

March 31, 2017

Dear clients and colleagues,

In William Shakespeare's "As You Like It", the poet expounds on the "seven ages of man"— the many parts we play as we move through each stage in life, from birth to death. While we don't think Shakespeare considered the various products and services humans partake of at each stage of life, it's interesting to note that we are indeed targeted by industry at every phase, including death!

Consider the highly profitable industry that has sprung up around pregnancy and delivery, for example. We see prenatal products and services, hospitals, maternity and infant clothing, day-care centres, nanny services, diaper manufacturers, nutritional products and so much more.

At the other end of the spectrum we have death (life's "final act", as Shakespeare might say). And death, too, has an industry—one that has been steadily growing as our population ages and the number of deaths per year increases. Along with the business of dying comes funeral home services, cremation and burial providers and a rapidly diversifying range of specialty services.

### **Portfolio impact?**

Over the years we have profiled many of the companies we own and demonstrated how they meet mankind's wants and needs through the various stages of life. Today we are profiling one of our holdings that exposes the portfolio to the funeral home business: Carriage Services. As we all know, "in this world nothing can be said to be certain, except death and taxes."

### **Carriage Services (CSV US – \$26.96)**

<http://www.carriageservices.com>

#### ***Business overview***

Founded in 1991 and headquartered in Houston, Texas, Carriage provides a complete range of funeral, cemetery and cremation services and sells a wide variety of related products and merchandise. They operate 170 funeral homes in 27 states, and 32 cemeteries in 11 states.

#### ***Target market***

- The funeral home services industry is approximately \$19B in the US alone, with the cemetery segment accounting for \$4B.
- Highly fragmented with 22,000 funeral homes and 4,000 cemeteries. Municipal, veteran and church cemeteries account for another 6,000 locations.
- 79% of the industry is independently owned.
- The number of deaths in the US is expected to reach 4.4M by 2025, up from the current 2.8M.
- The 65 years and above demographic accounts for 72.5% of all deaths.
- Cremations are increasing and taking market share from traditional funeral services.
- Traditional funeral services have transitioned to "celebration of life" events (e.g. barbecues, picnics, dove releases, balloon releases and even Harley Davidson rallies).

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**Competitive advantages**

- Operates in a decentralized manner.
- Keeps the names/brands of funeral homes it acquires.
- Customer oriented and rewards employees for high levels of customer satisfaction and customer retention, which helps organic growth.
- Approximately \$600M in backlog from pre-need program.

**Growth strategy**

- Organic market share gain.
- M&A given the fragmented nature of the industry.

**Management**

- Melvin Payne is CEO and was one of the company's founders in 1991.
- Insiders own 12% of the company.

**Risks**

- Government regulation.
- Cremations grow faster than estimated.

Global small cap companies are not always known by name, but they invariably touch our daily lives in important ways.

Have a good weekend.

The Global Alpha Team

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