Q3 2022 Earnings Call

Company Participants

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

Other Participants

- A.J. Rice, Analyst
- Joanna Gajuk, Analyst
- John Ransom, Analyst
- Scott Schneeberger, Analyst
- Tobey Sommer, Analyst

Presentation

Operator

Good morning, and welcome to the SCI Third Quarter 2022 Earnings Conference Call. All participants will be in a listen-only mode. (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. Today, we'll be providing an overview of business results for the third quarter, as well as some thoughts about our outlook for the fourth quarter and for next year as well.

As usual, let me quickly go over the Safe Harbor language before we begin with prepared remarks. 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 and a reconciliation of these measures to the appropriate GAAP measures can be found in the tables at the end of our earnings release and also on our website under the Investors, Webcast Events section.

With that out of the way, I'll now hand it over to Tom Ryan, Chairman and CEO, for opening remarks.

Thomas L. Ryan {BIO 3505123 <GO>}

Hello, everyone, and thank you for joining us on the call today. First of all, I want to express my heartfelt thanks to our entire SCI team. It is your continued commitment, dedication, and execution that positioned us for the results we posted this quarter. You've continued to stay relentlessly focused on what we do best, helping our atneed client families gain closure and healing through the process of grieving, remembrance, and celebration and helping our preneed clients gain peace of mind, by securing their final arrangements.

This morning, I'm going to begin my remarks with a high-level overview of the quarter, followed by some further color on our business performance for the quarter, including some detail around our solid funeral and cemetery results. Then, I will provide some year-to-date observations on 2022 that establish a baseline for our preliminary thoughts about 2023.

For the third quarter, we generated adjusted earnings per share of $0.68, which outperformed both our internal forecast as well as analyst consensus compared to $1.16 in the prior year quarter, which benefited from a significant pandemic impact. Most of the anticipated decline in earnings can be attributable to lower operating results on a reduced impact from COVID as well as a decrease in trust fund income from declines in the global equity and fixed-income markets.

Higher inflationary fixed costs also impacted the quarter's performance. Below the line, the favorable impact of a lower share count offset higher interest expense and a slightly higher tax rate. For a better perspective of this quarter's performance, we delivered earnings per share growth of 84% above a pre-pandemic 2019 third quarter, resulting in an impressive 22% compounded annual growth rate in earnings per share over the three year period. While down from the prior year, funeral results were well ahead of our expectations on continued elevated levels of funeral services. On the cemetery side, overall cemetery profits were in line with our expectations. Our preneed sales production results were very strong and ahead of our expectations. However, those strong results were tempered by lower recognition rates and lower trust fund income.

Now let's take a deeper look into the funeral results for the quarter. As anticipated, total comparable funeral revenues declined against the prior year quarter that benefited from a significant pandemic impact. This decline of $48 million or about 8% over the prior year quarter includes a $41 million reduction in comparable core funeral revenues. Although, comparable core funeral volume declined about 10% compared to the prior year quarter, the 2022 third quarter volume is still over 15% higher than the pre-COVID 2019 third quarter, resulting in an impressive 5% compounded annual growth rate over the three year period. So we're continuing to serve elevated levels of client families above and beyond COVID deaths, which is consistent with our commentary around this topic during our Investor Day presentation in May.

Our core average revenue per service continued to grow over the prior year quarter by 1.8%. Organic growth for the quarter was an impressive 4.7%. However, it was negatively impacted by 190 basis point increase in the core cremation rate, a decline in trust fund income, and to a lesser extent from currency translation in our Canadian operations.

From a profit perspective, funeral gross profit decreased $67 million while the gross profit percentage declined to 19% from 29% in the prior year quarter. The revenue decline due to lower volumes versus 2021 accounted for the preponderance of the profit decline. We also experienced higher than historical increases in employee related cost, as well as in utilities and fuel due to current inflationary pressures compared to the prior year. Additionally, we are seeing slightly higher technology costs, both from depreciation and maintenance of the highly impactful systems we've developed around our sales and marketing functions over the last several years.

Preneed funeral sales production grew over $6 million or 2% over the third quarter of 2021. Our SCI Direct production was particularly strong, posting an increase of almost 10% over the prior year quarter. Increased contract velocity was generated from leads driven by new targeting strategies for our direct mail and community seminar programs as well as a shift in focus on digital leads.

Now shifting to cemetery, as expected, cemetery revenue also decreased against the COVID effective prior year quarter. However, preneed cemetery sales production exceeded our expectations. Comparable cemetery revenue decreased $21 million or about 5% in the third quarter. In terms of a breakdown, core revenues were down by $17 million compared to the prior year. Atneed revenues accounted for $15 million of this decline and recognized preneed accounted for $2 million. Recognized preneed revenue actually was higher by $6 million, before accounting for an $8 million decline in merchandise and service trust income.

Other revenue decreased by about $3 million over the prior year quarter as endowment care trust fund income was negatively impacted by changes in capital gains and losses. Preneed cemetery sales production grew a solid $16 million, or 5% in the third quarter. Even more impressive is when you consider we are 67% higher than the third quarter of 2019, so growing preneed sales production at a 19% compounded annual growth rate over the three year period.

As we referenced in our Investor Day presentation, we believe we have enhanced our sales and marketing productivity and effectiveness in cemetery sales from learnings achieved during the pandemic. We saw a slight decline in sales velocity that was more than offset by inflationary increases in the core sales average. Large sales have remained robust, growing $10 million over the prior year quarter. The cemetery gross profits in the quarter declined about $41 million and the gross profit percentage declined to 31% from 38% in the prior year quarter. The profit decline from revenues was further impacted as $12 million of the decline was from trust income, which fall straight to the bottom line.

Inflationary pressures drove higher than historical increases in employee and cemetery maintenance costs. We also experienced slightly higher cost associated with technology such as systems amortization and maintenance costs.

So as you saw in our earnings release, we increased our 2022 adjusted earnings per share range by $0.20 to $3.60 to $3.80 or a midpoint of $3.70. This implies a range of $0.73 to $0.93 in the fourth quarter compared to a COVID impacted fourth quarter 2021 of $1.17. You know once predictable -- very predictable business model was turned upside down beginning in 2020 with the uncertainty around COVID mandatory and voluntary lockdowns, changes in consumer wallets and sentiment. So at our Investor Day in May, we made our best attempt to outline for you where we thought we were from an operating platform what COVID impacts might be and what to expect going forward. We described a new earnings per share base, which had been established through accelerated learnings and actions taken during the pandemic. The new base was $3.18 per share for 2022 and we communicated that we anticipated an incremental $0.32 of non-recurring impact from COVID, for a total guidance midpoint of $3.50 for 2022.

Our base assumptions anticipated a pronounced decline in funeral volumes and atneed cemetery revenues as compared to 2021, particularly in the second half of 2022. We projected that these levels would normalize back towards 2019 pre-COVID levels. We also assume that preneed cemetery sales levels would be relatively flat to slightly up versus 2021 levels. And we anticipated that the Fed would raise rates pretty aggressively, increasing the interest expense on the variable rate debt from our balance sheet.

Based on what we've seen over the last five or six months, for 2022, we now believe with higher than we anticipated levels of non-COVID funeral services in atneed cemetery revenues that our original base assumption of $3.18 would be more like $3.50. We believe these excess services are more permanent in nature into a combination of aging demographics, higher risk, less healthy lifestyle developed during the pandemic as well as certain geographic market share gains. Preneed cemetery sales are strong and tracking with what we originally assumed back in May.

Unfortunately, we did not anticipate back in May, the combined historic downturn in both equity and fixed income markets that will reduce trust fund income for 2022 by about $0.20 per share. This would result in an earnings per share base of $3.30 for 2022. So when you add the non-recurring COVID impact which increased to $0.40 from the original $0.32 we discussed in May, it result in a 2022 revised midpoint of $3.70.

In determining our preliminary guidance for 2023, we utilized the $3.30 earnings per share base, applied our historical earnings per share growth assumptions, factoring in slightly higher interest expense as well as slightly lower trust fund income results in determining our 2023 earnings per share guidance range of $3.45 to $3.75 per share.

I want to say thanks to all of my more than 24,000 teammates for all that you do everyday for our families. You are what makes this company great.

With that, operator, I'll now turn the call over to Eric Tanzberger, our Chief Financial Officer.

Eric D. Tanzberger {BIO 1877182 <GO>}

Thanks, Tom. Good morning, everybody Thanks for joining us again. Kind of how Tom just left it off, before I really address the quarter, I really want to first just want to say thank you to all of our 24,000 plus funeral homes, cemetery, crematory, personal care center associates, now these are the associates who make this company go and continue to work tirelessly to take care of what's most important, our client families and our communities and in turn, these are the people that have produced these impressive financial results. We truly appreciate all of your hard work and efforts. Please hear that very clearly.

So with that said and getting into the business at hand, kicking off my comments this morning, I'm going to discuss our cash flow results and capital investments for the quarter and the financial market effects on our trust funds. I'll then provide some comments on our increased cash flow outlook for the balance of this year 2022 and also give you some preliminary thoughts for 2023 in terms of cash flows.

So starting with the quarter, we generated adjusted operating cash flow of $183 million in the third quarter. This was higher than our expectations, but it was about $49 million lower than the prior year, which, as we've discussed and know, was heavily impacted in a positive way by the pandemic activity. The decline in cash flow quarter-over quarter aligned with the $107 million decline in operating income, which excludes gains on divestitures and was somewhat offset by $22 million of lower cash taxes as a result of the lower earnings, as well as about $41 million of favorable working capital in the quarter. This net source of working capital is first related to the timing of preneed cemetery cash receipts from strong sales production during the quarter as compared to the corresponding revenue recognition.

Secondly, working capital was favorably impacted by the payment of roughly $21 million in the third quarter of the prior year of deferred payroll taxes as allowed under the CARES Act. So just to refresh your memory, remember that we're able to defer quarterly payroll taxes under this CARES Act, totaling approximately $42 million for the full-year of 2020. Then we repaid the first half of this amount, the $21 million, in the third quarter of last year and we will be paying the second remaining $21 million next quarter, the fourth quarter of this year 2022. Finally, cash interest payments were on target, increasing an expected $5 million due to increases in the balance and interest rate of our floating rate debt.

So now shifting to our trust funds, now I made some comments about our trust funds last quarter, but I think it bears repeating to make sure everyone understands the impact to the financial markets on our near-term and longer-term cash flows. As we've discussed in the past, the volatility of financial market influences the market value of our trust funds, but again has a muted effect on our near-term earnings and cash flows. So given the 10 to 14 year average life of the underlying customer contracts, only about 8% of those contracts in the trust backlog really mature in any given year. Therefore, the effect on the reduction in trust fund market value allocated to each individual contract is reflected in our earnings and cash flows really over a 12-year period or about 8% per year.

So with that said, let's talk about the balances. We began the year with about $6.5 billion in total trust assets and currently today that balance is about $5.6 billion, slightly higher than the $5.3 billion at the end of this quarter that we reported to you. The deposits on the new sales and withdrawals from maturities generally have offset each other during the first nine months of this year, so the $900 million change is primarily associated with the change in market value of those trust assets and again, this reflects the 17.5% decline in trust performance year-to-date, which has been impacted by historical inflation, the speed of the Central Bank tightening, and uncertainty in the geopolitical space.

This has led to somewhat of a, what we call, a black swan event, where we have seen 15% to 20% declines in both the equity and fixed income markets, which is something we have not seen in at least the last 30 years. This decline in our trust fund asset balances is expected to result in about a $35 million to $40 million cash flow headwind for the full-year of 2022, all of which is considered in our increase in our 2022 earnings and cash flow guidance that we talked about this morning and in the press release.

So with that, next I would like to shift gears and touch on corporate G&A expenses, which were $42 million in the current quarter and slightly higher than our expectations due to inflationary, salary wage pressures, as well as some workers' compensation and general liability insurance cost increases. Looking forward to 2023, we expect corporate G&A to trend a little bit higher due to these inflationary labor pressures and be in the ballpark of $38 million to $40 million per quarter.

So now I'd like to touch upon our capital investment activities. So during the quarter, we invested $382 million into our funeral homes, our cemeteries, new build opportunities, and accretive acquisitions and we also returned capital to shareholders. Let's talk about the breakdown. First, as it relates to these investments in our businesses, we had $59 million of maintenance capital, which was higher than both our expectations and prior year. During the third quarter, we accelerated our investments in our funeral home and cemetery technology infrastructure and this really prepares our locations for the utilization of both customer and non-customer-facing technology that is currently being developed to create a more contemporary experience for all involved. These costs were also higher due to inflationary cost pressures and supply chain constraints with the associated hardware be installed at all of these locations.

Additionally, we invested $34 million into cemetery development projects during the quarter. This is higher than the prior year, primarily due to the pandemic-related delays experienced last year and is also trending slightly above our expectations as we continue to replenish inventory to meet the consumer demand following elevated preneed selling activity, as well as future customer opportunities. Considering the increased investments in technology infrastructure and cemetery development we just discussed, I believe our recurring CapEx will be about $10 million higher for 2022, which is reflected in the updated guidance range that we gave you in the press release.

So now shifting to growth capital, we invested $12 million towards the purchase of real estate, construction of new facilities, and expansion of existing funeral home and cemeteries across our footprint. On the acquisition front, we closed two funeral home transactions on the East and West Coast totaling about $12 million. Subsequent to the quarter, we purchased multiple funeral home and cemetery locations on the West Coast for about $40 million. So our year-to-date spend for acquisitions, including this recently closed transactions is about $55 million, all of which were done at our usual targeted IRRs. We again remain optimistic about the acquisition pipeline and believe we will end the year well into our range of $75 million to $125 million.

Finally, we continue returning capital to shareholders with nearly $265 million being returned this quarter, which is really about $40 million of dividends and about $225 million towards share repurchases. And on that topic, year-to-date, we have invested close to $590 million. And these investments and share repurchases in the first nine months of the year has already exceeded the full-year spend we did in each of the last two full years. These opportunistic investments demonstrate our confidence that we have in this business and our strategy and our commitment to returning value to shareholders.

So shifting quickly to our financial position, we continue to have a strong balance sheet with a favorable debt maturity profile, robust liquidity of approximately $720 million which was at the end of the quarter which consisted of $170 million of cash on hand, plus almost $550 million available on our long-term bank credit facility. Our leverage at the end of quarter was just above 3 times net-debt to EBITDA. We will continue over the coming quarters to invest capital in high-return opportunities such as acquisitions, new builds, and the share repurchase program. In addition, our EBITDA is currently normalizing from the prior year that was impacted by the pandemic activity, so we expect our leverage ratio at the end of '22 to below the low-end of our targeted range -- to be at the low-end of our targeted leverage range of 3.5 to 4 times and we expect to enter that low end of that range in '23.

So now let's shift to an outlook and talk about the remainder of 2022 and into 2023. In our press release, we increased our guidance for adjusted operating cash flow for the full-year by $40 million to a range of $795 million to $835 million or the midpoint of $815 million. This implies a range of $140 million to $180 million in the fourth quarter. We also anticipate continued pressure from rising interest costs on our floating rate debt which could be $10 million to $12 million cash flow headwind in the fourth quarter, which has also been considered in this updated cash flow guidance.

So looking ahead to 2023, we are currently working through our cash flow, our cash taxes, and our working capital models and we'll give you better guidance more specifically in February, which is what we normally do. I did want to mention a few items this morning to give some direction as it relates to this '23 cash flow expectations. So first, when we think about the adjusted EPS guidance of 2023, which was $3.60 at the midpoint of the range that Tom just mentioned, this $0.10 difference from '22 levels is expected to result in about a $20 million net decrease in cash flows for '23. Included in this $20 million net change is higher EBITDA expected from growth and our cemetery operations that will be more than offset by about $50 million of higher interest cost associated with higher interest rates on our floating rate debt.

Additionally, we expect to have a couple of working capital items that could pressure '23 cash flow, really related to strong incentive compensation cash payments as well as the timing of preneed cemetery cash receipts as compared to the corresponding revenue recognition year-over-year. But remember, these working capital items should be considered temporary for '23 and will not be expected to affect cash flows in 2024 and beyond on a more normalized level.

So, in closing, thanks for joining us this morning. We're proud of this performance year-to-date. Our expectations are to now finish '22 with a very strong fourth quarter.

And with that, operator, that concludes Tom and I's prepared remarks and I'll shift it back to you and open the call up to questions.

Questions And Answers

Operator

We will now begin the question-and-answer session. (Operator Instructions) The first question comes from A.J. Rice of Credit Suisse. Please go ahead.

Q - A.J. Rice

Hi, everybody. Maybe couple of questions if I could ask just following-up on your final comments there. You called out some items like incentive comp and the other items that are impacting cash flow. And I know you want to refine those further in the working capital, but can you give us some flavor as to the order of magnitude and why would you consider those to be one-time and then revert back in 2024? What's unusual about them in '23?

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

Yeah, it's good question, A.J. Again, and directionally we'll have to sharpen the models and such to get you exact numbers in February like we always do. But ultimately what is occurring is, we've obviously had some very strong performance in 2022. That's going to revert to cash outflows related to ICP payments across the entire company in February. That would be close to 2 times even the targeted ranges. And so if you think of working capital, we'll probably be accruing during 2023 on the income statement at 1 times and paying in February an unusually kind of large payment. And so that's going to create that working capital drag during February. That could then flip again in 2024 to be more normalized. It just depends on the timing of how we're doing during 2023 and what the cool looks like on the income statement versus the actual cash flow payment, that's going to be pretty strong that's paid in February.

The other thing that's really happening is, you saw -- I mentioned kind of a $40 million, think of a tailwind or a positive working capital during this year and $20 million of that is the CARES Act which I talked about as payroll, but the other $20 million really relates to preneed cemetery. And it really has to do with some of the things that Steve Tidwell and Gerry Heard and their teams really did to drive sales at the lower end portion of the spectrum, kind of at entry-level price point and entry-level customer that we talked about last quarter. Some of that had to do with customer incentives, some of that had to do with lowering down-payments.

And so if you don't get 10% down, you're not going to recognize that revenue. So essentially what I'm saying is, we're receiving cash this back half of this year and the revenue recognition may come next year. So there's like this one-time timing difference where we're going to have a little bit of a source of working capital at the end of this year and that will flip to a use of working capital as the revenue recognition comes where a lot of the cash may have come late this year as well. So more to come on that.

I think that the bonus could be as much as that cash flow, working capital could be as much as maybe $30 million, $40 million. I think the working capital flip to be $10 million to $20 million. So I'm just kind of directionally kind of giving you somewhere in that $50 million ballpark of some working capital that I think will pop right back up in '24 and should be considered temporary in nature.

Q - A.J. Rice

Okay, great. Also just maybe I'll ask, Tom, you had mentioned this excess debt issue and you don't think it's related to COVID anymore. We're obviously looking at a period where the baby boomers start to hit 80 in '26 I'm assuming that the step-up in deaths will be a bell curve, it won't be all-in one year. There's a big stair-step. Is that what you think you're seeing? Is there something else going on? Is it maybe we just haven't fully normalized? Do you think this is a normalized rate that we can sort of see normal atneed growth from here?

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

Yeah, A.J. The three things that I kind of identified in my comments, the first one was exactly what you said, call it, the baby boomers. I do believe we're beginning to see lift as it relates to that demographic is a component of what's happening and you're right, I think, it's more like a bell curve and we would anticipate that to kind of continue to steadily climb.

The second one is probably the trickiest of all. And I mentioned it -- I think I called it and I get a lot of pushback on the way we describe this, but I'm going to call it lifestyle. And what I mean by that is, we're seeing people being impacted in almost every category of death. We're seeing more deaths from car accidents, more drug overdoses, more suicides, more murders, more cancer deaths. And I guess I would say it was the pandemic disruption. And so what we're trying to come into conclusion now is, when does that go away. It's my belief that, at some point, society heals itself and we get better. I don't think that's going to happen for some time. I think when people are impacted by their mental health or physical health, these trends are hard to reverse quickly. So I think we're seeing some of that, but to your point I hope three, four, five years from now will subside a bit. But I don't think it's any time soon.

And then the last piece that I mentioned that impacts us we believe is market share. And again, we try to track that, it's not perfect, but we're seeing in a variety of markets and probably -- particularly where we've got big combo facilities an increase in our share as we measure it over time. So really three things impacting that, that I don't think go away over the next couple of years. And the only one that at some point I think diminishes is that unhealthy America comment that I've talked about.

Q - A.J. Rice

Okay. Maybe one final question. Obviously, your cemetery production, preneed production rebounded nicely after somewhat sluggish second quarter. In the second quarter, you were somewhat cautious about the macro backdrop maybe affecting some purchasing decisions. Can you say whether that dynamic is still there? Was the increase in production more a function of plots sold or was it the average price on the plots? Any color on that would be interesting as well.

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

Sure, A.J. So as it relates to that, the one area that really was robust and hasn't changed is let's, call it, the large sale. So large sales are up $10 million year-over-year against a pretty impacted by pandemic last quarter. So that tells that the high-end of the consumer spectrum, it's continuing to shine even with the markets down, which is a little surprising. But again, if you go back to time, I would say, high-end sales probably correlate better with housing prices. And although, we've seen some slowdown, I don't think we're seeing that backtrack yet. So, I guess that shouldn't surprise us too much and we feel really good about it.

The thing we were concerned about was for our other customers, what would happen with selling price and what would happen with velocity. And we got some concerns. Eric touched upon this. But our sales leadership team, Steve and Gerry sat down and said, our impression from getting feedback, when we have a consumer that when you think about a fixed income consumer that's going to have to pay over time, what can we do to not have a resistance point as it relates to closing these deals. And so they came up with some things about warrants and down-payments, some interest price points, and then also identifying inventory that may be a more reasonable transaction for that consumer.

So we took those three things and said, we're going to give you inventory that we can maybe take -- that we want to move, let's finance that for you at a reasonable rate and also give you some relief as it relates to down-payments. So by doing that what we saw is almost flat. It was only slightly down velocity for the third quarter. And in the second quarter we had seen some more disturbing trends. So our belief is, that worked really well. What we tried to do is, we tied those sales to things like getting automatic payments and things like that, but no -- but again assures that we shouldn't see a big dip in cancellations or anything like that. And this isn't the first time we've done, it's just something that I think works at a moment in time and we saw the third quarter and I'd say we continue to see it working out in the fourth quarter so far.

Q - A.J. Rice

Okay, great. Thanks a lot.

Operator

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

Q - Tobey Sommer {BIO 6296228 <GO>}

Thank you. If you could dig into the higher-than-expected funeral sales and events in the quarter a little bit more and what is the math, if you could refresh us, because we get questions about the ongoing but lower level of direct COVID deaths and then the other sort of related factors and maybe offshoots of the pandemic that actually drive deaths higher in other categories? Thanks.

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

Sure, Tobey. It kind of builds upon A.J.'s question, but let me put it in some longer-term perspective on this. If you go back in this industry and particularly with SCI, year-to-year you would see the numbers of deaths -- probably in one year you may be down 1% or 2%, in the next year you're up 1% or 2% which you could predict was pretty good accuracy over a year and over a big footprint like ours what was probably going to happen. And it's impacted by seasonal flu. So in a heavy flu season with a lot of deaths you might be up and then you've got a comparable that's tough, then you might be down slightly. We live that way forever as an industry. 2020 comes along, COVID, game-changer, right. We're having to do at one point of time 20% more funerals which is unheard of in a year versus, let's say, a year or two before.

And so what we're trying to identify is, we know what is COVID and we can carve that out and we believe that's very diminished now and should continue to diminish. And you would -- so what we would have expected is, why wouldn't we go back towards, let's say, a 2019 level, maybe you get a percent or so growth of 2019, I would expect that. So that would be a reasonable level that we think would stabilize. And that's kind of what we anticipated. And I guess what I'm telling you look at the call -- that's why we compare back to 2019. What we're telling you is, the third quarter of this year, we did 15% more calls than we did in the third quarter of 2019. That is not what anybody would have anticipated and that has just a very de minimis amount of COVID deaths in it.

So then you say, is that sustainable. Well, I don't think 15%, but I guess what I'm telling you is, I don't think we're going back to 2019. I think -- and the reason for that is, there is more baby boomers dying. There is an impact from this, call it, unhealthy America concept which really is -- the best way to say it is probably we lack access to getting help. And that would be from mental health issues as well as physical health issues, going to doctor screenings, diabetes, so many things are dragging. And again I love to believe that we are going to get a James Bond tape to go workout tomorrow and everybody is healthy, but the truth is, it takes time and these things are long-term issues. So that is having an impact.

And then finally, I think through this pandemic and because of the way, as a company, our teams reacted, we gained a lot of favor with our local communities. We gave -- identified, made contact with lot of people. If you think about what we've been doing on the preneed side as it relates to leveraging our digital communications with consumers, we're just in a higher profile, higher interactive mode that I think has allowed us to gain some share, particularly in certain geographic markets. So I guess what I'm saying is, go back to those 2019 levels, we're not going there. We're going to be significantly higher I think trending out from here and that's the big aha moment that I don't think we anticipated.

Q - Tobey Sommer {BIO 6296228 <GO>}

Perfect. Thanks. And we'll all have to go track down a VHS machine to watch that video. Could you kind of double-click on that geographic market share gain? Kind of where is that concentrated and is there some sustainable sort of momentum behind that your opinion?

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

Well, again -- and I'll generalize, Tobey, because I think we gained market share in a lot of different places and a lot of different markets, but I'd say it's more noticeable in areas -- we probably saw it more pronounced in the West, more pronounced in places we have combo facilities. And I believe some of that really just has to do with the fact when you think about COVID and we had to do out -- people didn't want to go inside again. We were inviting people to our cemeteries to have a service and they got to see our beautiful grounds. And so a lot of consumers got a glimpse as to what that is. And I believe that triggered some identification to say, boy, that was beautiful. I like that place as people were good.

And I think you had -- because our people were able to pivot and serve client families in unique ways and develop relationships and again a lot more people were impacted by death over the last two years, that really allowed us to shine. And we had situations in regions of the country, both California and New York, where we were so inundated with client families that needed help, we shipped people from across the country. And I think it's extraordinary things like that that build your reputation and brand that allowed us in certain markets. So I'd say it's a little bit everywhere, but we surely saw it in places like Arizona, Nevada, California where you have those great weather and outdoor facilities in Texas. So we feel very good about our position as it relates to market share.

Q - Tobey Sommer {BIO 6296228 <GO>}

Thank you. If I could sneak in a third question, how big is the high end within preneed cemetery sales and could you expand upon that correlation with housing prices? To say, sort of, historically, when you look at that, is it leading, lagging, or sort of coincident with changes in prices?

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

I think it's probably lagging is what we've seen before. I'll give you an example about -- because I think people forget -- lot of times they think about our company, they think, oh, you're a consumer staple business. No, we're consumer discretionary as it relates to preneed, particularly cemetery preneed. So if you go back to 2008, 2009 and what happened, we saw in the third quarter of '08, our comparable sales go down and it concerned us. Then in the first quarter of 2009, they stayed down and it concerned us. In April of 2009, and you'll remember, Tobey, that was -- the low point was March, our sales were up 10%. Now they weren't large sales, they were customers taking care of business. And so what we learned is, our consumer were impacted by the economy, but we're one of the first things people turn back on. They don't buy the big screen TV, but they take care of their family and insurance and these types of deals.

What took a longer bit of time back then was large sales really struggled, I think, in 2009 and even into 2010, because that again correlated with my feeling of wealth. So there's a little bit of -- if I'm particularly at the high end, I'm going to spend more than $80,000, boy, the stock market is going down 20%, doesn't make me feel all well. But I guess the bigger correlation is, are people buying high-end houses, because if they are buying high-end houses, they are probably buying high-end cemetery inventory. And that could be regional, it could be national. So that's the way I'd correlate it. And I think it's a slightly lag. And again, that could happen. We'll manage through it, but large sales have become a significant component of our sales.

Operator

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

Q - Scott Schneeberger {BIO 5302695 <GO>}

Thanks very much. Good morning. Just want to stay on the topic of cemetery preneed sales growth. A strong third quarter after a second quarter that wasn't as strong. And you all just touched on A.J.'s question a bit on the -- what you did with the sales force to invigorate in third quarter. And it sounds like you believe that can persist in the fourth. Could you delve into that a little bit more? Is this something that can persist in fourth quarter and through next year or are these just measures that you are taking that are really more short term in effect? Thanks.

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

Yeah, Scott, great question. I do think we view these as more of a temporary assist for the consumer. I think we are just looking out there and getting feedback from the people that are actually interacting with families. And what we found is, there was a growing portion of families that said, I'm interested, but this is a big ask right now. Gasoline prices are going up, my utility is going up. I don't know that I can afford it yet. So I think this is a response to say, let's find a way to get you what you want. And that's really what this was. So I view it as, as the economic conditions get better, that these are types of things that we won't need to do and we pull back and go back to more traditional.

Because you got to anticipate, as you lower some of these entry points, you're going to have a little bit higher of a cancellation rate. It's going to happen. I don't -- we don't believe it's going to -- we've modeled it, we don't think it's going to be significant. But you want, again, a satisfied family that gets what they wanted. So you're talking about -- in these cases, these are sales that are less than $15,000 and maybe pays over 48 months, 36 months, but finding a way to accommodate a price point that they feel comfortable with. And that's the real -- the endgame. And I would tell you that, as the economy improves, those are probably things that we would turn back.

Q - Scott Schneeberger {BIO 5302695 <GO>}

Okay, thanks. Just along those lines, on cemetery preneed sales growth production now, you had anticipated slightly positive for the full year. By my math, you are trending up mid single digits, which, I guess, is there any change to that outlook with this final quarter to go? It looks like you should achieve your guidance easily if you are down, say, mid single digits. Is that what we should be expecting in the fourth quarter with maybe some drop-off in large value sales and some more drop-off in velocity? Just how should we think about that as we end the year and any commentary you can share about 2023 along the lines of that question? Thanks.

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

I like the optimistic way you think, Scott. Yeah. So I think you are probably right. We want to get a little further before we declare victory at the end of 2022. If trends continue, it could be a little higher than like you anticipate. We just don't know, we don't know. I think as we think about 2023, we believe that we now will go back to the kind of growth rates you'd anticipate off this new base. And the only quarter that I would say there may be a little tough compare, if you go back to the first quarter of last year, we had a really great quarter.

And again, that was -- from a COVID perspective, it was heavily impacted which can generate more leads and you are probably not going to have that same level of lead generation. So I think the first quarter is a tough comp, but as we think about '23, we're going to grow it. We're probably going to grow it in the low single digits. If we're lucky, might be mid single digits is the way we think about that. So we think we've got to this plateau and we're going to grow off of it and very, very pleased with our sales and ops teams and what they have done for our families and what they have done for SCI.

Q - Scott Schneeberger {BIO 5302695 <GO>}

Thanks. Thanks. Appreciate that. One more I'm going to sneak in here. M&A, sounds like you are pretty active here in the fourth quarter. It sounds like you are not at your annual target spend, but think you'll get there. So, Eric, maybe just some thoughts, comments. Is there -- are there some very right things in the pipeline? And if not here in fourth quarter, will 2023 be perhaps a higher-than-expected year for M&A? Thank you.

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

Yeah. I think we feel good about it, Scott. It's the same thing I said last quarter. I mentioned a deal that closed, that was about $40 million. That was just after quarter end. I thought that would close prior to quarter end. So there's always timings that get accelerated and timings that get pushed by weeks is how I'm going to describe it. And that's fine. It's important for us to work with the sellers as best as we can in those situations. But the answer to your question is, we still think it's a robust pipeline. We still believe in the guidance that we've given you out there, that $75 million to $125 million and we feel that we'll end the year being in it. So I'm clearly telegraphing to you a good fourth quarter.

Q - Scott Schneeberger {BIO 5302695 <GO>}

Thanks. And anything policy-wise, regulation-wise that would make '23 different than '22 on the buy and sell-side approach to M&A? Thanks.

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

No, nothing that we know about from a policy perspective.

Q - Scott Schneeberger {BIO 5302695 <GO>}

Okay. Thanks. I'll turn it over. Thank you.

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

Yes.

Operator

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

Q - John Ransom {BIO 1535724 <GO>}

So, Tom, what you are saying is, you haven't looked at a workout media since 1982?

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

Yes.

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

I guess I got caught. You know why, because I make my own video while I am working out.

Q - John Ransom {BIO 1535724 <GO>}

I might subscribe and pay money, $8 a month with you and Elon.

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

Cheaper than Netflix.

Q - John Ransom {BIO 1535724 <GO>}

Yeah. I know you are not -- yes. I know you are not ready to give full guide on '23 the range, but could you kind of help us with kind of the low end versus the high end assumptions? And then just what's the trust income swing factor you are contemplating kind of full year '22 versus '23? Thanks.

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

Sure. So I'll start with kind of the assumptions. As you think through the volumes of next year, we expect to see volumes down, I'd say, probably low to mid single digits as it compares to 2022. And that's predominantly probably going to happen, again, in the first quarter, maybe even some into the second quarter, where you still have a little bit of that, call it, COVID impacted numbers. So overall, slightly down, but again, back to that 2019 comparison, well above 2019 trends.

On the sales side, as you would expect, we feel really good. We think we're back to normal growth levels, which would be, call it, mid single digit type of growth that you would expect us to be able to do year-over-year. And the one -- I'd say the other thing to think about, clearly -- as every company I know of is seeing some wage inflation. We've seen it this year. And again, the way we've tried to manage that is, I'll call it, locally managed and assisted by us, which is saying, if we have wage pressures, let's fix those and get our people right and then let's find a way to get it back in pricing, because again, we're a service business and if our services cost more, then we will be able to pass those along to our consumers. And so we've been very pleased with our ability to do that and feel good about pricing on both sides.

And so the headwinds that Eric has already identified, we've got some variable rate debt. It's not a significant component, but variable rates have gone up pretty aggressively. So we got to factor that in. And to your point, what's really unique about this, if you look -- go back in history, we've seen 20% declines in equity markets before, but never combined with a 20% decline in fixed income market. So it's a very, very unique dip down, so trust incomes getting whacked down, if you will. Now, if you look at any other cycle, we would expect that at some point, it may be '23 or maybe '24, '25, we accelerate and get some of that back. So I don't think we want to play a guess on the timing, but we do -- I think we would anticipate '23 being a favorable year for our trust returns and that's the way we'll think about 2023 guidance.

Q - John Ransom {BIO 1535724 <GO>}

What was the -- what's your estimate best guess for trust fund drag this year and for the full year?

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

Well, I think, we -- yeah, we said this year is -- it impacted us by, call it, $0.20, $0.25 is the decline year-over-year. And for those of you who haven't been around a long time, trust income as a concept is really difficult, because when we describe trust income, it's the cumulative income that was on that contract over 10 years. So it's -- we're always generating trust income. It's just a lower level because of what happened to the market. And so that's the way we think about it. So what would you anticipate for 23? Well, I'm starting from that lower base and I also probably have a little bit of indigestion in the early part of '23, because I didn't -- early contracts of 2022 didn't get impacted by what happened in the third quarter or the second quarter. So you're going to have that unfavorable impact rollout. So maybe think about another $0.06 or $0.07 that could roll into '23, that's a little bit of a wind in our face.

Q - John Ransom {BIO 1535724 <GO>}

Got it. Thank you.

Operator

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

Q - Joanna Gajuk {BIO 16689444 <GO>}

Thank you. Thanks for taking the questions here. So I guess one follow-up actually on the last topic in terms of the lower trust fund returns. So is there any way to think about the headwind to the sales average, like this quarter same-store average was up only 0.6% for the funeral segment. So is there a way to quantify the headwind there?

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

Yeah, I think, Joanna, if you -- in my remarks and I'm doing a little bit of this by estimation, so forgive me. We reported a 1.8% in our funeral average. I think what I pointed out on the comments was, our actual year-over-year increase was 4.7%. I mean, a pretty robust, big beat. Now what happens is you have a 190 basis point decline in what I'll call burial funerals. It's a cremation rate mix change. So that puts 100 or so or 150 bps of pressure on you. The second thing, the trust income, you've identified correctly, it's going to flow through that line item. So that decline in trust income is going to impact the average. And the last one, it really doesn't impact profits very much, but it's worth calling out when I was looking at the results.

We do have Canadian operations. And when you translate of what's happened with the strength of the US dollar, it puts another, call it, I think, it's $50, $80 pressure on the average when you translate back into it. So we had three things that knocked 4.7% down to 1.8%. And again, I think those trends will go back the other way. I do think the market will improve at some point. I think the US dollar at some point will stop rallying against everything else. And it was an unusually high cremation rate change. But Jay is looking at the numbers and said, if you go back to last year, we had a really small -- it was less than 100 basis point change. So this is going to ebb and flow. I don't think anything's changed. We still think 100 to 120 basis points a year is probably a good way to think about the cremation mix change.

Q - Joanna Gajuk {BIO 16689444 <GO>}

Okay. Thank you. That was my actually second follow-up in terms of the cremation. So you view it more as a year-over-year kind of dynamic versus just a change in the market dynamics in terms of people choosing cremations over burials?

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

Exactly. It really kind of ebbs and flows. It was unusual. I think if you looked at really '20 and '21, the cremation, we had a couple of quarters where it actually went the other way. And that is, again, highly unusual. So I guess every 100 year pandemic disrupt tradition.

Q - Joanna Gajuk {BIO 16689444 <GO>}

Sure. Yeah, thank you. And if I might just squeeze a different topic here. So on the FCC front, where they issued this advanced notice of proposed rule-making where they are actually seeking additional comments on how to modify the funeral rule, there was no specific proposals included there. There was only a long list of questions. But what is your sense? Does it change anything or the public session that they hosted, does it change your views around what they might actually consider, including the changes that they might be considering and including here? And also, any sense of the timing of when we will hear back from them on the specific proposal?

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

I'll take that, Joanna. And good morning. Just to refresh everybody's memory, because there's a lot of new people on the call as well. Initial submission was done two years ago, back in June, and that's public information. And you can go look at what we submitted in terms of some of those questions on whether the funeral rule should continue or not continue. We believe it's working and we believe it should continue. So, as part of that, what's important to know is, we submitted independent J.D. Power customer comments and feedback. In fact, we submitted five years of 100,000 per year each. So we've submitted 500,000 individual customers responding to J.D. Powers on these topics. And to refresh everybody's memory, about 91% of the customers rank 9 out of 10 or higher in clarity of pricing. So first message at that point in our submission in June was transparency and pricing exists. Secondly, the high point was probably 75% of the customers believe our prices met or were lower than expectations. So that's just the groundwork that I want to lay for you.

Now fast forward to October, they have issued the advanced notice of proposed rulemaking. They want to keep the FTC funeral rule in place, which makes sense. As part of that ANPR and advancing those proposed rulemaking, they have asked the 40 questions. It was actually published this morning, believe it or not, to the Federal Register. So the 60-day comment period starts today and ends January 3. And you can go online and see what the questions are, but they are very similar. I mean, really where they are going is, should GPLs, the price list be online and what format should they be in line and such.

The one thing that, I guess, we would say that we are disappointed in is that, to change a rule and to regulate it under the codification, you'd think that you need to have some damage to consumers or something happening. And it just appears that, in our data that we submitted independently from customers through J.D. Powers is telling a different story to where they are going. And that's a little bit disappointed. And we just simply don't believe that it's a one size fits all commodity. In fact, we think it's the opposite. The funeral business is highly customized, celebrations of life are getting even more customized and that's where the trend is going and such. And so, does this solve any problem? It doesn't appear that it does, but we'll simply respond accordingly like we have before with data.

In terms of the effect of SCI, which is a great question, we've kind of -- our thoughts haven't changed to what we said before. We do different things online. We tier our customers. A lot of our funeral homes are tiered as well in terms of spending. I think, we have over 450-plus of our funeral homes online that have starting at type prices. We have premium experiences for our more high-end tiers as well. That's probably another 400 of our funeral homes. We have somewhere between 300 to 400 GPLs online ourself. So we're already going down this path.

The most important thing for us is giving clarity, transparency to our consumers, but most importantly, giving it to them in the form that they want based on the tiers of those individual funeral homes and such, which could be different. And of course, we strongly believe that meeting with them to help customize their celebration of life is very important. But the punchline is, in all of this, we just haven't seen any type of effect that we would consider material. So if this ANPR went into effect and it went down that path, I think we've been consistent for a couple of years and, fast forward today, we continue to believe that we just don't think that's a material effect to our business going forward from an EPS or cash flow or market share, anything along those lines perspective, Joanna.

Q - Joanna Gajuk {BIO 16689444 <GO>}

No, I appreciate that comment and thanks for taking the questions.

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>}

I want to thank everybody for being here today. Have a great end of the year. Be careful out there. And we look forward to seeing you next year in February to talk about our full-year 2022 and fourth quarter results. Thanks.

Operator

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