



Service Corporation International Announces Second Quarter Results of \$.28 Per Diluted Share, Revised Outlook for Remainder of 1999 and New Strategic Revenue and Marketing Initiatives

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HOUSTON, July 29 /PRNewswire/ -- Service Corporation International (NYSE: SRV), the world's largest funeral and cemetery company, today reported results for the second quarter of 1999. For the three months ended June 30, 1999, the Company reported revenues of \$830.2 million, net income of \$76.0 million and diluted earnings per share of \$.28 (\$.28 basic). Before non-recurring items reported in the first quarter of 1999 related to the Company's cost rationalization program and early extinguishment of debt, the Company reported revenues of \$1,734.3 million, earnings of \$175.1 million and diluted earnings per share of \$.64 (\$.64 basic) for the six months ended June 30, 1999.

For the three months ended June 30, 1998, the Company reported revenues of \$690.2 million, net income of \$90.9 million and diluted earnings per share of \$.35 (\$.36 basic). For the six months ended June 30, 1998, the Company reported revenues of \$1,389.1 million, net income of \$199.7 million and diluted earnings per share of \$.77 (\$.78 basic).

1999 SECOND QUARTER HIGHLIGHTS

The Company indicated the following factors contributed to the reported results of the second quarter of 1999:

-- Comparable funeral service volume for the Company's worldwide funeral operations was 1.8% below comparable funeral service volume for the second quarter of 1998. Comparable funeral service volume for North America in the second quarter of 1999 was equivalent to the comparable funeral service volume in the second quarter of 1998. Comparable funeral service volume in the Company's France and United Kingdom funeral service locations for the second quarter of 1999 was 2.3% and 5.6% below the second quarter of 1998, respectively.

-- The average revenue per funeral service for all locations in North America increased approximately 1.7% per funeral in the second quarter of 1999 when compared to the second quarter of 1998. On a comparable location basis, the average revenue per funeral service in North America decreased approximately 1% when compared to the second quarter of 1998. The average revenue per funeral service from comparable locations in France and the United Kingdom in the second quarter of 1999 increased .4% and decreased 6.9%, respectively, compared to the second quarter of 1998, partially reflecting negative foreign currency fluctuations.

-- Foreign currency fluctuations versus Company expectations negatively impacted revenues and income from operations for the second quarter of 1999 by approximately \$23.3 million and \$3.2 million, respectively, which negatively impacted pretax income by approximately \$2.2 million after giving effect to the Company's foreign currency hedging programs.

-- Realized investment earnings and capital gains related to cemetery trust funds were \$20.6 million in the second quarter of 1999 compared to \$23.7 million for the same period of 1998. For the six months ended June 30, 1999, the realized investment earnings and capital gains related to cemetery trust funds were \$14.1 million below reported levels for the same period in 1998.

-- In the second quarter of 1999, total preneed cemetery revenues in North America increased 8.2% to \$129.9 million compared to \$120.0 million reported for the same period of 1998. Preneed and atneed cemetery revenues at comparable locations in North America declined 3% compared to the same period of 1998.

-- The Company's consolidated gross margin was 21.6% (17.1% funeral, 32.7% cemetery, 14.2% financial services) for the second quarter of 1999 compared to 27.2% (20.7% funeral, 41.9% cemetery, 15.9% financial services) for the second quarter of 1998.

Commenting on the Company's results, SCI Chairman, Chief Executive Officer and President, R. L. Waltrip, said:

"We continue to focus on our core businesses and remain committed to maintaining and increasing market share in our domestic and international markets. We are implementing strategic pricing initiatives in our North America markets designed to increase market share. Maintaining and increasing market share is the key driver to future results for SCI, especially in the periods where global death rates become volatile, and enables our Company to leverage our unparalleled existing distribution network. These initiatives appear to be working as planned to improve comparable funeral market share."

FIRST HALF OF 1999 RESULTS

Funeral

Funeral segment revenues for the second quarter of 1999 increased 7.8% to \$483.2 million compared to the second quarter of 1998. Funeral segment gross profits for the second quarter of 1999 decreased 10.8% to \$82.8 million compared to the same period of 1998.

North America comparable locations performed 60,525 funeral services during the second quarter of 1999, compared to 60,539 comparable funeral services performed in the second quarter of 1998, in line with Company expectations. The Company believes its North America comparable funeral service operations are maintaining or growing their market share, especially in light of available U. S. government statistics which have indicated weakened U.S. death rates in the latter half of the second quarter of 1999.

After experiencing strong mortality rates in the first quarter of 1999 in the Company's two most significant international markets, France and the United Kingdom experienced a general weakness in deaths in the second quarter of 1999. The mortality weakness negatively impacted comparable funeral service volume for the Company in France and the United Kingdom in the second quarter of 1999. On a comparable basis, the Company's French operations performed 33,238 funeral services in the second quarter of 1999 compared to 34,030 funeral services in the same period of 1998, while

17,837 funeral services were performed in the second quarter of 1999 in the United Kingdom compared to 18,905 funeral services performed in the same period of 1998. The Company believes the comparable funeral service volume weakness experienced in the second quarter of 1999 is primarily mortality driven. The Company's market share in both France and the United Kingdom was slightly greater than the first quarter of 1999. Comparable funeral service volume in the second quarter of 1999 in the Company's Pacific Rim, South America and Other Continental Europe operations totalled 12,212 funeral services compared to 12,663 funeral services performed in the same period of 1998.

The average revenue per funeral service in the Company's France and United Kingdom funeral service locations for the second quarter of 1999 was in line with the Company's expectations. Before the negative effect of foreign currency fluctuations, the average revenue per funeral service in France was 3.7% greater in the second quarter of 1999 compared to the same period of 1998. The average revenue per funeral service in local currency in the second quarter of 1999 in the United Kingdom was 4.7% less than the second quarter of 1998, which was anticipated due to strategic pricing reductions implemented in the third quarter of 1998 previously disclosed by the Company.

The average revenue per funeral service in North America for the second quarter of 1999 of \$3,885 increased approximately 1.7% over the same period of 1998, but was lower than Company expectations. The shortfall from original expectations was primarily due to the implementation of strategic pricing initiatives and lower revenue generated from cremation services. Strategic pricing initiatives are aimed at maintaining and increasing market share in existing funeral markets. While the mix of cremation services as a percentage of total funeral services performed was in line with Company expectations, the number of cremations with memorialization services versus immediate cremation was less than expected. The average revenue per case for an immediate cremation is less than the average revenue for a cremation with a memorial or other type of service.

The Company experienced negative pressure on global funeral service gross margin in the second quarter of 1999. The Company's funeral segment gross margin decreased to 17.1% in the second quarter of 1999 from a gross margin of 20.7% in the same period of 1998. The decrease in funeral gross margin in the second quarter of 1999 was primarily related to increased operating expenses in North America, expected lower margins in businesses acquired in the Equity Corporation International transaction primarily related to the amortization of names and reputations, higher information technology costs worldwide related to the Company's year 2000 preparation and lower operating margins related to monument sales in the Company's funeral service operations in France.

Cemetery

Cemetery segment revenues for the second quarter of 1999 increased 18.6% to \$257.2 million compared to the second quarter of 1998. Cemetery revenues in North America in the second quarter of 1999 increased 12.8% to \$224.2 million compared to the second quarter of 1998, primarily as a result of an 8.2% increase in total preneed cemetery sales in North America, quarter over quarter, related to newly acquired cemeteries. Cemetery revenues in the Company's South America operations increased \$11.8 million to \$17.6 million in the second quarter of 1999 compared to the same period of 1998.

Cemetery segment gross profits decreased approximately \$6.8 million to \$84.0 million for the second quarter of 1999 compared to the same period of 1998. Cemetery segment gross margin decreased to 32.7% in the second quarter of 1999 from a gross margin of 41.9% in the same period of 1998. The decrease in gross profits and gross margin in the Company's cemetery operations in the second quarter of 1999 was primarily related to the shortfall in realized investment earnings and capital gains from cemetery trust funds, an increase in property and merchandise costs and selling and commission expenses. The increased expenses relate to a change in product mix reflecting the preneed sales of heritage cemetery property such as lots, lawn crypts and mausoleum spaces. The Company believes this strategy will help increase market share in its North America cemetery operations. As a component of total preneed cemetery sales, the Company stated that preneed sales related to cemetery property were approximately 260 basis points higher in the second quarter of 1999 when compared to the percentage of total preneed cemetery property sold in the same period of 1998, resulting in higher commission expenses and property cost of sales in the Company's North America cemetery operations.

Financial Services

SCI Financial Services performed above Company expectations in the second quarter of 1999 with revenues of \$89.9 million and gross profits of \$12.8 million. This represents a 10.5% and 8.3% increase in revenues and gross profits, respectively, over Company expectations. The performance over expectations was primarily related to the acquisition in July 1998 of American Memorial Life Insurance Company (AMLIC). Revenues from AMLIC have exceeded expectations due to the significant increase in prearranged funerals sold by the Company using funding from AMLIC life insurance policies. Approximately \$56.8 million of the \$89.9 million total reported revenues for SCI Financial Services in the second quarter of 1999 are derived from AMLIC. For the second quarter of 1998, SCI Financial Services reported revenues of \$25.0 million and gross profits of \$4.0 million.

Prearranged Funeral

In the second quarter of 1999, the Company's net sales of prearranged funeral contracts increased 25.8% to approximately \$165 million compared to \$131.2 million in the second quarter of 1998, which expanded the backlog of prearranged funeral contracts to be serviced in future periods to approximately \$4.2 billion. The increase is attributable to a 20% increase in North America prearranged funeral sales and a 77% increase in prearranged funeral sales in France. The French prearranged funeral sales increase is primarily related to agreements with affinity partners. The Company believes the sales of prearranged price guaranteed funeral contracts is a key strategy to maintain and increase future market share in the Company's funeral operations.

Approximately 28.9% of the funeral services performed during the second quarter of 1999 in comparable North America funeral service locations were previously prearranged funeral contracts compared to 26.4% in the second quarter of 1998. The average revenue per funeral service in the second quarter of 1999 related to prearranged funeral contracts becoming atneed funeral services was \$3,479, approximately 5.6% per average funeral service greater when compared to the same period of 1998. This average revenue per funeral service increase is primarily attributed to increased investment earnings from such prearranged funeral contracts, as well as the Company's emphasis on selling prearranged funeral contracts in greater volumes in its North America markets. The revenues and deferred investment earnings from prearranged funeral contracts are recognized by the Company during the periods in which the funeral services are actually performed.

Acquisition Activity

Exclusive of the Company's merger with Equity Corporation International in January 1999, the Company, as of July 21, 1999, acquired in 1999 (or received Letters of Intent to acquire) 91 funeral service locations, 15 cemeteries and 3 crematoria for an aggregate purchase price of \$109.6 million. These businesses are expected to produce annualized revenues of \$67.9 million (\$48.3 million funeral and \$19.6 million cemetery). The average

projected EBIT multiple for these businesses is expected to be approximately 6.4 times. Approximately \$29.6 million and \$38.3 million of the above annualized revenues are related to the Company's North America and International operations, respectively, and approximately \$8.8 million and \$8.4 million of projected EBIT is related to North America and International operations, respectively.

During the second quarter of 1999, the Company closed transactions to acquire 31 funeral homes and 5 cemeteries for an aggregate purchase price of \$30.9 million. These businesses are expected to produce annualized revenues of \$17.5 million (\$14.8 million funeral and \$2.7 million cemetery), \$4.9 million of which in North America and \$12.6 million outside of North America.

Other Costs and Expenses

For the second quarter of 1999, general and administrative expenses decreased 2.6% to \$16.8 million compared to the second quarter of 1998. The decrease was related to reduced corporate expenses as a result of the restructuring in the first quarter of 1999 and was partially offset by increased professional fees and information technology costs. As a percentage of total revenues, general and administrative expenses were 2.0% in the second quarter of 1999 compared to 2.5% in the second quarter of 1998.

Interest expense for the second quarter of 1999 increased \$16.3 million to \$56.8 million from \$40.5 million in the second quarter of 1998. The increase in interest expense is primarily related to increased indebtedness as a result of business acquisitions consummated subsequent to the second quarter of 1998.

REVISED OUTLOOK FOR REMAINDER OF 1999

Factors currently affecting the Company's outlook for the remainder of 1999 include the following:

- Lower expectations regarding average revenue per funeral service in North America due to strategic initiatives and mix of funeral services. Compared to the second quarter of 1999, the Company expects the average revenue per funeral service in North America to remain relatively flat in the third quarter of 1999 and increase approximately 1% to 2% in the fourth quarter of 1999. The expected number of comparable funeral services performed in North America for the remainder of 1999, while improved in the first six months of 1999, is not expected to completely offset lower average revenues per funeral service.
- While the Company anticipates the level of cemetery revenues to be in line with Company expectations, the cemetery gross margin is expected to be affected by a continued emphasis on property sales in the cemetery product mix sold in North America.
- Net gains on sales of assets included in Other Income is now anticipated for the remainder of 1999 to be below original Company expectations which were previously targeted in line with 1998 reported levels.
- Global annualized revenues acquired in 1999 are anticipated to be approximately \$80 million less than original Company expectations.
- The negative impact of foreign currency fluctuations experienced by the Company in the first six months of 1999 is expected to continue through the remainder of the year.

Based on the above factors, the Company currently expects to report full year 1999 diluted earnings per share in the range of \$1.14 to \$1.20, before non-recurring items reported in the first quarter of 1999.

KEY STRATEGIC INITIATIVES

The Company initiated a business improvement program in 1999 to enhance the operational efficiency of the Company by focusing on, among other things, re-engineering the Company's key business processes to eliminate redundant functions and operational processes, optimizing the Company's cluster operations to enhance service to its customers and maximizing the Company's procurement capabilities. Accordingly, the Company has continued to focus on a variety of cost management and revenue enhancement programs in areas where opportunity for improvement exists and that, when implemented, will place the Company in an even stronger competitive position.

In the first quarter of 1999, the Company reported a restructuring charge of \$89.9 million on a pretax basis which is expected to produce future pretax annualized cost savings of at least \$60 million when coupled with other cost reduction initiatives. The cost initiatives continue to be implemented throughout the Company's worldwide operations. By the end of 1999, the Company expects cost initiatives to be in place which will produce approximately \$54 million in annualized cost savings. This amount is in line with the Company's original expectations announced earlier in 1999.

Commenting on the Company's key strategic initiatives, SCI Senior Executive Vice President of Global Funeral and Cemetery Operations, Jerald L. Pullins, said:

"Our operational priority today is to grow our business internally by continuing to provide exceptional customer service, constantly seeking means to add value to client families and operating our businesses in the most cost effective way possible. The initiatives we have begun to implement in North America are similar to programs we have underway in Europe which are expected to increase efficiency by reducing the number of clusters and streamlining management systems. The success of our key strategic initiatives begun in 1998 and 1999 is critical to our future competitiveness and will be continually reviewed over time to ensure their success. While acquisitions will continue to be a viable aspect of our growth formula, the key strategic initiatives we are introducing will play an increasing role in our future growth and should allow SCI to produce double digit earnings growth with significant focus on internal sources." Operationally, the Company has initiated a number of new revenue programs designed to replace historic revenue growth generated primarily through acquisitions with internal revenue growth, representing new families selecting SCI locations and the selection of products and services previously unavailable through SCI locations.

These initiatives include the continued development of affinity relationships internationally and in North America. SCI is uniquely positioned with an unparalleled distribution system to serve large groups and currently has over fifteen existing, exclusive relationships worldwide with affinity groups serving the maturing worldwide population. While most of these relationships are with insurance companies specializing in final expense policies, a number are with non-insurance entities with aging memberships.

The Company is also introducing "packaged" funeral plans covering a range of burial and cremation options. These plans, offered at need and prearranged, are designed to provide affordable options to a broad range of consumers under SCI's recently introduced Dignity Memorial Plan brand

name.

SCI is expanding its successful, European direct marketing of funeral prearrangement in North America. This program complements existing funeral prearrangement sales programs with trust and insurance funded prearrangement alternatives offered through mail, television and a variety of print media. Direct marketing efforts are expected to significantly increase the number of prearrangements sold in North America directly by the Company and through affinity group relationships.

In response to the increasing selection of cremation by consumers in North America, SCI has continued to expand the selections of products and services in this important segment. National Cremation Society(R), the largest exclusive branded provider of cremation services in North America has been established as a division under separate management. The Company's funeral service locations have introduced an expanded range of cremation products and services available to atneed families and seventy-six cremation memorialization gardens have been opened in SCI cemeteries serving high cremation markets where SCI operates both funeral homes, cemeteries and crematoria. These developments represent the Company's most efficient land utilization for memorialization and, as a group, rank among the Company's highest performing developments.

CAUTIONARY STATEMENT ON FORWARD-LOOKING STATEMENTS

The statements contained in this press 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," "estimate," "project," "expect," "anticipate," or "predict," that conveys 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 of the Company 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) that could negatively affect the Company, especially the Company's anticipated cemetery trust revenues and international operations.
- 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 into or expand in new markets.
- 3) Changes in consumer demand and/or pricing for the Company's products and 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 and integration of these businesses subsequent to acquisition.
- 5) The Company's ability to successfully implement certain cost initiatives, including the cost initiatives previously announced during the first quarter of 1999, as well as changes in domestic and international political and/or regulatory environments which could negatively effect the implementation of the Company's cost initiatives.
- 6) The Company's ability to increase volume through its facilities via its strategic marketing and revenue initiatives.
- 7) The Company's ability to successfully leverage its substantial purchasing power with certain vendors of the Company.
- 8) The ability of the Company, or its critical third party suppliers, to adequately complete "Y2K" preparation efforts. "Y2K" refers to the inability of some computer programs and computer-based microprocessors to correctly interpret the century from a date in which the year is represented by only two digits.

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.

As of June 30, 1999, SCI affiliates operated 3,824 funeral service locations, 520 cemeteries and 198 crematoria. SCI provides funeral and cemetery services in 20 countries on five continents.

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		Six Months Ended	
	June 30,		June 30,	
	1999	1998	1999	1998
Revenues:				
Funeral	\$483,178	\$448,365	\$1,057,819	\$ 918,327
Cemetery	257,168	216,828	509,026	422,769
Financial services	89,890	25,037	167,447	47,978
	830,236	690,230	1,734,292	1,389,074
Cost and expenses:				
Funeral	400,403	355,522	844,024	694,958

Cemetery	173,147	125,964	347,205	250,652
Financial services	77,101	21,054	144,607	39,646
	650,651	502,540	1,335,836	985,256
	179,585	187,690	398,456	403,818
General and administrative expense	(16,807)	(17,251)	(36,517)	(34,259)
Restructuring Charge	---	---	(89,884)	---
Income from operations	162,778	170,439	272,055	369,559
Interest expense	(56,761)	(40,464)	(114,209)	(78,174)
Other income	12,780	10,528	27,368	17,179
	(43,981)	(29,936)	(86,841)	(60,995)
Income before income taxes and extraordinary gain	118,797	140,503	185,214	308,564
Provision for income taxes	42,784	49,555	67,318	108,830
Net income before extraordinary gain	76,013	90,948	117,896	199,734
Extraordinary gain on early extinguishments of debt (net of income taxes of \$1,071)	---	---	1,885	---
Net income	\$ 76,013	\$ 90,948	\$ 119,781	\$ 199,734

Earnings per share:

Basic:

Income before non-recurring items	\$.28	\$.36	\$.64	\$.78
Restructuring Charge	---	---	(.21)	---
Extraordinary gain on early extinguishments of debt	---	---	.01	---
Net income	\$.28	\$.36	\$.44	\$.78

Diluted:

Income before non-recurring items	\$.28	\$.35	\$.64	\$.77
Restructuring Charge	---	---	(.21)	---
Extraordinary gain on early extinguishments of debt	---	---	.01	---
Net income	\$.28	\$.35	\$.44	\$.77

Basic weighted average number of shares	272,013	255,004	272,502	254,820
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Diluted weighted average number of shares	274,587	261,740	275,012	261,754
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Geographic segment information was as follows:

(Dollars in thousands)

	North America	France	Other Europe	Other Foreign
Revenues:				
Three months ended June 30				
1999	\$ 574,257	\$ 141,330	\$ 72,133	\$ 42,516
1998	442,651	159,005	62,680	25,894
Change from prior year	\$ 131,606	\$ (17,675)	\$ 9,453	\$ 16,622
Percentage change from prior year	29.7%	-11.1%	15.1%	64.2%

Six months

ended June 30:				
1999	\$ 1,186,575	\$ 309,908	\$ 160,865	\$ 76,944
1998	916,690	298,093	126,014	48,277
Change from prior year	\$ 269,885	\$ 11,815	\$ 34,851	\$ 28,667
Percentage change from prior year	29.4%	4.0%	27.7%	59.4%

Income from operations:

Three months ended June 30 (1999 amounts exclude effect of Restructuring Charge):

1999	\$ 127,108	\$ 14,977	\$ 8,558	\$ 12,135
1998	138,784	18,426	7,358	5,871
Change from prior year	\$ (11,676)	\$ (3,449)	\$ 1,200	\$ 6,264
Percentage change from prior year	- 8.4%	-18.7%	16.3%	106.7%

Six months ended June 30 (1999 amounts exclude effect of Restructuring Charge):

1999	\$ 285,176	\$ 35,724	\$ 22,333	\$ 18,706
1998	308,959	30,882	19,430	10,288
Change from prior year	\$ (23,783)	\$ 4,842	\$ 2,903	\$ 8,418
Percentage change from prior year	- 7.7%	15.7%	14.9%	81.8%

Operating income margin:

Three months ended June 30 (1999 amounts exclude effect of Restructuring Charge):

1999	22.1%	10.6%	11.9%	28.5%
1998	31.4%	11.6%	11.7%	22.7%

Six months ended June 30 (1999 amounts exclude effect of Restructuring Charge):

1999	24.0%	11.5%	13.9%	24.3%
1998	33.7%	10.4%	15.4%	21.3%

Funeral services performed:

Three months

ended June 30:

1999	73,237	34,648	30,461	7,612
1998	62,543	36,840	28,687	7,336
Percentage change from prior year	17.1%	-6.0%	6.2%	3.8%

Six months

ended June 30:

1999	159,185	76,663	70,541	14,592
1998	135,177	76,097	57,536	14,071
Percentage change from prior year	17.8%	0.7%	22.6%	3.7%

Number of locations at June 30:

1999	2,298	1,233	826	185
1998	1,790	1,163	780	155

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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