Q4 2023 Earnings Call

Company Participants

- Debbie Young, Director, Investor Relation
- Eric Tanzberger, Chief Financial Officer
- Thomas L. Ryan, Chairman, President and Chief Executive Officer

Other Participants

- AJ Rice, Analyst, UBS
- Joanna Gajuk, Analyst, Bank of America
- John Ransom, Analyst, Raymond James
- Scott Schneeberger, Analyst, Oppenheimer
- Tobey Sommer, Analyst, Truist

Presentation

Operator

Good day, and welcome to the SCI Fourth Quarter 2023 Earnings Conference Call. All participants will be in a listen-only mode. (Operator Instructions) Please note this event is being recorded.

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

Debbie Young {BIO 16531204 <GO>}

Good morning, this is Debbie Young, welcome today to our fourth quarter earnings call.

We're going to have some prepared remarks about the quarter as well as our outlook for this year 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. During this call, 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 and also on our website.

And with that, I'll 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 provide some greater detail around our solid funeral and cemetery results. I will then close with some thoughts about our 2024 financial outlook.

For the fourth quarter, we generated adjusted earnings per share of $0.93, which compares to $0.92 in the prior year. We were able to generate growth in earnings per share over the prior year as higher cemetery revenues driven by a 9% increase in preneed cemetery sales and a strong funeral sales average together more than overcame the effects of the anticipated funeral volume decline, resulting in a $0.04 increase in earnings per share from operations. Below the line, the 280 basis point rise in interest rates on our variable rate debt and a higher debt balance increased our interest expense, reducing earnings per share by $0.08. This higher interest rate expense was partially offset by a lower tax rate and the favorable impact of a lower share count, as we accelerated our share repurchase cadence during the fourth quarter, utilizing $204 million to repurchase some 3.6 million shares at an average price of just above $57.

Now let's take a deeper look into the funeral results for the quarter. Total comparable funeral revenues declined $13 million or about 2% 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'd anticipated. Notably, funeral volumes were about 10% higher than fourth quarter 2019 levels.

Our core average revenue per service grew over the prior year quarter by an impressive 4%, even after absorbing the negative effects of a modest 50 basis point increase in the formation mix. From a profit perspective, funeral gross profit declined by $8 million while the gross profit percentage decreased by 100 basis points to about 22%. Lower fixed cost and reduced incentive compensation expense over the prior year quarter slightly negated the negative impact from the revenue decline. Preneed funeral sales production grew an impressive $12 million or about 4% over the fourth quarter of 2022. Both the core and the SCI Direct channels experienced impressive sales production growth.

Now shifting to cemetery. Comparable cemetery revenue increased by an impressive $35 million or about 8% compared to the prior year fourth quarter. Recognized preneed revenue accounted for the preponderance of the increase growing by $33 million or 11%. This growth is primarily due to the growth in preneed cemetery sales production of $30 million or more than 9% over the prior year quarter. We also saw increased preneed merchandise and service revenue generated from higher delivered units and contract averages as compared to the prior year quarter.

The $30 million increase in preneed cemetery sales production was generated from both large sales and from core cemetery production, each contributing about half of the preneed cemetery sales production growth. While sales contract velocity was slightly down over the prior year quarter, we are still 8% higher than 2019 levels and production is being generated by a smaller, more effective and efficient sales team. Cemetery gross profits in the quarter increased by $17 million and the gross profit percentage grew by 110 basis points to over 34%, primarily due to the increase in cemetery revenue.

Now let's shift to a discussion about our outlook for 2024. As you saw in our earnings release, we provided a normalized earnings per share guidance range of $3.50 to $3.80 for 2024, or a midpoint of $3.65. As we explained last quarter, this is slightly ahead of our projections that we provided at our Investor Day in May 2022 after accounting for the unanticipated material increase in interest rates on our variable rate debt. At the time, we had assumed the 2% rate would grow to 3.5% in 2023 and continue into 2024 based on the Fed dot plot at the time. Our current rate approximates 7.5%. So we were very wrong, but we did have a lot of company. As we think about comparing 2024 expectations to our 2023 normalized earnings per share, the midpoint we are guiding to is closer to 5% growth versus the standard 10% historical midpoint expectation.

The waning effect of excess deaths, including COVID, impacts not only funeral volume but at need cemetery revenue and slightly reduces the normalized growth expectation in preneed cemetery sales production as we talked about last quarter. This, coupled with a higher year-over-year interest rate backdrop, particularly in the early part of the year, will have a dampening effect on our annual earnings per share growth expectations for 2024. We believe that in 2025, we should return to our normalized earnings per share growth expectation of 8% to 12%. We expect to capitalize on opportunities during 2024 by further utilizing our scale that should enhance the margins in both our funeral and cemetery segments into 2025 and beyond.

We're also excited about continuing to invest capital to grow our network. We are investing in our existing funeral locations, renovating and modernizing our venues to create a more celebratory and contemporary setting. We're increasing our cemetery inventory options with both the casketed and cremation consumer to accommodate an increasingly diverse customer base that values a variety of unique memorialization offerings. The acquisition pipeline looks very good at this point, and we continue to increase new market share opportunities due to construction of new funeral home facilities and in certain instances, establish new cemeteries in our existing high-growth areas across North America.

Finally, we expect to continue to enhance shareholder value through growing our dividend and continuing our opportunistic approach to shrinking our equity base, while protecting our strong balance sheet by managing the debt maturity profile and leverage ratios.

In conclusion, 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 are what makes our company great.

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

Eric Tanzberger {BIO 1877182 <GO>}

Thanks, Tom. I'm going to start really where you just left off and begin my remarks as I usually do by expressing my gratitude and all of our gratitude to each of our 25,000-plus associates. Thank you for all that you do to provide outstanding service to our over 600,000 client families that our company served in 2023 during the customer's most difficult and trying times in these situations. Thank you for providing superior service to both our customers and our communities.

So with that, I'd like to say good morning to everyone on the call. Today, as usual, I'll first discuss our cash flow results and capital investments for the quarter and the full year of 2023. I'll then provide details of our 2024 cash flow and capital investment outlook and will include some comments on our financial position as we conclude our prepared remarks.

So in the fourth quarter, we generated strong adjusted operating cash flow of $278 million. This was $107 million higher than the prior year. This exceeded our expectations for the quarter, and enabled us to finish the year just above the high end of our most recent annual guidance range of $225 million to $275 million.

The largest factors driving this year-over-year increase includes about $75 million of favorable working capital, primarily associated with stronger cash receipts on prior period installment sales and the timing of certain payables. Also included, though, in the $75 million, is the timing of a payroll tax payment that occurred last year, if you remember, related to the CARES Act of 2020 which resulted in just over a $20 million benefit this year to cash flow.

Cash tax payments of $4 million during the quarter were also lower than the prior year by about $33 million. We expected that. And again, that's due to a tax accounting method that I've discussed in prior quarters. These sources of cash flow more than offset $16 million of higher interest payments primarily caused by higher interest rates on the floating rate portion of our total debt. So on a full year basis, we ended 2023 with adjusted operating cash flow of $882 million at 7% or $57 million higher than the prior year. This additional cash flow was reinvested into our company, and also returned to our shareholders, which now I'll touch on.

So in the fourth quarter, we invested a total of $109 million into our current facilities, new growth opportunities and real estate. So let's go ahead and break this down.

We invested $82 million of maintenance capital back into our current businesses, with $41 million of cemetery development, $31 million into our funeral and cemetery locations and $9 million into our digital strategies and other corporate investments. For the full year, we invested a total of $324 million, which was down $10 million from the prior year, but about $14 million or so above the high end of the guidance range that we talked about last quarter. And this really occurred because our cemetery development spend was higher than expected in this fourth quarter as we accelerated some spend during

The fourth quarter to position our cemeteries with relevant high-return inventory as we enter 2024.

We also invested $27 million of growth capital in the quarter towards the purchase of real estate construction of new funeral homes and the expansion of existing funeral homes and cemeteries. This brought our total 2023 growth capital spend to about $94 million, which was up $40 million from 2022 as we identified meaningful opportunities to invest in future greenfield cemetery as well as funeral projects for the future.

Turning to acquisitions. While we did not make any investments in the fourth quarter, we believe the pipeline again remains robust. We have been actively investing already this year in the first quarter with $14 million of acquisition investments in January, and we anticipate more investments in the coming months. In total, we ended 2023 with $72 million in acquisition spend and we're very pleased with the quality of these businesses that have joined SCI and more importantly, have welcomed many new associates to our SCI family.

In addition to the investments in CapEx and acquisitions that we just talked about, we returned $247 million of capital to shareholders in the quarter through $42 million of dividends and just over $200 million of share repurchases. This brought the number of shares outstanding to just above 146 million shares. And as Tom just already mentioned, we purchased 3.6 million shares at an average price of about $57 during the quarter.

So before I shift to the 2024 outlook, I want to make a brief comment about our corporate G&A expense during the quarter of about $45 million. This was higher than our expected range of $38 million to $40 million, driven primarily by higher incentive compensation expense which was specifically tied to our long-term compensation plans that, again, are based on total shareholder returns relative to a designated peer group.

So shifting to 2024, and you saw this in the press release, our 2024 adjusted operating cash flow guidance range is $900 million to $960 million, with a midpoint of $930 million. The midpoint of this range assumes the following: we expect our base case cash flows at the midpoint of our guidance to grow about $35 million, comprised of about $55 million of cash flow growth from our underlying funeral and cemetery operations offset by an anticipated $20 million headwind or increase from interest expense as higher rates and balances continued to impact earnings and cash flows; we anticipate having a more normalized use of working capital of $30 million to $50 million of use, driven by growth in preneed cemetery sales, timing of payables, partially offset by reduced incentive compensation payments in 2024.

We expect cash taxes to range between $25 million and $35 million, which is a decrease of just over $40 million from 2023, but about $150 million lower than normalized levels. This, again, is as a result of the tax accounting change I've discussed over the last couple of quarters. We also anticipate an effective tax rate between 24% and 25% in 2024.

So shifting to capital investments during the oncoming year. We expect maintenance CapEx to remain flat at about $325 million. To break that down and give you a little bit more color, we expect to invest $125 million in our funeral and cemetery facilities, $165 million into high return in cemetery development projects and $35 million into our digital strategy investments and some other corporate investments. In addition to this maintenance CapEx, we expect to invest $75 million to $125 million towards acquisitions and roughly $45 million to $50 million and new funeral home construction and real estate opportunities, which together, to remind you, drive low to mid-teen after-tax internal rates of return, which again is well in excess of our cost of capital.

Finally, absent other high retirement opportunities we will continue returning capital to our shareholders through our share buyback program in a consistent and disciplined manner as you've seen us do over the years.

So I'll now conclude by making a few comments on our financial position. We have a very favorable debt maturity profile and have liquidity of right now around $900 million at the end of the quarter, consisted of approximately $220 million of cash on hand, plus approximately $670 million available on our long-term bank credit facility. Our leverage at the end of the quarter remained somewhat consistent with the third quarter at 3.58x net debt to EBITDA. We continue to have a bias towards the lower end of our usual target range of 3.5 to 4x, and I call that in the near term until we have more clarity as to exactly where interest rates will go from here.

So in closing, our strong balance sheet continues to underpin our capital deployment approach, which gives us flexibility to execute on high-return investment opportunities. We are very proud of our team, most importantly, and the way we finished 2023. As we enter 2024, our solid balance sheet, great liquidity and strong and predictable cash flows will again provide opportunities to invest capital to the highest and best use and ultimately, to maximize shareholder value.

So with that, operator, that concludes our prepared remarks, and I'll now turn it back to you to open the call up to questions.

Questions And Answers

Operator

Thank you. (Operator Instructions) The first question comes from AJ Rice of UBS. Please go ahead.

Q - AJ Rice

Thanks. Got it, maybe a couple of quick questions here. First of all, I think you guys are mentioning that you see sort of a skew to the earnings quarterly progression and maybe some of that seasonality, maybe some other factors. I just want to make sure we leave the call knowing exactly what you looking at, maybe first half, second half, first quarter? Any comment specifically on how the progression would play out over the year?

A - Eric Tanzberger {BIO 1877182 <GO>}

Sure, A.J. I think the most -- for the most part, when you got to the last 3 quarters of the year, our expectations would be that you'd see historically impressive growth. The challenging quarter is going to probably be the first quarter, and there's two reasons for that. It's one amongst the most challenging as you think about from an interest rate comparison. I think it's somewhere around it, again, depends on the level. But somewhere, call it, the $0.06, $0.07 of headwind as you think about interest expense year-over-year that you must overcome.

The other thing that we would anticipate, and you'll recall that completed construction projects on cemetery. And when you think of the comparison of this first quarter versus last year's first quarter, that should be a negative effect because we're going to have less completed project revenue. So those are the two things that I think are going to cause a more challenging first quarter comparison. And as you get to the last 3 quarters, I think it looks really good quarter-over-quarter. And again, for the year, I think, some impressive growth factoring in some of the things we mentioned before which are slightly higher interest expense. And if this kind of continued pull-forward effect that impacts slightly both the funeral and cemetery segments.

Q - AJ Rice

Okay, thanks. Wanted to just ask as well, if I'm looking at the trend year-to-year in the at-need funeral versus preneed maturing. It looks like preneed maturings hanging there better on volumes than ad need. Is that -- do you think some indication that maybe some of this lengthy investment you've been doing in preneed over the last decade is starting to drive market share and you're getting an increasing percentage of people that are coming in that have these preneed arranged contracts in hand?

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

We do, A.J., exactly. We watch that same metric, and we believe that represents your exact thoughts..

Q - AJ Rice

Okay. Maybe one last question then. I know it sounds like the year started out with some deals on the acquisition front. I understand that the 10-year standstill arrangement that you did with the FTC when you closed the Stewart deal years ago is going to expire in the spring. I wonder can you sort of size what that creates as an opportunity and do you think we'll see a pickup in pacing on deals when you -- when that FTC standstill agreement expires?

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

We do, AJ. I think it's hard to size it, but it is a significant amount of markets that we've been really precluded from participating in for the last 2 years by those prior notice agreements, which expire in May. So it's very difficult to predict when or what. But we're excited about it. We do think it kind of allows us to be a little more active as it relates to acquisitions and get back involved in some of those markets. So we're excited about it. We think it will create some momentum.

But again, I think deals come when deals come. So it's hard to predict the timing and the size, but we're glad it's coming to an end.

Q - AJ Rice

Can you just remind us how many markets it involves and -- or how much of a constraint it's been? And then can you have discussions in those markets prior to the expiration? Or you have to wait for the expiration to have discussions?

A - Eric Tanzberger {BIO 1877182 <GO>}

Well, I think you can always have discussions about when you could possibly go to closing a contract. So again, we've always been active in these markets in the sense of developing relationships and not so much around the deal, but getting to know people, getting to know what their plans are. So it isn't like we're going to for the first time begin to talk to people. We've been out there just being a good neighbor.

So again, as far as numbers of markets, I don't have them in front of me, but think of them as being mainly in some major markets and my guess is probably somewhere that we'd be interested in 15 to 25 type of markets that are out there that we've not had the ability really to think too heavily as it relates to growing through acquisitions.

Q - AJ Rice

Okay, great. Thanks so much.

Operator

The next question comes from Tobey Sommer of Truist. Please go ahead.

Q - Tobey Sommer {BIO 6296228 <GO>}

Thanks. I wanted to ask you about the rate of at-need activity in how you think about it having sort of mostly but not entirely normalized post COVID and maybe characterize what, if any, kind of headwind you think remains in the business?

A - Eric Tanzberger {BIO 1877182 <GO>}

Hi Toby, this is Eric. There continues to be a headwind as it relates to COVID. It is getting better every year, and you could see that in the fact that the total funeral volumes were down mid-single digits. And now we're really calling it relatively flat. I mean I think the fiscal guidance is flat to down 1% or 2%, but let's just call it flat for purposes of this explanation. What you're seeing in the positive is the natural growth that's occurring in North America. You can call that 1% or so per year in terms of just the growth of the population, and that population aging and that population needing services of this particular industry.

Specific to our company, you have to also take into account acquisitions. In acquisitions, it depends on the particular year whether our acquisitions are heavy funeral or have heavy cemetery. But ultimately, you could add, call it, 2,000 to 4,000 funeral services in a particular year related to a full amount of acquisitions. So you have that natural effect. You have the acquisition effect which is specific to our company and what is being watched in this situation, specifically in 2024, is the pull-forward effect related to COVID. And remember, we had some noise in the last couple of years with excess deaths as well coming out of COVID. And that's impossible at this point to differentiate really.

There's not the data out there to make any further comment on that. But the COVID pull-forward effect, excess debt pull-forward effect is kind of washing the natural progression of the baby boomers, coupled with our acquisitions and calling us kind of flattish. I think that's better those particular factors than they were last year. That drove us down mid-single digits. And we hope, and we'll give you better a comment as the year progresses, that you'll start seeing a little bit of an uptick in net volumes, as I described it to you this morning as we move forward in future years.

Q - Tobey Sommer {BIO 6296228 <GO>}

If you are able to be a little bit more active on the acquisition front after the standstill agreement. And you mentioned some markets that you would find attractive, but haven't really been focusing on recently. What would that entrance into those markets and sort of fleshing those out, what would that do to the contours of profitability at the firm? Is that something that would be observable or so small as to not really have an influence?

A - Eric Tanzberger {BIO 1877182 <GO>}

Well, I think it's built into the growth framework. When you think of the 8% to 12% earnings per share growth you're looking at some acquisitions and share repurchases could be up to maybe half of that growth. The rest being inorganic, currently being driven by better average for sales at the funeral homes and most importantly, the significant preneed cemetery growth that we've seen lately and over the years that we've talked about at length.

I've already kind of given you a statistic that said that any time we're growing depends on the year, you could add 2,000 to 4,000 cases of funeral volumes per year for the full load of acquisitions and such. So is it material? Of course, it's material, but we don't think that the new markets after the SCI with Steward situation expires is going to be an absolute game changer. I mean this is a situation where we have very long-term relationships.

Our field operations, our management here has done a very good job having long-term relationships with independents that certainly we would love to talk to. And what Tom said, just to reiterate, we talk to them now. It just is going to be their decision when they want a liquidity event for their generational planning and for their particular family. And trust me, they don't have any idea, in my opinion, that whether an FTC mandate is coming due or not coming due for SCI.

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

Tobey, maybe the better way to think about it is what's happened in the past is, it was a competitive situation where we would be asked to look at a business, we were at a competitive disadvantage because the seller would know that we have to get prior permission. So maybe that's a better way to think about it is we were kind of behind the 8 Ball because we introduced risk into a transaction that our competitors didn't have to deal with. And that should become more competitive as we move through this May date.

Q - Tobey Sommer {BIO 6296228 <GO>}

Very helpful. And then last thing for me. Is there any change in the increasing pace of adoption of cremation, anything to think about? Or is that sort of steady state? Just thought I'd touch base on that.

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

Yes. I think it's steady state. We saw a contraction of the rate, but again, I think if you looked over long periods of time, you're going to have quarterly fluctuations, but we still stick by the 100 to 150 basis point expectation.

Q - Tobey Sommer {BIO 6296228 <GO>}

Thank you very much.

Operator

New. The next question comes from John Ransom of Raymond James. Please go ahead.

Q - John Ransom {BIO 1535724 <GO>}

Hey, good morning guys. Just turning to your guidance. Could you talk about just your expectations for preneed cemetery production and recognition rate compared to 2023?

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

Yes. So I think on the projection side, John, if you think back, we historically have said we think we could grow cemetery sales production in the, call it, 3% to 6% range. That's kind of steady-state same-store. Obviously, there's times that we went above that range. There's times we've been below that range. I think the way to think about next year is instead of a 3% to 6%, we're just dial it down a tiny bit, call it 2% to 5%.

And the reason for that is we did a lot of leads through funeral volume traffic and traffic through the cemeteries. So as you think about the pull-forward effect, we're going to have slightly less leads to follow up on. And that's what we're factoring into our numbers. Now again, can we surprise to the upside, I think so. But we need to get through the year to understand better where we are, if that makes sense.

A - Eric Tanzberger {BIO 1877182 <GO>}

And John, from a recognition rate perspective, as you know, we talked about that on the last call as well, and we thought it would be in the upper 90s for the fourth quarter, and it was.

Generally, we look at a full year right now kind of in the mid-90s from a recognition rate. So the 95% ZIP code from that. Remember that can move over the quarter. So it usually starts off somewhat light in the low 90s and works its way as we complete projects during the summer months and towards the end of the fall, where it could be as high as what you saw in the fourth quarter, 98% or even 100. But generally, we think it's -- we're to the point now where I think it's somewhat stabilized and when you're modeling, I think it's about 95%-ish of the production should come through the income statement in a full year period for cemetery.

Q - John Ransom {BIO 1535724 <GO>}

Great. And just another, this may be a little too wonky, but you talked about the 10% CAGR in funeral volumes since 2019. What do you think -- what's the M&A effect of that? So if you hadn't had any M&A, what do you think the funeral CAGR would have been from 2019 to 2023? Is that about 1 point a year? Is that the easy way to think about it?

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

Yes. I think it's fair to say that maybe 3% to 4% of that is acquisition and the rest of it's organic.

Q - John Ransom {BIO 1535724 <GO>}

Right. So therefore, 6% growth. So a little over 1% a year CAGR. So that's not crazy. So I guess that underscores, we probably are at the tag end of the COVID pull forward. And so you think that '25, you'll get some small growth, kind of go from maybe minus low single digit in '24 to up low single digit in '25 for funeral. Is that a fair way to think about it?

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

That's kind of our expectation right now, John, yes.

Q - John Ransom {BIO 1535724 <GO>}

Okay. And then just two last ones. Any early read on Ching Ming, the weather? I hate to talk about the weather again, but you know...

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

I think one of the things to understand about the weather from last year, last year, the real problem was we had -- we basically had inventory that was destroyed. And by destroying potential inventory, it delayed any possibility of sale for a matter of months until you could get that inventory repurposed. And that in the range where again this year, to our knowledge, we have not had any kind of event like that.

So while you may have had a few days out of the market, I think it's our belief that the customers are there and we'll get in front of them, and we've got great inventory to show our customer base. So yes, we don't anticipate as pronounced an effect as we had last year because of the weather.

Q - John Ransom {BIO 1535724 <GO>}

You guys would put tarps in the CapEx budget this year for Blue Tarps?

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

We did.

Q - John Ransom {BIO 1535724 <GO>}

Okay. All right. And then lastly, we correlated your preneed cemetery to a basket of consumer stocks, and it was pretty close in the third quarter, but you definitely outperformed kind of the basket of comps that we thought correlated. So we got to get back to work on that. But why do you think even in the face of not great consumer comps and not great funeral volume, what do you think led to the outperformance in cemetery preneed to the fourth quarter?

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

Sometimes, John, it's a matter of timing. But I think, again, I give the credit to our sales force, to give the credit to our inventory teams. We've got a fabulous inventory to sell and the best sales force in the world. So I give the credit where credit is due.

Q - John Ransom {BIO 1535724 <GO>}

What's the size of your sales force now?

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

We're about now 3,700, 3,800 salespeople, down from, I think, pre-COVID 4,300. So we're able to...

Q - John Ransom {BIO 1535724 <GO>}

Are you up off the bottom though? You've had the people from the bottom, the post COVID bottom?

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

You know, actually, we're about the same. I mean maybe up slightly, but I'd say we kind of adapted during COVID to 15% less headcount. And you see the results, we've got compounded growth rates at around 10%. So very efficient throughput, great use of technology, great leadership.

Q - John Ransom {BIO 1535724 <GO>}

Okay, thanks so much.

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

Thanks, John.

Operator

The next question comes from Scott Schneeberger of Oppenheimer. Please go ahead.

Q - Scott Schneeberger {BIO 5302695 <GO>}

Thanks very much, good morning. Guys, on preneed cemetery, it sounds like you're getting a lot of nice pricing. You've developed a lot of nice products. And it seems like that's going to be the growth driver. I'm curious about contract velocity. Is that going to remain negative in 2024 and to what magnitude? And I'll follow up with something on that. But just if you could address that, please.

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

Sure, Scott. I think if you take a year, as an example, our velocity, again, is slightly flat for the fourth quarter this year. But if you go back to 2019 levels on a year-over-year basis, we're actually up in velocity 11%. So I think sometimes we get so caught up and this velocity has got, I believe we flattened out. I think velocity should now correlate a little better to flat to slightly grow as we think about future.

And so if you got 1% to 2% in velocity and you got 4% to 5% in pricing, that's probably the way to think about what we can do in cemetery sales as we munch forward over the next few years. So yes, I would anticipate that, that stabilizes from here and continues to grow off this 11% growth from 2019 levels that we are operating in today.

Q - Scott Schneeberger {BIO 5302695 <GO>}

And on- still on preneed cemetery, kind of a 2-parter. Just how would you qualify consumer behavior kind of low end, mid, high end of the range? And then the follow-up question on that is cemetery margin in 2024. Just your thoughts there? Thanks.

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

Yes. So I think on consumer behavior, if you take the high end, we continue to see the high end going strong. And some of that average price and remember, these are over $80,000 sales. But to give you some perspective, we probably had about 400 of those that averaged around, call it, $200,000 sale, back in 2019 -- around that era. We've almost doubled the number of contracts. So going from 400 contracts at that level to 800, slightly up on the average too. And so that seems some pretty significant growth and continues to look strong. And again, we've always said that probably correlates best with housing and stock market.

And I'd say if there's anywhere we're not seeing as robust in activities we like, it is at that lower end. And again, I think that correlates with a lot of other discretionary retailers out there that are seeing a little bit of a stall when you think about that consumer that may or may not be dipping into their savings a little harder, may or may not have the same access to credit, particularly not at attractive rates.

So that's where we are. And I think as far as margins, I think you asked about, Scott. Our margins continue to grow. I think we've been operating in this kind of mid-30% range. And I think we'll continue to expect those to push up slightly year-over-year when you think about 2024. I think it's 33% to 35% range, so we're in there.

Q - Scott Schneeberger {BIO 5302695 <GO>}

Thanks. One last one for me. Just on digital investment, the CapEx, a little bit lower this year than last. Just if you could -- maybe, Eric, speak to what these investments have been and the benefits you may have garnered? And are we -- is that going to start to wane? Has the brunt of that occurred? And just curious how -- what you're realizing regarding the benefit on the tail end?

A - Eric Tanzberger {BIO 1877182 <GO>}

Scott, we've said all along that we're huge believers in digital investments, especially customer-facing technology. We've also been making some investments that are not customer-facing technology that are going to help us become better, more effective and more efficient at our funeral homes and cemeteries.

So what you really saw us is really push that through the last couple of years. And that's what pushed that digital CapEx up into the $50 million, $60 million range. I think this $35 million range, it could have been flow, but I think it's a better number. As we move forward, you're always offsetting that with what do the funeral homes and cemeteries need from a maintenance capital perspective because that's going to come first. And what do the cemeteries need from a semi-development CapEx perspective because our great sales force, that Tom just mentioned, needs inventory to sell. So that will always come first.

But I do think that this is both a combination of some noncustomer, make us more efficient CapEx in terms of systems and processes that probably will wane a little bit as we move forward, and that will be replaced with better customer-facing technology and digital investments that way. But I think it's going to end up being around this $30 million to $40 million as we move forward.

Q - Scott Schneeberger {BIO 5302695 <GO>}

Got it, thank you both.

Operator

The next question comes from Joanna Gajuk of Bank of America. Please go ahead.

Q - Joanna Gajuk {BIO 16689444 <GO>}

Good morning, thanks for taking the questions here. So I guess, first I'll just start a follow-up on some numbers. So G&A this quarter, higher. How should we think about the '24 G&A progression? Is this $45 million kind of elevated number, so it's going to come down?

A - Eric Tanzberger {BIO 1877182 <GO>}

Yes. I think $45 million is a little elevated. It's what I was trying to imply in the conference call remarks, Joanna. We had some movement, obviously, in the share price during the last few months of the year. And that adjusts more of the long-term compensation plans which are based on total shareholder return or TCR versus a peer group.

And so we had to catch up some accruals, so to speak, are related to those in the fourth quarter, and that made the G&A, which normally should be $38 million to $40 million-ish a quarter into that mid-40s for the particular fourth quarter. But absent any other new information, I think from a framework perspective, we still like the, call it, $37 million to $38 million to $40 million a quarter for the corporate G&A expense.

Q - Joanna Gajuk {BIO 16689444 <GO>}

Thank you. And another follow-up, I guess, on the preneed cementers production rates of this quarter, Q4, much better than expectations and you're talking about growing, I guess, for '24, for the full year, low single digits. So I just want to make sure that I understand here. So was there any sort of transactions that were pulled forward so to speak from Q1 into Q4? Or is that kind of still the look for the year maybe seems conservative based on that growth that you experienced in Q4?

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

Yeah. I think it's so hard to predict, Joanna. I think all we're noticing is that a lot of our lead sources come from activity. So when you have less activity on the funeral home side and the burials and the cemeteries, it can put some pressure on the number of leads that you have to generate and give to our sales force. So we're just acknowledging the fact that if we believe there's a little bit still of a pull-forward effect that it may have a somewhat dampening effect on that lead source.

Having said that, the rates that we're closing at are going up. We're getting leads a big growth in digital leads that are very different, not coming off that traffic in the funeral homes and cemeteries. So again, I want to be optimistic. It's very possible that we could have a very strong preneed cemetery sales. I think we're just acknowledging the fact that traditionally to come from this activity and we expect that activity to be slightly down. We feel great about the sales force. We feel great about our digital lead growth, and we've got inventory in the cemeteries to sell. So we're optimistic about '24 and even more so as we get into '25 and '26.

Q - Joanna Gajuk {BIO 16689444 <GO>}

And I guess on a different topic, we're still waiting, I guess, to hear from the FTC on those potential changes to the funeral rule. And I guess on that front, can you kind of give us a sense of over the last years how, I guess, your locations have been faring when it comes to compliance with those requirement of the funeral rule? On average, how many locations are compliant? And has there been a trend where you're seeing fewer or more of a time of these locations non compliant?

And I guess there's been some discussion around some other elements of the funeral rule when it comes to the fines and the training that's required. So do you expect any changes to those other elements of the funeral that could potentially also happen because I guess the base the base case assumption is that going to be about the only price requirement, but would you expect other changes to that funeral? Thank you.

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

Joanna, I think you're right. It's like I think the base assumption is that it's going to create situations with online GPLs in those situations. Nothing has changed from our perspective on that. We continue to work through that. We continue to test that. I think we have about 1,000 or 1,100 and something in that ballpark at any point in time. Of our 1,500 funeral homes and GPLs online. We mix and match that and test it. We're tiered a lot of ways that I've described before on previous calls. In terms of pricing tiers in particular markets, and we're playing with that as well from starting at prices to a full premium pricing experience that's now hopefully starting to pull in cemetery as well on the digital sites. So no change there.

If that's the expectation that's out there and that occurs, again, I think we're going to be there anyway. And we don't think that's going to have any negative effect to our business. If anything, it's flat to maybe even slightly positive from a preneed perspective as we move forward. From a compliance perspective, we take that extremely seriously. We have really good beefed up training already in place on compliance with the funeral rule and all the intricacies of it and such

And when you give a price list to a consumer.

Let's start, though, about what we do as an industry and what we do as a company. We serve families at a real dire time in their particular lives. And so there's obviously a human element when you're first in touch with the family for the first time, that you have to take into account the caring and compassionate nature of our industry and our particular associates being second to none in that situation. So then you're starting to figure out subjectively when to introduce the GPL. And therefore, if it's objective to start with, the compliance is going to be a little bit subjective as well, and that's where a little bit of the gray area comes into play.

We're very proud of our training. We're very proud of our compliance related to the FTC, and we're very supportive of the funeral rule and want the entire industry following that particular part of the rule, and we'll continue to do that. If something else comes down from the FTC, we'll look at it at that particular time. But nothing new has been mentioned to us or more appropriately, we haven't been asked to comment on anything new recently as it relates to the compliance side of the funeral.

Q - Joanna Gajuk {BIO 16689444 <GO>}

Yes, that's I guess a fair point. This question certainly when posed to the industry in the axis of what we talk about changes to the fines or over things like that. But I guess, is there any way to quantify like on average how many locations of yours get fined or found non-compliant on average? And has that kind of changed over the years? To you point about how, I guess, you're very proud of it -- the training that you provide to your associates.

A - Eric Tanzberger {BIO 1877182 <GO>}

Yeah. I mean, if you're talking about from the FTC perspective, it's very small. I think we're well, well into compliance. I think when you look at the period of the rule itself, we may have 1 to 2, 2 to 3 locations out of 1,500 in any particular year that may not be in some form of compliance. Again, I'm going to emphasize that, that's subjective to some degree, because what our associates are trying to do first and foremost is care and be compassionate for that family. So it can get complicated when you're doing that.

And then, of course, at some point, you're introducing, or the consumer is introducing price into the equation. And at that particular time is when the funeral rule and the GPL and such kicks in from that perspective. But if you take 1 to 3 locations out of 1,500 at any particular time, and it's a pretty long sample set. I'm talking about 30, 35 years. I think you should say that we are very, very much compliant with the funeral rule and will continue to be in our training, our culture and our tone at the top, operationally, will continue to have those results as we move forward.

Q - Joanna Gajuk {BIO 16689444 <GO>}

Yeah, I appreciate it. That's very helpful, and granted it's a large platform. So even if it's three locations at the higher note, you mentioned it. That's not even that meaningful. And just last one on this one. Any indication of the timing when we will hear from FTC or there's nothing really out there?

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

I don't have any update on their particular timing. That would be in their court.

Q - Joanna Gajuk {BIO 16689444 <GO>}

Right. Thank you. Thank you so much.

Operator

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

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

Thank you everyone for being on the call today. We look forward to talking to you again with our first quarter results. Have a great week.

Operator

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