



## Service Corporation International Announces 1998 Fourth Quarter and Year End Results

February 9, 1999

HOUSTON, Feb. 9 /PRNewswire/ -- Service Corporation International (NYSE: SRV), the world's largest funeral and cemetery company, today reported results for the twelve month and three month periods ended December 31, 1998.

Twelve Months Ended December 31, 1998 (Compared to same period 1997)	
Revenues	\$2.875 billion up 13.4% from \$2.536 billion
Net Income	\$342.1 million up 2.5% from \$333.8 million
Diluted earnings per share	\$1.31 unchanged from \$1.31

Three Months Ended December 31, 1998 (Compared to same period 1997)	
Revenues	\$773.5 million up 16.2% from \$665.9 million
Net Income	\$59.2 million down 35.6% from \$91.9 million
Diluted earnings per share	\$0.23 down 36.1% from \$0.36

Commenting on the results, Robert L. Waltrip, Chairman and Chief Executive Officer, said: "Since our preliminary announcement on January 26, 1999, our senior management team has worked extensively to identify, analyze and address the issues which caused our fourth quarter earnings to come in below expectations. We are committed to increasing revenues and improving efficiency throughout our operations. Our expanding prearranged funeral activity will continue to benefit our shareholders because it adds economic value today, even though associated revenues, profits and earnings per share are deferred until the services are actually performed."

SCI's President and Chief Operating Officer, L. William Heiligbrodt, added: "For many years, SCI has produced solid earnings and value for our shareholders, and we are disappointed that this did not prove to be the case during the fourth quarter of 1998. We experienced an unexpectedly low level of funeral and cemetery revenues while operating and overhead costs had been geared to the expected revenue levels. The outlook for our Company, however, is a positive one. SCI is a strong business and we are implementing a number of strategic initiatives to return the Company to where we all want it to be."

### EXPLANATION OF EARNINGS SHORTFALL

There were a number of factors of unanticipated magnitude that combined during the fourth quarter to contribute to earnings falling short of expectations:

- Comparable funeral revenue decreased 2.7% from the same period in 1997, generating \$21 million less in revenue than expected. This was caused in part by weak death rates. In addition, the average price of funerals booked in the fourth quarter was lower than anticipated due to a changing profile in the sales mix with an increase in the proportion of funerals from preneed contracts going at need and an increase in the number of cremations.
- Lower than anticipated revenues, coupled with planned increases in our cost base, disproportionately affected earnings. The costs and expenses were associated with necessary investments in acquired properties and our underlying businesses.
- Fewer preneed cemetery contracts were sold in 1998, resulting in a \$19.5 million shortfall in preneed cemetery revenue in North America. This resulted primarily from a shortage of cemetery sales staff combined with disappointing performance.
- Under-performance by some acquired and constructed businesses, primarily in North America, contributed to \$7.5 million in lower than expected revenues.

### MANAGEMENT INITIATIVES

The Company has undertaken a number of initiatives to enhance regional management's ability to grow revenues in existing locations. These include continued investment in training, marketing and technology. During 1999, 350 cluster managers and 300 sales managers are scheduled to undergo training designed to assist them in managing operations more efficiently and increasing revenues through marketing initiatives. In addition, a senior marketing professional is being appointed to spearhead Company-wide marketing programs of at need and preneed funeral and cemetery sales. Where appropriate, the marketing programs will incorporate value package funerals that will enable many SCI affiliated homes to capture sales in the lower priced funeral market. Further, the roll out of EVA(R) at the operational level will help improve working capital management and efficiency improvements in the field.

These marketing initiatives will assist us in our aim to more than double annual prearranged funeral sales to approximately \$1.3 billion by the end of 2003, further locking in future market share.

### 1998 FOURTH QUARTER REVIEW

#### Funeral

Compared to the fourth quarter of 1997, funeral segment revenues increased 5.9 percent to \$477.5 million. Funeral segment profits fell \$33.9 million to \$76.0 million, a decrease of 30.8 percent. Funeral segment margins for the fourth quarter of 1998 fell to 15.9 percent, compared to 24.4 percent in the same period of 1997. For the year ended December 31, 1998, funeral segment revenues were \$1.829 billion compared to \$1.720 billion. Funeral

segment profits were \$384.6 million versus \$401.4 million in 1997, while margins fell 230 basis points to 21.0 percent, compared to 23.3 percent for the year ended 1997.

During the fourth quarter of 1998, sales of prearranged funeral contracts increased by 26.2 percent to approximately \$172.4 million, which expanded the backlog of prearranged funeral contracts to be serviced in future periods to approximately \$3.5 billion. For the full year, sales of prearranged funeral contracts totaled \$592.8 million, up 5.5% compared to \$561.7 million in 1997. Revenues and associated investment earnings from such contracts are deferred and will be recognized during the periods in which the funeral services are actually performed. In 1998, deferred investment earnings and merchandise sales were approximately \$200 million and \$264 million, respectively.

#### Cemetery

Compared to the fourth quarter of 1997, cemetery segment revenues increased 12.7 percent to \$210.5 million. Cemetery segment profits fell \$15.0 million to \$55.8 million, a decrease of 21.2 percent, reflecting increased cemetery costs, primarily overhead and maintenance at existing cemeteries, as well as investment returns unchanged from prior year levels from the cemetery merchandise and endowment care trust funds. Cemetery segment margins fell to 26.5 percent, compared to 37.9 percent for fourth quarter of 1997. For the year ended December 31, 1998, cemetery segment revenues were \$846.6 million compared to \$724.9 million in 1997. Cemetery segment profits were \$306.2 million versus \$271.9 million in 1997, while margins tightened 130 basis points to 36.2 percent, compared to 37.5 percent for the year ended 1997.

#### Financial Services

SCI Financial Services performed in line with Company expectations during the fourth quarter of 1998. Revenues of \$85.5 million were reported and profits for the segment were \$9.5 million. For the year, segment revenues were \$199.4 million, an increase of \$108.6 million from 1997, of which \$81.2 million was related to the acquisition of American Memorial Life Insurance Company from July 1, 1998. Segment profits were \$28.0 million in 1998 compared to \$14.3 million in 1997.

#### Costs and Expenses

General and administrative costs decreased 2.3 percent for the fourth quarter of 1998 to \$17.2 million as compared to the same period in 1997. For the year ended December 31, 1998, general and administrative costs were unchanged from 1997 at \$66.8 million, or 2.3 percent of revenues, compared to 2.6 percent of revenues, for the prior year.

Interest expense for the fourth quarter of 1998 increased \$14.7 million to \$51.1 million, as a result of increased indebtedness related to acquisitions. For the year ended December 31, 1998, interest expense was \$177.1 million, or 6.2 percent of revenues, compared to \$136.7 million, or 5.4 percent of revenues, for the prior year.

#### Acquisition Activity

During the fourth quarter, the Company acquired 53 funeral service locations, 17 cemeteries and 4 crematoria at a cost of \$178 million. These businesses are expected to produce approximately \$63 million in annualized revenues, including \$13 million from North American operations and \$50 million from operations outside North America.

During 1998, SCI acquired 308 funeral service locations, 47 cemeteries and 18 crematoria at a cost of \$784 million. These businesses are expected to produce approximately \$296 million in annualized revenues, including \$121 million from North American operations and \$175 million from operations outside North America.

#### Litigation

The Company also announced today that several class action lawsuits have been commenced on behalf of persons who (i) acquired shares of Company common stock in the merger of a wholly owned subsidiary of the Company with and into Equity Corporation International or (ii) purchased shares of Company common stock during certain specified class periods. The lawsuits allege violations of the federal securities laws and name as defendants the Company and certain of its officers and directors. The lawsuits refer to the Company's January 26, 1999 public announcement that the Company's diluted earnings per share for the fourth quarter of 1998 and for the year ended December 31, 1998 would be lower than analyst expectations. The lawsuits seek, among other things, to recover unspecified damages. The Company believes that the allegations in the lawsuits do not provide a basis for the recovery of damages because the Company has made all required disclosures on a timely basis. The Company has initiated aggressive action to defend these lawsuits.

As of December 31, 1998, SCI operated 3,442 funeral service locations, 433 cemeteries and 191 crematoria. SCI provides funeral and cemetery services in 20 countries on five continents.

#### Cautionary Statement on Forward-looking Statements

The statements contained in this release that are not historical facts are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements may be accompanied by words such as "believe," "expect," "anticipate," or "predict," that convey the uncertainty of future events or outcomes. These statements are based on assumptions that the Company believes are reasonable; however many important factors could cause the Company's actual results in the future to differ materially from the forward-looking statements made herein and in any other documents or oral presentations made by, or on behalf of, the Company. Important factors which could cause actual results to differ materially from those in forward-looking statements include, among others, the following:

- 1) Changes in general economic conditions both domestically and internationally impacting financial markets (e.g. marketable security values as well as currency and interest rate fluctuations).
- 2) Changes in domestic and international political and/or regulatory environments in which the Company operates, including tax and accounting policies. Changes in regulations may impact the Company's ability to enter or expand new markets.
- 3) Changes in consumer demand for the Company's services caused by several factors such as changes in local death rates, cremation rates, competitive pressures and local economic conditions.

4) The Company's ability to identify and complete additional acquisitions on terms that are favorable to the Company, to successfully integrate acquisitions into the Company's business and to realize expected cost savings in connection with such acquisitions. The Company's future results may be materially impacted by changes in the level of acquisition activity.

The Company assumes no obligation to publicly update or revise any forward-looking statements made herein or any other forward-looking statements made by the Company.

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Other Service Corporation International and press releases are available through Company News On-Call by fax, 800-758-5804, extension 104532, or at <http://www.prnewswire.com> or SCI's homepage: <http://www.sci-corp.com>.

SERVICE CORPORATION INTERNATIONAL  
CONSOLIDATED STATEMENT OF INCOME  
(Thousands, except per share amounts)

	Three Months Ended		Twelve Months Ended	
	December 31,		December 31,	
	1998	1997	1998	1997
Revenues:				
Funeral	\$477,533	\$450,945	\$1,829,136	\$1,720,291
Cemetery	210,463	186,709	846,601	724,862
Financial services	85,500	28,197	199,353	90,712
	773,496	665,851	2,875,090	2,535,865
Cost and expenses:				
Funeral	401,548	341,095	1,444,529	1,318,920
Cemetery	154,667	115,944	540,440	452,965
Financial services	76,035	24,307	171,351	76,368
	632,250	481,346	2,156,320	1,848,253
	141,246	184,505	718,770	687,612
General and administrative expense	(17,158)	(17,566)	(66,839)	(66,781)
Income from operations	124,088	166,939	651,931	620,831
Interest expense	(51,063)	(36,355)	(177,053)	(136,720)
Dividends on preferred securities of SCI				
Finance LLC	---	---	---	(4,382)
Other income	8,383	10,982	43,649	32,167
Gain on sale of investment	---	---	---	68,077
	(42,680)	(25,373)	(133,404)	(40,858)
Income before income taxes and extraordinary loss	81,408	141,566	518,527	579,973
Provision for income taxes	22,213	49,686	176,385	205,421
Net income before extraordinary loss	59,195	91,880	342,142	374,552
Extraordinary loss on early extinguishment of debt (net of \$23,383 income taxes)	---	---	---	(40,802)
Net income	\$59,195	\$91,880	\$ 342,142	\$ 333,750

## Earnings per share:

## Basic:

Income before extraordinary loss	\$ 0.23	\$ 0.36	\$ 1.34	\$ 1.53
Extraordinary loss on early extinguishment of debt	---	---	---	(0.17)
Net income	\$ 0.23	\$ 0.36	\$ 1.34	\$ 1.36

## Diluted:

Income before extraordinary loss	\$ 0.23	\$ 0.36	\$ 1.31	\$ 1.47
Extraordinary loss on early extinguishment of debt	---	---	---	(0.16)
Net income	\$ 0.23	\$ 0.36	\$ 1.31	\$ 1.31

Basic weighted average number of shares	258,063	252,112	256,271	245,470
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Diluted weighted average number of shares	263,155	259,278	262,520	257,781
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## Geographic segment information was as follows:

(Dollars in thousands)

	North America	France	Other European	Other Foreign
Revenues:				
Three months ended December 31:				
1998	\$ 490,034	\$ 175,296	\$ 77,921	\$ 30,245
1997	429,186	151,454	62,156	23,055
Change from prior year	\$ 60,848	\$ 23,842	\$ 15,765	\$ 7,190
Percentage change from prior year	14.2%	15.7%	25.4%	31.2%

Twelve months  
ended December 31:

1998	\$1,877,294	\$ 621,359	\$ 266,678	\$ 109,759
1997	1,658,398	554,648	225,087	97,732
Change from prior year	\$ 218,896	\$ 66,711	\$ 41,591	\$ 12,027
Percentage change from prior year	13.2%	12.0%	18.5%	12.3%

## Income from operations:

Three months  
ended December 31:

1998	\$ 91,573	\$ 19,293	\$ 7,335	\$ 5,887
1997	129,633	18,248	14,160	4,898
Change from prior year	\$ (38,060)	\$ 1,045	\$ (6,825)	\$ 989
Percentage change from prior year	-29.4%	5.7%	-48.2%	20.2%

Twelve months  
ended December 31:

1998	\$ 517,560	\$ 71,499	\$ 35,666	\$27,206
1997	490,430	55,332	46,371	28,698
Change from prior year	\$ 27,130	\$ 16,167	\$ (10,705)	\$ (1,492)
Percentage change from prior year	5.5%	29.2%	-23.1%	-5.2%

Operating income margin:

Three months

ended December 31:

1998	18.7%	11.0%	9.4%	19.5%
1997	30.2%	12.0%	22.8%	21.2%

Twelve months

ended December 31:

1998	27.6%	11.5%	13.4%	24.8%
1997	29.6%	10.0%	20.6%	29.4%

Funeral services performed:

Three months

ended December 31:

1998	66,731	36,812	31,957	7,256
1997	64,744	36,675	26,534	7,145

Percentage change

from prior year

3.1%	0.4%	20.4%	1.6%
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Twelve months

ended December 31:

1998	263,094	147,994	117,776	29,946
1997	252,643	148,223	102,985	29,278

Percentage change

from prior year

4.1%	-0.2%	14.4%	2.3%
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Number of locations

at December 31:

1998	1,843	1,214	840	169
1997	1,720	1,101	704	160

SOURCE Service Corporation International

Web site: <http://www.sci-corp.com>

Company News On-Call: <http://www.prnewswire.com/comp/104532.html> or fax, 800-758-5804, ext. 104532

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