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Bloomberg Transcript

Q3 2023 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

- Daniel Hultberg
- Joanna Gajuk
- John Ransom

Presentation

Operator

Good morning, and welcome to the SCI Third Quarter 2023 Earnings Conference Call. All participants will be in listen-only mode. (Operator Instructions) Please note that 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, and we welcome you today to our third quarter earnings call. We'll have 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 beliefs, plans, expectations or projections for the future are forward-looking statements. These forward-looking statements relate to risks and uncertainty 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 also in our filings with the SEC that are available on our website.

Today, we will also discuss certain non-GAAP financial measures and 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 now like to turn the call over to Tom Ryan, Chairman and CEO.

Thomas L. Ryan {BIO 3505123 <GO>}

Thank you, 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 provide some greater detail around our solid Funeral and Cemetery results. I will then close with some thoughts on the rest of 2023 and some preliminary thoughts on 2024.

For the third quarter, we generated adjusted earnings per share of $0.78, which compared to $0.68 in the prior year. This impressive 15% growth in earnings per share over the prior year is primarily related to improved cemetery profitability driven by higher cemetery revenue from completed construction projects, along with lower fixed costs in both the cemetery and Funeral segments, resulting in higher gross profits and margin expansion.

Below the line, the 425 basis point rise in interest rates on our variable rate debt increased our interest expense, reducing earnings per share by $0.09. This increased interest rate expense was predominantly offset by lower general and administrative expenses and the favorable impact of a lower share count. We have exceeded the pace of our share buyback given our recent stock price. We're purchasing $65 million of stock during September and $99 million during the month of October.

Now let's take a deeper look into the funeral results for the quarter. Total comparable funeral revenues declined $7 million or about 1% over the prior year quarter primarily due to an expected decrease in core funeral volume. Although core funeral volume declined 6% compared to the prior year quarter, we believe due to the COVID pull-forward effects, volumes were in line with what we had anticipated. Notably, funeral volumes are about 11% higher than third 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 a 120 basis point increase in the cremation mix. From a profit perspective, funeral gross profit increased by $6 million, while the gross profit percentage grew 130 basis points to about 20%. Lower fixed costs and reduced incentive compensation costs over the prior year quarter more than offset the slight revenue decline. Preneed funeral sales production grew an impressive $15 million or about 5% over the third quarter of 2022. Both the core and the SCI direct channels experienced impressive sales production growth during the quarter.

Now shifting to cemetery. Comparable cemetery revenue increased $22 million, or just over 5% compared to the prior year third quarter. Core revenue accounted for the preponderance of the increase as recognized preneed revenue increased by $21 million, or 7%. This growth is primarily due to the expected completion of construction projects during the third quarter, which drove an increase in the revenue recognition rate by capturing sales from both the current and previous quarter sales production. Additionally, we saw increased merchandise and service trust fund income generated from higher returns over an average five year period as compared to the prior year quarter.

Preneed cemetery sales production declined by $20 million or 6% in the third quarter. While we continue to see impressive growth in our large sales activities, core production or sales contracts below $80,000 declined by $29 million. We believe some of this decline is attributable directly and indirectly to the COVID pull forward effect. We also continue to see our discretionary consumer being impacted by diminished savings rates and lower real incomes, acutely impacted by inflation.

History tells us that as similar economic trends have stabilized in the past, our products and services have experienced a relatively early recovery in the discretionary purchase cycle. We have the advantage of selling a product that appreciates versus depreciate in value, and we believe our cemetery sales production is deferred, not lost. This affords us an ability to recover quickly as the consumer economic cycle turns.

Notably, preneed cemetery sales production is 58% higher than the third quarter of 2019. While large sales are an impressive 2.5x higher than 2019, the preponderance of the sales production growth is from core, or sales less than $80,000, which grew 48% over 2019, or at a 10% compounded annual growth rate over the four-year period. Cemetery gross profits in the quarter increased by $15 million, and the gross profit percentage grew by 190 basis points over 32%. As the increase in cemetery revenue was further enhanced by lower incentive compensation costs in the third quarter as compared to the prior quarter.

Now let's shift to a discussion about our outlook for the remainder of 2023, where we are maintaining our annual guidance. 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. On the positive side, we would expect healthy low to mid-single-digit growth in our funeral average, both at the at-need customer level as well as the funerals maturing from the pre-need backlog.

On the cemetery side, we would expect preneed cemetery sales production to range from flat to low single-digit percentage growth in the fourth quarter. While we anticipate a healthy, favorable impact from newly completed construction projects during the fourth quarter, the comparison against the prior year quarter will be unfavorable, as the 2022 fourth quarter new construction impact was the highest in many years.

Favorable impact from a lower share count and lower general and administrative costs due for the most part, offset higher interest expense. Therefore, we would expect earnings per share to be at or slightly above last year's fourth quarter result.

Now, as we look at 2024. On the funeral side, we would expect fewer and (Technical Difficulty) excess deaths, as well as a moderating impact from the pull-forward effect, resulting in slightly lower comparable funeral volumes as compared to 2023 levels. Still an improvement from mid single-digit declines in 2023. We would anticipate achieving inflationary increases in funeral average pricing, slightly offset by the effect of the cremation mix change.

In the cemetery segment, absent of material change and discretionary consumer behavior, we would expect a normalized pre-COVID growth trajectory, slightly impacted by the lead source decline from lower funeral volumes. This anticipated low single-digit percentage sales growth when combined with a favorable comparative impact from newly completed construction projects should result in cemetery revenue growth in the low to mid-single-digit percentages.

Below the line, we anticipate higher interest expense due to higher credit facility balances, and a slightly higher comparable interest rate, at least during the first half of the year. This higher interest expense should for the most part, be offset by a lower share count when impacting 2024 earnings per share. Typically, we would provide a preliminary earnings per share range of about $0.30 when we set any guidance for the coming year.

Today, we maintain variable rate debt of approximately $1.5 billion, having recently experienced significant fed rate hikes during 2023. Keep in mind that a 100 basis point move has an annual effect of $0.09 on 2024 earnings per share. Due to the lack of visibility on interest rates and the uncertainty surrounding the economic condition of the consumer, we are widening the range of our guidance to $0.50.

Therefore our preliminary guidance range for 2024 earnings per share is $3.40 to $3.90. We will provide formal guidance in our February earnings release Investor Call. So I want to point you back quickly to Investor Day, May '22, because we gave you guys a presentation and talked about a new base that we were growing off of, and we gave you some preliminary thoughts around 2023, '24, and '25.

If you go back to Page 35, we referenced this 65 higher base that we believe we were operating off of, and 75% of that was coming from sales productivity, 15% from accelerated buybacks, and 10% from cost effectiveness. So if you go to that Page 34, we were using a 10% earnings per share growth to grow off the new base. We had projected 2023 to be $3.50 and 2024 to be $3.85. So we'd ask ourselves, and I'm sure you ask yourselves, how are we doing versus that? So let's reconcile to that 2024 number.

If you start with the idea that our range is $3.40 to $3.90, the midpoint would tell you, I guess with math $3.65. So $3.65 compares to $3.85. How are we doing? Well, remember, at the time that we were in May '22, our variable rate on our debt was 2%. And when we were modeling out 2024, we assumed the fed would raise rates, and we had an average rate of 3.5% for our variable rate debt in 2024.

Today, we sit projecting that to be 7.5%. So there's about a 400 basis point increase versus our assumption that was in that model back on Page 34. So if you put that 400 basis point increase against a $1.6 billion in variable rate debt, which is where we'll finish the year most likely. That's about $64 million of additional interest expense that's flowing into 2024 when you compare back to our Investor Day, it's about $0.30 per share. So if you add $0.30 per share to the 365 midpoint, that would tell you our midpoint is 385 compared to the model in Investor Day that was 385.

So the truth of the matter is, and looking back, we're performing at a level at or actually above what we told you we'd do on Investor Day. And the one variable that we didn't take into consideration was the fed raising rates aggressively as they did. So we sit here today, I think with an operating model that's working very well. We've got a higher interest rate environment we're navigating through. But we're very pleased with where we are as a company and excited about now seeing a lot of positive trends as we think about year-over-year comparisons.

So 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. And you guys are what makes our company great.

So with that operator, I'm going to turn the call over to Eric.

Eric D. Tanzberger {BIO 1877182 <GO>}

Thanks, Tom, and good morning, everybody. I'm going to start the same way Tom you just ended. On behalf of all of the management team here at SCI, I want to address our 25,000 associates across the U.S., Canada, and Puerto Rico.

On behalf of everybody, I'd like to thank you for everything you do to provide peace of mind and outstanding service to our client families at one of their one of the worst times of their lives, as we all know. Without you, with what you do each and every day, and without your commitment to those client families, these strong financial results would not be possible at any stretch of the imagination.

Now shifting to kind of some of my comments on the quarter. I'm going to talk about our operating cash flow results and a lot of the things we've done with capital investments during this quarter, and then kind of how Tom did it, I'm going to provide an update on our financial position and cash flow outlook for the fourth quarter, and then also give you a little bit of color towards 2024 in a preliminary basis, but as you know, we'll talk more specifically about that in February.

So let's just start with this quarter. We generated strong adjusted operating cash flow of just under $230 million. That beat our internal expectations and grew more than $45 million over the prior year, there's really three large factors that I think about that are driving this kind of quarter-over-quarter improvement.

First, increases in cash flow resulted from the higher earnings growth, Tom just went through that in detail, and you could tell that generated cash flow in a strong manner. Cash tax payments were lower by about $40 million, that's what was expected, resulting from the change in the tax accounting treatment that we discussed last quarter. And as a reminder, this change acts to defer cash taxes into future years when installment payments for this cemetery property are actually received from the consumers.

These lower cash taxes more than offset about an $18 million of higher interest payments, which again were primarily caused by the higher interest rates and the floating rate debt that we've already gone through this morning. Some exciting things we did with that cash flow and with our capital during the quarter. First, we invested a total of $148 million into our current locations. New growth opportunities, some accretive acquisition, and some real estate. Let me give you a little bit more color and break that down for you.

We deployed just over $80 million back into our current businesses. With $41 million of cemetery development, replenishing cemetery inventory to meet the consumer sales demands, $28 million of field maintenance capital into our existing facilities, and $30 million into digital systems and initiatives. A little bit deeper on the topic of maintenance CapEx, we've got you to a range of $290 million to $310 million of this total maintenance CapEx for the full-year of 2023. While we expect this total maintenance capital will moderate a little bit in the fourth quarter. We believe we'll finish the year at the higher end of this $290 million to $310 million range.

We also invested close to $9 million in growth capital, primarily related to the expansion of some existing funeral homes and cemeteries in Texas, Ohio, and California to name a few, as well as the construction of some new funeral home facilities, primarily in Virginia and Florida to name a few.

On the acquisition front, we invested just over $30 million during the quarter, bringing our year-to-date acquisition spend to $73 million, which is approaching the low-end of our full-year acquisition investment target range of $75 million to $125 million for the full-year of 2023. Finally, we invested $24 million in real estate purchases, which is predominantly in one of our major Western U.S. markets on a large acre parcel of land to be used for future cemetery expansion.

And by the way, in addition to these investments that I just noticed, we also returned nearly $132 million of capital to shareholders during the quarter, $44 million of dividends, and $88 million of sharing repurchases. And as Tom just mentioned, I'll reemphasize this, subsequent to quarter-end, we have repurchased $99 million, bringing the total year-to-date capital return to shareholders to approximately $565 million.

A little other things for the quarter, I just want to make a brief comment on our corporate G&A expense, which was $33 million for the quarter, since it's fell below kind of the normal expected range that I've talked about before of $38 million to $40 million for a quarter. This was driven primarily by lower incentive compensation expense that was primarily associated with the company's long-term compensation plan based on total shareholder returns relative to a designated peer group.

So moving on to a few comments about our financial position. Our favorable debt maturity profile and liquidity of just under $1 billion at the end of the quarter continue to give us the ability to effectively invest capital. Liquidity at the end of the third quarter consisted of approximately $170 million of cash on hand, plus approximately $800 million available on our long-term bank credit facility.

Also on these stronger operating results, our leverage at the end of the quarter decreased slightly to about 3.5x net debt-to-EBITDA, which about 3.6x at the end of last quarter. And just to refresh your memory, we continue to have a bias toward the lower end of our targeted leverage ratio range of 3.5x to 4x, at least in the near term.

So shifting more to an outlook. As we disclosed in the press release, our 2023 adjusted operating cash flow guidance range has a midpoint of $855 million. We're expecting to grow off of this projected range in '24, and we'll give official cash flow guidance after we close out the year, and again, as we mentioned, that'll be in February when we talk to you again.

But preliminarily, I'd like to give you some color on our cash flow expectations. Cash flow in 2024 should be positively impacted by our expected earnings growth that Tom just discussed with a new preliminary range which includes, by the way, the expected increases in interest expense. Our cash taxes will be $40 million to $60 million less in 2024 for some of the reasons that I already mentioned this morning.

And lastly, we also expect net working capital uses from our printing program to generally be offset by reduced ICP payments that will occur in early of 2024. So hopefully that gives you some preliminary guidance as it relates to our expectations that we're excited about in terms of cash flow for 2024.

So in closing, as we do look forward, you really can expect more of the same from our company as we move forward, especially in 2024. Strong and predictable cash flow combined with a solid balance sheet, great liquidity that will provide opportunities to continue to invest capital to the highest and best use in order to maximize shareholder value.

So again, I'd like to end this by thanking our entire SCI team for their contributions to doing what they do in front of the client families, which is second to none, and helping us to achieve these results.

So with that, that concludes our prepared remarks. And with that, operator, I'm going to turn it back to you, and we'll go ahead and open this call back up to 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 Joanna Gajuk with Bank of America. Please go ahead.

Q - Joanna Gajuk {BIO 16689444 <GO>}

Good morning. Thanks so much for taking the questions. So I guess first, you talked about the 2024 initial outlook here. So thanks for that color and, I guess the bridge to how you were thinking, or the initial, I guess views you expressed in May 2022. So that's helpful in terms of the interest expense.

In terms of the cemetery segment specifically, so two questions there. So first, you talked about expectations for cemetery revenues actually grow low single-digits year-over-year.

But I guess for this year, for 2023, production will be down. So I guess what's driving this revenue actually growing into next year?

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

Yes, Joanna. So thanks for the question. I think yeah, I think the way to think about cemetery, and especially if you correlate it with preneed funeral, what we saw through COVID was a real spike in cemetery sales, much higher than funeral. And so the discretionary consumer on the cemetery side was more likely to purchase, that probably was because they're very focused on that issue.

And secondarily, I think on the funeral side, you're very reliant upon seminars, direct mail, digital leads. So meeting in-person was pretty difficult to do. So if you look at both sales trajectories over the entire period, the compounded annual growth is probably the same. The difference is, cemetery really spiked up and now has to come down the mountain a little bit, whereas funeral didn't spike as much and now kind of is continuing to eke out the growth. But the trajectories are pretty much the same.

The cemetery business relies upon traffic to come through the places. So as you think about the impact on COVID, because funeral volumes are down 6%, that has an impact on our lead source skewing towards cemetery. There's less traffic, there's less people to sell to. So again, I think as the funeral volumes stabilize, that's when -- year-over-year, that's when we think we begin to go back to being able to grow cemetery sales.

And we're predicting that right now for 2024, that our funeral volumes will be slightly down because of, again, excess deaths and COVID trending slightly down. But we feel confident about our ability to, from a lead source perspective and a traffic perspective to get back to kind of that low to mid single-digit growth that you expect to see from our core cemetery business.

Q - Joanna Gajuk {BIO 16689444 <GO>}

Great. That was my second question in terms of how you think about, so I guess it's two parts, right? How you think about the cemetery growth after 2024, which you just answered, but also on the preneed cemetery sales production. Remind me, I don't know whether you said it for next year and then I guess afterwards.

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

Yeah, so next year what we're saying is, think of, I think we've always said, we think preneed cemetery sales can grow somewhere in the, let's call it 3% to 6% range, depending on the year. We feel like we're back there. And the only thing I wanted to call out, well really two things.

One is, we think the trajectory is there to come back, but keep in mind, funeral volumes will be slightly down, so that means our lead source may be slightly down. I wouldn't expect that to impact our cemetery sales more than a percentage point. So think of 3% to 6% now, 2% to 5%, and the one qualifier I'll put out there is the fact is to remind everybody, cemetery is a discretionary purchase. And if you look at other retailers, this morning I was listening to Brian Cornell from Target talking about seven quarters in a row that they've experienced consumer discretionary volumes being down.

I do think there's -- when you think about the effects of excess savings which are drying up, you've got inflation that's out there for the typical consumer, you've got higher interest rates that are impacting your ability to want to spend there's a lot of wind in your face as a consumer discretionary and that's why I applaud our sales team for what they've been able to do is absolutely incredible. So, I feel good about it, absent something really bad happening with the concessionary ability for that consumer to spend.

At the high-end, we continue to see very, very, positive trends and, again, I would correlate the high-end more to stock market and housing prices, because interest rates and inflation don't tend to impact that consumer, but everybody else is being impacted. So, think of next year as you know slightly lower than normal growth and then when you get to '25, I think we're back to that 3% to 6% same-store range that you're used to.

Q - Joanna Gajuk {BIO 16689444 <GO>}

No, that's very helpful. And I guess if I may just squeeze one more, I guess for Eric in terms of the G&A commentary. So how should you think about this number going forward into next year? Is there going to be a reversal of this accrual that's going to impact next year when it comes to numbers? Thank you.

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

Yeah, there probably is. The annual guidance, since you're talking annually and I was talking quarterly before, is generally to have G&A expense in the $150 million to $160 million range for the full year. I think we'll end at the low end of that, if not slightly below that low end of that range.

And so I believe next year in 2024, we'll end up probably in the heart of that range. So if you put us in the $150 million or $145 million to $150 million for '23, you're looking at a little bit of a headwind getting back up in the middle of that of $155 million. So a lot more to come there, a lot of assumptions in that related to the fourth quarter that I just said in my head. But ultimately, that's generally where I think you should probably think about it as of now, Joanna.

Q - Joanna Gajuk {BIO 16689444 <GO>}

All right. So would you say, I guess, as a follow-up to that on the accrual, the magnitude of things, was it like $5 million or a little bit more than that, sounds like?

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

You're talking about during the quarter (Multiple Speaker)

Q - Joanna Gajuk {BIO 16689444 <GO>}

Yeah, in the quarter yes, the incentive benefits, yep, or the accrual.

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

Yeah, I think in the quarter, you're comparing against a very strong accrual that was really bringing a lot of the ICP accruals up to kind of their max, last year. So, it's probably a tailwind during the quarter of, I don't have it in front of me, but I'd probably say $0.03 to $0.04 in that ballpark for the specific quarter. And, of course, we've got to get some of that back next year, depending on how we accrue it.

But everything I just said in terms of my assumptions for G&A assumes kind of like a middle-of-the-road target percentage for 2024, not a max percentage that we saw in 2022. That helps you.

Q - Joanna Gajuk {BIO 16689444 <GO>}

Great. I appreciate this comment. Thank you.

Operator

Our next question comes from Scott Schneeberger with Oppenheimer. Please go ahead.

Q - Daniel Hultberg {BIO 17269993 <GO>}

Hi, good morning. It's Daniel on for Scott. Thank you for taking our question. Could we elaborate a little bit on funeral volume expectations for next year? How do you see the range there? And how do you think about the pull forward impact at this point, where we are in that cycle? Are we looking at 2024 as the last transition year before normalizing in 2025?

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

No, I think -- Eric's probably got much better number statistics, but I'd say philosophically, the way we're thinking about this is that pull forward effect diminishes each year. So we do think there's a pull forward effect in 2024. We think it's going to be in 2025 and 2026, but it becomes pretty deminimis as you get further out. So in that regard, year-over-year, it's actually an improvement when you think about 2024.

Having said that, in 2023, we continue to see some COVID deaths, we continue to experience some excess deaths. And so as we think about those trends, those are beginning to go away as you get into '24 and to '25. So the net-net is a slightly negative, that's what we're trying to point you towards is we think there's still a bit of a drag on 2024. But probably in the, call it 1% to 2% range, as you think the year-over-year declines versus what we're seeing this year, about a 5% decline.

Then as you get out to '24 and '25, our assumption would be that you begin to climb back up and see favorable year-over-year trends. Getting back to kind of that, call it 1% growth in the numbers of deaths and then our competition for market share.

Q - Daniel Hultberg {BIO 17269993 <GO>}

Got it. Thank you. Switching gears to margin, could you please speak to margin expectations for next year across both segments? I know I think you had a pretty good cost performance on the funeral side of this quarter. In the past, you talked about the efficiency you gained during the pandemic. So if you please could get an update on how you think about the segment margins looking into next year?

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

I think on a segment margin overall, we would expect for the year both those to kind of point positive, more so on the cemetery side than on the funeral side, when you think of year-over-year. I would caution you that I think the first quarter of last year, I'm sorry, the first quarter of '23, that may be a tough comparison is my memory of what happened in those quarters when you think about volumes, because of sales production and because of funeral volumes.

So, but overall, you think of '24, I think you can model flat to slightly up type of margins is the way we're thinking about it.

Q - Daniel Hultberg {BIO 17269993 <GO>}

Thank you.

Operator

(Operator Instructions) Our next question comes from John Ransom with Raymond James. Please go ahead.

Q - John Ransom {BIO 1535724 <GO>}

Hey, good morning. Looking at the midpoint of your guide next year, the 365, how do we think about the cemetery recognition rate, which was certainly elevated this year, and where does that go relative to this year and say last year?

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

No, I think last year, when you look at what's in the press release, the recognition rates were probably in the low 90s. John, I think they're probably going to be in the mid-90s is kind of where we're going to end this year. And I would probably say that 2024 will probably be in that ballpark. So I think of it as kind of, we're starting to get back and completing the construction projects, recognizing the revenues. We saw that in the quarter that we were on plan and what we expected to do. And I think you'll see more of the same in '24.

So think of it as kind of '24 being kind of a mid 90% type recognition rate similar to I think how '23 will end.

Q - John Ransom {BIO 1535724 <GO>}

Okay, so that's higher than, like you said, that's higher, is that kind of the new normal or is it just still burning off some of the big construction projects?

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

No, I think there's more to come beyond that. But I think that for right now, what we have on our radar is visibility for the next 18, 24 months, I think that's a good metric to use.

Q - John Ransom {BIO 1535724 <GO>}

Okay, and then just a couple of other, again, using the midpoint of your guide, how are you thinking about share count next year? Just given your accelerated repo activity so far this year.

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

It depends on what happens and what the price is, because as you've seen us, we kind of throttle up and throttle back based on what we think the value is in that. We've already purchased, as we gave you the numbers through October already, we're already in the 6.5 million-ish share range is what we repurchased back. I think there's potentially more of that to come during the fourth quarter, as we've already described to you.

So it just depends on going forward, I think right now that 6.5 million has brought our basic shares outstanding, let's just talk about that as opposed to getting into dilutive calculations to about 148 million to 149 million shares outstanding. So, I think we're very happy to finally pierce through that 150. And I think we'll go from there, but we'll have moderated in '24, there's a lot of assumptions to that in terms of what are there other opportunities with a higher return to deploy the capital to and what the share price is.

Q - John Ransom {BIO 1535724 <GO>}

You're kind of into that buy low thing, is that what you're telling me? I'll write that down.

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

We kind of are. John, it's a problem (Multiple Speaker)

Q - John Ransom {BIO 1535724 <GO>}

That's pretty clever. And then just, I hope this is the last time I ask this question, because I know it's tedious, but just an update on putting your prices online, FTC, competitor behavior, if you're seeing any sort of fallout from that and what are you thinking about for next year in that regard?

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

It's really more of the same, John. Subsequent to what we've talked about last quarter, there is a public workshop in early September that a lot of people from the industry and some people outside the industry visited with the FTC and we had a seat at that table. Subsequent to that, we sent a letter, just kind of memorializing what we said in that workshop, which is consistent with what we said before. We sent that letter in early October.

In terms of pricing online, we haven't changed our position, but again, I would say right now of our 1,500 funeral homes, we probably have 1,000 to 1,100 of those with prices online. We have different levels of pricing, whether it's starting at or just the absolute full-blown premium experience drilled down into what exactly the pricing is, pick menus for celebrations, all kinds of things, and it's going to move and fluctuate because we're learning. We like it, we love interacting with our consumers using our very powerful Dignity Memorial websites. And we'll continue to invest digitally into those websites and more to come.

But from an FTC perspective to come full circle, whatever they decide, as I've said, moving forward, I think we're well ahead of the curve. And I just don't see it having a material effect to our company in one way or the other.

Q - John Ransom {BIO 1535724 <GO>}

So just to put a fine point on this, in the markets where you've done this, you're not seeing any knock-on effect from the online pricing?

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

We're not seeing any type of negative effect. And we're actually seeing in some certain markets some positive effects as it relates to preneed leads and preneed consumers. So, we're going to keep going, we're going to keep testing. We're going to find the right variables to figure out. That's what a lot of the people doing this, our management team is good at.

Q - John Ransom {BIO 1535724 <GO>}

I'm sorry, just to keep going on this, because we get a lot of questions. So, in your markets, let's say a competitor doesn't put his or her prices or their prices online, how do you -- you just have mystery shopping, you have other ways to know what you're looking at a local level?

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

Yeah, I would say our market management is very, very plugged in with their competition, both online and what's happening at their competition pretty much each and every week and each and every day.

Q - John Ransom {BIO 1535724 <GO>}

If you've got any mystery shopper openings, I'll put in for that, that sounds like fun.

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

You've made the demographic.

Q - John Ransom {BIO 1535724 <GO>}

Yeah, I keep getting the flyers from Dignity, I don't know what you guys are telling me, that last checkup was fine, I've got a little ways to go. All right, thank you.

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

Thank you, John.

Operator

We have a follow-up question from Joanna Gajuk. Please go ahead.

Q - Joanna Gajuk {BIO 16689444 <GO>}

Hi. Thanks for taking a follow-up. I guess on this last topic. So I understand the workshop took place and sounds like FTC was still collecting some information there. So any update on the timing where we might hear from FTC?

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

No. We really don't, Joanna. I mean, this has been going on for several years at this point in time. I think there is a little bit of a change in flavor that we picked up on at the FTC that maybe this is sooner rather than later. I wouldn't have said that, last quarter before the September 7th meetings that all of the industry had an opportunity to go to. But I'm hoping it's sooner rather than later. But my predictions with the FTC and the government have not been on compared to the timing, as you know.

Q - Joanna Gajuk {BIO 16689444 <GO>}

All right. So I guess we just sit and wait. But actually my other follow-up, when you were talking about, I guess in the quarter around commentary around the preneed sales production and cemetery side. So can you give us maybe some comparison to how things were in Q2, large sales versus the lower mid-tier. I guess you talked about large sales around or about $50 million in Q2. So I guess where it was in Q3.

And on the lower end, I guess you continue to offer financing options to the customers, because it sounds like that's what you were trying to do to kind of bring back some of these customers to you. Thank you.

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

Yeah, so to bifurcate that, the first one was large sales and we continue to see a lot of success there. I mentioned that from 2019 levels, this third quarter was 2.5x. I think in the second quarter, we're about equivalent. I think we're $50 million and $49 million, so about the same pace on that piece.

As it relates to the consumer incentives, we have rolled those out. I guess I would describe that as a mixed bag, and certain markets it's been effective and other markets maybe not as much, but it's a tool in the toolkit of our sales teams that they're utilizing and to varying degrees of success. But we just want to make sure if there's a customer that has a need and has a want that we've got a plan for them to fix it. I don't think we've seen anything dramatic yet, Joanna, but we're continuing to utilize that as a tool.

Q - Joanna Gajuk {BIO 16689444 <GO>}

Okay. And I guess that do you still offer like zero financing or I guess that's off the table?

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

Again, it's kind of a toolbox item for different markets, right? So they have different things that they can utilize if they see that consumer base and what may drive behavior. So, we try to give them a variety of things that they can utilize to help the consumer get on board, including zero percent.

Q - Joanna Gajuk {BIO 16689444 <GO>}

Okay, I understand. Mark is just very, oh, right. And the very last one on the acquisitions. So, I guess you're tracking, I guess, towards the lower-end for the year. I guess there's still one more quarter to go, or I guess two months to go in this year. So, I guess maybe talk about the pipeline a little bit for this year into next year. Are you sensing any increase or decrease in that activity and kind of your appetite? It sounds like you want to keep the leverage at the current level, but I guess, the cash flow guidance, I guess implies there's potentially some room for M&A. So, just kind of thinking about this year and into next year when it comes to acquisitions. Thank you.

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

I think the pipeline is really good Joanna, so we feel very positive as we look forward over the next, call it 12 months, the deals that are out there. The timing the tough part, right? So, we're working on some deals now that may or may not close in the fourth quarter, but highly likely they will close in the first quarter. So, I think the way to think about the next 12 months, we're very positive. It's just tough sometimes deals slip as far as timing can go.

But, yeah, seeing deals, seeing good deals, and good activity.

Q - Joanna Gajuk {BIO 16689444 <GO>}

Thank you.

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>}

Thank you, everyone for being on the call today. We appreciate it, and we look forward to speaking to you again in February with our fourth quarter and year end earnings. Thanks so much.

Operator

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