good morning. This is N.J. On for A.J. So, my first question is, are there any updated thoughts on the pull-forward? I think you previously said to add 110,000 pull-forward, maybe 10% to 15% in 2023, and down slowly-and-slowly with long tail. So, are there any updated thoughts on that?

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

No. We really don't have those updated thoughts other than to say that it appears to us that volume is where we expected it to slightly better than kind of what we've expected. And when you say, well, let's get very specific in terms of, pull-forward and excess deaths, and as you know with the data that's out there with COVID, it's increasingly difficult to really have any measuring stick that's out there that anyone reports with any viability for us to compare to.

So, there's a lot of moving pieces in terms of our same-store volume, our market share, our acquisitions, which we've done a tremendous job at, of adding volume, then you have your pull-forward effect, you still have an effect that's clearly out there, but perhaps less than '23 than '22 as it relates to, as the CDC defines excess deaths, as it relates to heart and strokes and those types of things.

But when you put it all together, we're somewhat we're somewhat comfortable with our forecast. If not, maybe it's a little bit better than what we expected. And for example, I think we told you in February in the original guidance that the funeral volume would be down kind of mid to maybe high-ish digits. Call that 5%, 6%, 7% down, and it looks like it's more or like 4% to 5% down. So, it's not that much of a science, which we have a measuring stick from that perspective, but I hope that gives you an idea of where it's trending.

Q - Analyst

Thank you. Maybe one follow-up. Are there any change in the expectation to full-year cemetery margins due to revision down and preneed production? And what is the gross margin on that low-end sale versus the higher-end sale? Thanks.

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

You know, ultimately, we continue to think that cemetery is going to end up into kind of the low 30 to mid-30. I think that's consistent with what we expected. We hope that as recognition continues for the rest of the year and production as well, that will end up be in the -- where we think it will land. I don't think that's not a change from what we expected based on the tweak of this guidance.

Q - Analyst

Thank you.

Operator

The next question is from Joanna Gajuk at Bank of America.

Q - Joanna Gajuk {BIO 16689444 <GO>}

Good morning. Thanks so much. I might have missed it, but could you talk about the outlook for the cemetery preneed sales production for the year? How are you thinking about this?

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

You know, at the end of the day, we think it's going to grow, obviously, compared to prior-years, kind of flat to slight growth in the back half of the year, because, we expect it to be the full-year kind of flat to slightly down low single digits. And when you put the 15% first quarter versus this year, you're down already kind of mid to high single digit percentages for the first half of the year, Joanna. So for us to get to flat to slightly down in terms of mid single digits for the full-year, we're going to have-to-have some growth versus the prior year. I think you may see a little bit more of that growth maybe in the fourth quarter, just sequentially as I think about 2022, but that's kind of generally how we see it playing out, Joanna.

Q - Joanna Gajuk {BIO 16689444 <GO>}

So for the year, again -- maybe slightly down year-over-year. And then how do you -- how to think about this going forward in '24 and beyond in terms of the production? How you're thinking about that? You expect to grow next year, or it's going to be continue to be a little bit depressed, or there's going to be some catch up?

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

My thoughts would be we will grow in 2024. I think the thing to kind of keep in mind on the cemetery side, there should be a little bit of a drag is going to be the volume. Because again -- because of the pull forward, a lot of our lead sources come from volume that are walking through our cemeteries, through our funeral homes. And so if you have that pull forward effect, it might put a little bit of damper on comparable volume, your lead sources may be a little less. Having said that, I think if inflation comes down that could be a tailwind for us when you think about 2024 and that consumer coming back and feeling little bit more confident in their ability to transact with us in other consumer discretionary things, Joanna. So I think '24 is a growth year and there'll some things that probably help us and some things that we just need to be aware of.

Q - Joanna Gajuk {BIO 16689444 <GO>}

Right. And I guess staying on this for a little bit on the preneed cementary sales. Can you talk about the percentage breakdown when it comes to those transactions that you provide financing to customers and also what type of rates I guess you're offering? Because I guess last year when you had experienced some slowdown in the lower-end consumer, it sounds like you had responded to that slower demand by offering better financing options and I guess kind of presenting a different product or different properties to kind of still attract some of these customers. So, can you talk about these dynamics and maybe tell us, in terms of percent of these customers that actually use financing options?

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

Sure. We're still seeing about, approximately 70% of our consumers are utilizing financing. So, to your point, Joanna, one of the things that Steve and his team are putting together now are looking at this segment of consumer, and can we go with lower down payments? Can we stretch out the payment terms over longer periods? So, we're going to utilize that specific to this consumer, because again, we want them to be able to have that peace of mind. And so, we're hopeful that those types of incentives will work. We typically are going to look at local markets and use different things, maybe lesser down payments more important here, lower interest rates, stretching out terms. So, we really try to customize that to what we think the local market need would be.

Q - Joanna Gajuk {BIO 16689444 <GO>}

And then what kind of rates, I guess, in general, because you're offering some of these financing options right to the customers, so what kind of rates, I guess, you're able to offer them, if you can talk about that?

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

I mean, they're very reasonable. You know, I think they're going to be -- they vary, but I'd say in the low to mid kind of single-digit percentage rates is the type of financing costs that are out there today.

Q - Joanna Gajuk {BIO 16689444 <GO>}

Okay. That's helpful. And last one -- (Multiple Speakers)

Yes. Exactly. And I'm sorry, so just last one on that preneed cemetery sales production. So I guess you talked about -- previously about the higher-end consumer, where you actually see a growth there, sounds like it, on the large sales. And so, are you seeing any changes there, or it kind of continues to stay pretty robust? Because I guess some data for the broader, I guess, consumer categories, seems like on the high end maybe there was some slowdown, but actually the lower end is improving. I guess maybe your industry is a little bit unique that it doesn't behave as similarly. But any indication like how, I guess, this high-end is tracking in terms of any tracking there or it's not accelerating or staying kind of stable when it comes to that consumer demand?

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

I'd say pretty stable. I mean, we definitely saw growth in the year-over-year second quarter, so feel really good about it. And I just think the feedback from talking to our salespeople that are dealing with those customers is they're out there, and they're willing to transact. So, a lot of activity. And so we feel really good about the high end.

Again, we're correlating that with, they're not having, one, to borrow the money, and two, they're not competing with other consumer staples of their daily cash flow. And so that's where we're really seeing the impact is in people that probably have been very impacted by inflation and those high-end customers tend not to be. So other things will influence their behavior.

We've even in the past said, it correlates sometimes with the stock market, right? Everybody at the high end feels a little richer because the market is up. And that may be a bigger impact on people's willingness to transact at the high end than things like inflation.

Q - Joanna Gajuk {BIO 16689444 <GO>}

And I'm sorry, did you give a number for the large sales revenues in the quarter? Because I guess in Q1, you talked about like $37 million or so for these large sales.

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

I don't have those in front of me. I can tell you that the growth was double-digit growth. But I think it's probably around, my memory is it's just north of maybe $50 million in the quarter, something like that.

Q - Joanna Gajuk {BIO 16689444 <GO>}

Okay. And it was double digits year-over-year.

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

Yes.

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

Yes. It was. And it was about $50 million.

Q - Joanna Gajuk {BIO 16689444 <GO>}

Okay. Perfect. That's super helpful. And if I may just quick the very last one, just following up to some other questions around the price competition discussions that are out there in the market. So on the funeral, any update there on the timing for when we might hear from the FTC for disproportion? Because I know they're hosting a listening session early September. So is there any indication of the timing for when they actually could come out with a decision?

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

No, we don't have any more insight, Joanna, than you do. I mean, if you remember, this started in what, late '19, early 2020. So it's been clearly three and a half years so far. You're right in saying that there's going to be a public workshop, using their words, on September 7. You know, we'll have a seat at that table, obviously, as long with everybody else that wants to participate. You know, they kind of build that as listening to the public's comments and discussing possible changes, to the rule. So we don't quite know what that entails, but all indications are it has to do with general price list disclosures, onlines and those types of things.

And earlier in the call, if you had an opportunity to hear this or not, I don't know if you're on from the beginning, but I kind of gave you an update and the update was really not much has changed. We continue to have pricing online on 2/3 to 3/4 of our funeral homes as we sit here today, and GPLs online from that perspective. And, we continue to believe that we have price transparency for our consumers. Our consumers have told us that clearly in the J.D. Power's surveys, and we feel comfortable with where we are moving forward.

Q - Joanna Gajuk {BIO 16689444 <GO>}

Great. Thank you so much. Appreciate the color.

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

Welcome, Joanna.

Operator

The next question comes from Scott Schneeberger at Oppenheimer.

Q - Scott Schneeberger {BIO 5302695 <GO>}

Thanks very much. Good morning. I just have one more follow-up on the many questions on preneed cemetery. Well, I guess the two-parter actually. The high end is a big focus here. I know Rose Hills, you had the delay because of the weather. Could you talk about when that was completed? So first part of the question is recognition versus production. How might we think about that location specifically? Because I know that was a meaningful contributor.

And then the second part of the question is, it sounds like you all are very confident that the demand will remain there for the high end. How do you look with regard to capacity? Because I know things like Rose Hills pop-up and then you might have a lull where before you have something new constructed that excites the potential consumers. So, I'm just curious on your capacity to keep that going. Thank you.

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

Okay, Scott. Good to hear from you. So, as it relates to production and particularly you mentioned the West Coast, Rose Hills. So if you think about the first quarter, the thing that was really poor about the timing is Ching Ming. So, Ching Ming sales are going to occur typically in March and then April depending on the market. But, unfortunately, that weather event occurred during those periods and so you don't necessarily catch up, let's say, in June, July, August, as you think about production.

The good news that I would look at it is, if you don't have a rain event next year, you ought to have a pretty good first quarter, maybe a pretty good second quarter when you think about those particular markets. As far as capacity goes, we're constantly developing new cemetery gardens and we're never going to be in a position where we don't have that available for people, so really no concerns around it.

Your last piece, I think you talked about was recognition. And I mentioned this a little bit in my comments, but I'll be a little more specific for you. These can be lumpy. And Eric talked a little bit about, we're not getting the recognition rates where we were, so some projects have been pushed back. As we think about the third quarter, we should see a pretty favorable comparison of recognition rate, because, again, I think we've got some projects that pushed that will get done in the third quarter.

When you get to the fourth quarter, it's still going to be good, but you're comparing back against a pretty monster fourth quarter 2022. We had a lot of projects pushed to the fourth quarter. So the comparison, when you think about recognition, it's going to be down year-over-year, would be our guess at this point. And again, some of these projects, particularly on the West Coast where we had the damage, might even push into 2024.

Q - Scott Schneeberger {BIO 5302695 <GO>}

All right. Great. Thanks for that. I want to swing it over to the funeral side now, because that helped out certainly in this quarter. And then the volume cadence down just low single digits 1%, that was a bit better than we expected. So you're seeing, I think, a nicer tail during this perceived reversion period. But I heard in just -- I think it was a response to questions earlier, you cited maybe some concern that could continue to -- or that could start to fall off a bit more. So just curious what you're seeing with excess deaths, and then how you see that trending over the back half of the year into next year. Thanks.

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

Okay. So I think the way that we model it, someone was asking about the pull-forward effect. And again, a lot of these are assumptions, and it's really hard to track and know what it is. But the way that we model pull-forward, think of it as you got into 2023 for our base of business, it might be somewhere in the 15,000 to 20,000 cases that aren't there, and that would diminish over time. So again, I don't want to get specific numbers.

But so if you put that against this, you'd say, all in we'd expect volumes to be down, call it 5%. I think that's a 5 or 4% to 5% to 6%. And then you say, okay, what's happening with the debt rate other than that? And so what we're experiencing is, if we're right on our pull-forward, that we're seeing -- still continuing to see deaths that are up trending other than this pull-forward effect.

And I'd tell you that we continue -- the average age continues to skew a little higher, so we're not seeing the younger deaths like we did 12-18 months ago. I would attribute that to baby boomers, health, potentially some market share for us. So those are kind of the three things that we think are, I'd say, driving the higher than expected performance as it relates to funeral.

But again, there's an assumption about pull-forward that's really hard to ever prove, right? We can do it by age bands. We believe it's pretty accurate. We've done a pretty good job of predicting, but it's tough Scott. So that's where we are. And so, I don't expect a fall off. I think over time that pull-forward should diminish. We'll still have an impact, but it'll be lesser in '24 than it was in '23.

Q - Scott Schneeberger {BIO 5302695 <GO>}

All right. Thanks, Tom. I appreciate that color. And just one more for Eric. Sounds like the new accounting method change with regards, that's impacting cash taxes. It sounds discretionary. Why now as opposed to a year ago, a year from now? And thank you for the color on the call saying that it should benefit this year. It should probably benefit '24, but those taxes would be coming up for payable in '25 and '26. Is there something you're doing there, Eric, that you wanted to increase cash in the current years, and I guess that's transitioning into a question of what's your view on allocation. Is there something in the pipeline for M&A coming ripe, or want to be aggressive with buybacks? Just curious on that. Thanks.

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

Yes. I think if you look at the history of this, Scott, we've always been through looking at accounting method changes to simplify our tax accounting methods, to be honest with you, and we've done this several times over the years. We did have some interaction with the IRS and seen some guidance, that allowed us a couple of years ago to start looking at this.

But the truth to it is that, we have two to three different tax accounting methods for when we recognize for tax purposes the revenue stream of cemetery property. The one that we're switching the other two, going to, if you would, T-O, going to is one that's called the basis recovery method, which really is the method that's going to result in the deferral of cash taxes, but these cash taxes will eventually be paid when installment payments, when cash received from the consumers, those installment payments are received.

So I don't know if that just muddied it up or not, but I just tried basically saying two or three accounting methods are going to one. We had a little bit of an interaction with some guidances out there that allowed us to do it. We've been working with our advisors. We're going to file our tax return to go from 2% to 3% to 1%, and that's what is going to precipitate this issue where you're going to have a temporary deferral of cash taxes, and you will eventually pay those cash taxes as the installment receipts come in. It's really just good blocking and tackling and getting better and being strategic as it relates to your tax accounting methods and how you maximize value in terms of the cash tax scenario. It's nothing more than that.

Q - Scott Schneeberger {BIO 5302695 <GO>}

Understood. Thanks. And it is going to free up some cash, so just any new considerations we should think about with use of cash?

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

No, not at this time.

Q - Scott Schneeberger {BIO 5302695 <GO>}

All right. Thanks. That's all from me.

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

Okay.

Operator

It appears there are no further questions. At this time, I'd like to turn the conference back over to SCI Management.

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

Thank you, everyone, for taking the time today. We appreciate you, and we'll talk to you again for our third quarter. We'll talk to you in, I guess in --

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

Early November.

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

Yes. Early November. Thank you.

Operator

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