



## Service Corporation International Announces Third Quarter Results of \$.12 Per Diluted Share

October 26, 1999

HOUSTON, Oct. 26 /PRNewswire/ -- Service Corporation International (NYSE: SRV), the world's largest funeral and cemetery company, today reported results for the third quarter of 1999. For the three months ended September 30, 1999, the Company reported revenues of \$776.8 million, net income of \$32.1 million and diluted earnings per share of \$.12 (\$.12 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 \$2,511.1 million, earnings of \$207.5 million and diluted earnings per share of \$.76 (\$.76 basic) for the nine months ended September 30, 1999.

For the three months ended September 30, 1998, the Company reported revenues of \$712.5 million, net income of \$83.2 million and diluted earnings per share of \$.32 (\$.32 basic). For the nine months ended September 30, 1998, the Company reported revenues of \$2,101.6 million, net income of \$282.9 million and diluted earnings per share of \$1.08 (\$1.11 basic).

### 1999 THIRD QUARTER HIGHLIGHTS

#### Funeral

Funeral segment revenues for the third quarter of 1999 increased 8.3% to \$469.1 million compared to the third quarter of 1998. Funeral segment gross profits for the third quarter of 1999 decreased 24.1% to \$64.7 million compared to the same period of 1998.

The Company continued to experience pressure on global funeral service gross margins in the third quarter of 1999 resulting in a funeral service gross margin percentage of 13.8% in the third quarter of 1999 compared to 19.7% for the same period in 1998. The decrease in the funeral gross margin percentage was due to a worldwide 2.1% decrease in comparable funeral revenue coupled with previously noted increased infrastructure costs in areas of technology spending, personnel costs and amortization of deferred prearranged funeral acquisition costs. Additional contributing factors were expected lower margins of recently acquired businesses in North America and lower than expected operating performance from the Company's funeral service operations in France.

North America comparable funeral service locations performed approximately 57,000 funeral services during the third quarter of 1999 and 1998. In light of available U.S. Government statistics indicating fewer number of deaths in the United States in the third quarter of 1999, compared to the same period of 1998, the Company continues to believe its North America comparable funeral service operations are maintaining or growing their respective market share.

The average revenue per funeral service in all North American funeral service locations for the third quarter of 1999 was \$3,845, approximately 1% below Company expectations but equivalent to the average revenue per funeral service in the third quarter of 1998. On a comparable basis, the average revenue per funeral service in North America was \$3,786 in the third quarter of 1999, approximately 1% below the average revenue per funeral service in the third quarter of 1998.

In comparable North America funeral service locations, 29.2% of the funeral services performed during the third quarter of 1999 were previously prearranged funeral contracts compared to 26.4% in the same period of 1998. The average revenue per funeral service related to prearranged funeral contracts becoming atneed was \$3,482 in comparable North America funeral service locations in the third quarter of 1999. This represents a 2.1% increase in the comparable average revenue per funeral service for prearranged funeral contracts becoming atneed funeral services when compared to the third quarter of 1998. Approximately 2% more cremation services were performed in comparable North America funeral service locations in the third quarter of 1999 compared to the third quarter of 1998. This resulted in 35.8% of all funeral services performed being cremation services in comparable North America funeral service locations in the third quarter of 1999 compared to 35.3% of all cases in the same period of 1998.

In the third quarter of 1999, comparable funeral service volumes in France and the United Kingdom were 2.8% and 3.1%, respectively, below the third quarter of 1998. The Company believes their respective market shares in the third quarter of 1999 in both France and the United Kingdom are equivalent to their market shares in those countries in the second quarter of 1999 and believes this weakness in comparable funeral service volumes in the third quarter of 1999 is primarily mortality driven.

In their respective local currencies in the third quarter of 1999, the average revenue per funeral service at comparable locations in France increased 3% and in the United Kingdom remained unchanged compared to the third quarter of 1998. Comparable funeral service margins in France were adversely impacted in the third quarter of 1999 by fewer funeral services performed compounded by the previously disclosed delay of anticipated reengineering cost saving measures that are now expected to be fully implemented beginning in early 2000.

#### Cemetery

Cemetery segment revenues for the third quarter of 1999 increased 9.6% to \$233.8 million compared to the third quarter of 1998. Cemetery segment gross profits decreased 27.7% to \$56.6 million in the third quarter of 1999 compared to \$78.2 million in the third quarter of 1998. The gross margin percentage in the cemetery segment in the third quarter of 1999 was 24.2% compared to 36.7% in the same period of 1998.

In North America, cemetery revenues increased \$7.1 million or 3.7% to \$199.3 million in the third quarter of 1999 compared to the third quarter of 1998. Total preneed cemetery sales in North America increased approximately \$11.5 million to \$126.5 million in the third quarter of 1999 compared to the same period of 1998. These increases were attributable to newly acquired cemetery properties. Revenues from comparable North American cemeteries in the third quarter of 1999 declined approximately 4% from levels attained in the same period of 1998. Preneed revenues at these comparable locations were 3.5% below third quarter 1998 amounts.

Cemetery gross profits in North America were \$44.9 million in the third quarter of 1999 compared to \$70.5 million in the same period of 1998. These

operations were adversely affected by weakened death rates, inclement weather conditions in the southeastern United States and the impact of the Company's continued strategic initiative to concentrate on the sale of heritage cemetery property. As a component of total preneed cemetery sales in North America, heritage cemetery property sales increased approximately 400 basis points in the third quarter of 1999 compared to the same period of 1998. While the Company believes the sale of heritage cemetery property is a valid strategy and will assist in increasing market share in its cemetery operations, these sales result in higher commission expenses and higher property cost of sales which are reflected in the reduced cemetery gross margin percentage in the third quarter of 1999.

Realized investment earnings and capital gains related to cemetery trust funds were \$20.3 million in the third quarter of 1999 compared to \$17.2 million in the third quarter of 1998.

In the Company's South America cemetery operations, revenues increased \$9.2 million to \$18.2 million and gross profits increased \$3.3 million to \$6.4 million in the third quarter of 1999 compared to the third quarter of 1998, primarily as a result of cemetery operations in Chile which were acquired in December 1998.

#### Financial Services

Revenues from the Company's financial services segment were \$73.9 million in the third quarter of 1999 compared to \$65.9 million in the third quarter of 1998. Gross profits from the financial services segment were \$7.4 million in the third quarter of 1999 compared to \$10.2 million for the same period of 1998. Gross profits for the financial services segment in the third quarter of 1999 are below third quarter 1998 levels due to increases in information technology costs and initial overhead costs in North America related to the Company's directive to fund prearranged funeral contracts whenever feasible using American Memorial Life Insurance Company, the Company's captive insurance company.

#### Prearranged Funerals

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. In the third quarter of 1999, the Company's net sales of prearranged funeral contracts increased 40.5% to approximately \$180 million compared to \$128 million in the same period of 1998. The increase is primarily attributable to a 51% increase in North America related to the Company's initiative to increase future market share by increasing prearranged funeral sales and a 26% increase in France primarily related to agreements with affinity partners. The third quarter 1999 prearranged funeral sales expanded the Company's prearranged funeral contract backlog to approximately \$4.3 billion.

#### Acquisition Activity

During the third quarter of 1999, the Company closed transactions to acquire 12 funeral homes and 4 cemeteries for an aggregate purchase price of \$13.2 million. These businesses are expected to produce annualized revenues of \$8.8 million (\$4.8 million funeral and \$4 million cemetery), of which \$3.4 million is in North America and \$5.4 million is outside of North America.

Exclusive of the Company's merger with Equity Corporation International in January 1999, the Company, as of October 21, 1999, has acquired, or received Letters of Intent to acquire, 75 funeral service locations, 15 cemeteries and 2 crematoria for an aggregate purchase price of \$108.6 million. These businesses are expected to produce annualized revenues of approximately \$57 million (\$42 million funeral and \$15 million cemetery). The average projected EBIT multiple for these businesses is expected to be approximately 7 times. Approximately \$28 million and \$29 million of the above annualized revenues are related to the Company's North America and International operations, respectively, and \$8.7 million and \$6.9 million of projected EBIT is related to North America and International operations, respectively.

#### Other Income, Costs and Expenses

As a percentage of total revenues, general and administrative expenses were 2.5% in the third quarter of 1999 compared to 2.2% in the third quarter of 1998. The increase as a percentage of revenues is due to increased professional fees related to ongoing cost rationalization programs and increased corporate information technology costs related to the Company's year 2000 preparation.

Interest expense for the third quarter of 1999 increased \$11.6 million or 24.2% to \$59.4 million compared to the third quarter of 1998. The increase in interest expense is primarily related to increased indebtedness as a result of business acquisitions consummated subsequent to the third quarter of 1998.

As previously reported by the Company, gains on sales of businesses included in non-operating income in the third quarter of 1999 were \$3.2 million below previous Company expectations. The gains on sales of businesses in the third quarter of 1999 were \$11.7 million below third quarter 1998 levels. Also previously reported by the Company, an asset impairment valuation charge on the Company's Wisconsin cemetery operations was recorded in the third quarter of 1999. The valuation charge was \$7.1 million and related to a recent judicial interpretation of state law. The Company signed a letter of intent to sell its Wisconsin cemetery operations in October 1999.

#### OUTLOOK FOR THE REMAINDER OF 1999

As previously disclosed by the Company on October 1, 1999, several contributing factors that adversely affected the Company's earnings in the third quarter of 1999 are expected to have a similar impact in the fourth quarter of 1999. Such factors previously disclosed by the Company include the sales of heritage cemetery property, the delay of anticipated reengineering savings in France, the reduction of realized capital gains related to the investment strategy for cemetery merchandise trust funds and the lack of anticipated gains on sales of businesses in the fourth quarter of 1999. Based on these previously disclosed factors, the Company continues to expect full year 1999 net income in the range of \$247 million to \$257 million, before previously reported non-recurring items related to the Company's cost rationalization program and early extinguishment of debt, and related full year 1999 diluted earnings per share in the range of \$.90 to \$.94.

#### KEY STRATEGIC INITIATIVES

The Company continues the process of implementing its strategic revenue and marketing initiatives designed to enhance long-term shareholder value, increase cash flow and generate improved returns on invested capital.

In addition to the strategic cash flow initiatives previously announced, the Company continues to concentrate on other initiatives to increase cash

flows. Subsequent to the third quarter of 1999, the Company entered into a consumer financing agreement in North America providing the Company's funeral and cemetery atneed client families with an innovative funeral and cemetery consumer financing program. The program provides monthly payment options to client families over terms of up to 84 months for funeral and cemetery atneed sales. Preneed cemetery client families will also be offered similar options. A national rollout of this consumer financing program will commence as soon as selected local market tests occurring in the fourth quarter of 1999 are concluded. This consumer financing program is non-recourse to the Company. The Company's atneed funeral and cemetery receivables approximate \$100 million. Additionally, the Company originates approximately \$300 million of preneed cemetery installment receivables each year with an average life of approximately 50 months.

Commenting on the announcement of the consumer financing program, SCI Chairman, Chief Executive Officer and President, R. L. Waltrip, said:

"We are pleased to announce this consumer financing program designed to better serve our client families with convenient payment plans and to significantly improve cash flows from our North America funeral and cemetery operations. Additionally with the national rollout of this consumer financing program, opportunity exists for the reduction of certain administrative costs."

In October 1999, the Company began consumer test marketing of its Dignity(TM) Memorial Plans with six traditional funeral package plans and four cremation package plans. The Dignity(TM) Memorial Plans are designed to provide consumer friendly packaged options to a broad range of consumers for both atneed and prearranged funeral services.

The Company is also continuing its negotiations to expand its current worldwide affinity relationships both internationally and in North America in order to capitalize on the Company's unparalleled distribution system. During October 1999, the Company entered into an exclusive marketing agreement with AXA-Belgium. Under the terms of the agreement, AXA's agents in Belgium will market specialized prearranged funeral plans to be serviced exclusively through the Company's Belgian funeral homes. Additionally, AXA-Belgium currently has approximately 200,000 final expense policyholders in Belgium and, pursuant to the marketing agreement, will work together with the Company to create innovative funeral service products for those customers.

Commenting on the strategic revenue and marketing initiatives, SCI Senior Executive Vice President and Chief Operating Officer, Jerald L. Pullins, said:

"We continue to progress with the strategic revenue and marketing initiatives currently underway. After months of preparation, we are very pleased to begin the test marketing phase of our Dignity(TM) Memorial Plans that will be of value and consumer friendly to our client families. We believe that the Dignity(TM) Memorial Plans coupled with other strategic initiatives such as affinity relationship development will replace operating profit growth historically generated through acquisitions without the outlay of significant additional capital."

#### 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 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.
- 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 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 sell preneed heritage cemetery property which is usually associated with new customers to the Company's cemeteries.
- 5) The Company's ability to successfully integrate acquisitions into the Company's business and to realize expected cost savings in connection with such acquisitions.
- 6) The Company's ability to successfully implement certain cost reduction initiatives, including the cost reduction initiatives previously announced, 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.
- 7) The Company's ability to successfully implement certain strategic revenue and marketing initiatives resulting in increased volume through its existing facilities and the Company's ability to successfully implement certain strategic cash flow initiatives,

including the presently announced funeral and cemetery consumer financing program, which could improve or generate cash flow for the Company.

- 8) The Company's ability to successfully leverage its substantial purchasing power with certain of the Company's vendors.
- 9) 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 September 30, 1999, SCI affiliates operated 3,823 funeral service locations, 524 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

(In thousands, except per share amounts)	Three Months Ended September 30,		Nine Months Ended September 30,	
	1999	1998	1999	1998
Revenues:				
Funeral	\$469,138	\$433,276	\$1,526,957	\$1,351,603
Cemetery	233,837	213,369	742,863	636,138
Financial services	73,870	65,875	241,317	113,853
	776,845	712,520	2,511,137	2,101,594
Cost and expenses:				
Funeral	404,402	348,023	1,248,426	1,042,981
Cemetery	177,288	135,121	524,493	385,773
Financial services	66,510	55,670	211,117	95,316
	648,200	538,814	1,984,036	1,524,070
	128,645	173,706	527,101	577,524
General and administrative expense	(19,322)	(15,422)	(55,839)	(49,681)
Restructuring charge	---	---	(89,884)	---
Income from operations	109,323	158,284	381,378	527,843
Interest expense	(59,404)	(47,816)	(173,613)	(125,990)
Provision for asset impairment	(7,097)	---	(7,097)	---
Other income	6,763	18,087	34,131	35,266
	(59,738)	(29,729)	(146,579)	(90,724)
Income before income taxes and extraordinary gain	49,585	128,555	234,799	437,119
Provision for income taxes	17,530	45,342	84,848	154,172
Net income before extraordinary gain	32,055	83,213	149,951	282,947
Extraordinary gain on early extinguishments of debt (net of income taxes of \$1,071)	---	---	1,885	---
Net income	\$32,055	\$83,213	\$151,836	\$282,947
Earnings per share:				
Basic:				
Income before non-recurring items	\$.12	\$.32	\$.76	\$1.11

Restructuring charge	---	---	(.21)	---
Extraordinary gain on early extinguishments of debt	---	---	.01	---
Net income	\$.12	\$.32	\$.56	\$1.11
Diluted:				
Income before non-recurring items	\$.12	\$.32	\$.76	\$1.08
Restructuring charge	---	---	(.21)	---
Extraordinary gain on early extinguishments of debt	---	---	\$.01	---
Net income	\$.12	\$.32	\$.56	\$1.08
Basic weighted average number of shares				
	272,060	257,380	272,354	255,673
Diluted weighted average number of shares				
	273,079	263,416	274,368	262,308

Geographic segment information was as follows:  
(Dollars in thousands)

	North America	France	Other Europe	Other Foreign
Revenues:				
Three months ended				
September 30:				
1999	\$534,991	\$122,645	\$69,673	\$49,536
1998	471,295	147,970	62,018	31,237
Change from prior year	\$63,696	\$(25,325)	\$7,655	\$18,299
Percentage change from prior year				
	13.5%	-17.1%	12.3%	58.6%
Nine months ended				
September 30:				
1999	\$1,721,566	\$432,553	\$230,538	\$126,480
1998	1,387,985	446,063	188,032	79,514
Change from prior year	\$333,581	\$(13,510)	\$42,506	\$46,966
Percentage change from prior year				
	24.0%	-3.0%	22.6%	59.1%
Income from operations:				
Three months ended				
September 30 (1999 amounts exclude effect of Restructuring Charge):				
1999	\$81,356	\$8,363	\$4,587	\$15,017
1998	123,072	21,324	2,857	11,031
Change from prior year	\$(41,716)	\$(12,961)	\$1,730	\$3,986
Percentage change from prior year				
	-33.9%	-60.8%	60.6%	36.1%
Nine months ended				
September 30 (1999 amounts exclude effect of Restructuring Charge):				
1999	\$366,532	\$44,087	\$26,920	\$33,723
1998	432,031	52,206	22,287	21,319
Change from prior year	\$(65,499)	\$(8,119)	\$4,633	\$12,404

Percentage change from prior year	-15.2%	-15.6%	20.8%	58.2%
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Operating income margin:

Three months ended September 30 (1999 amounts exclude effect of Restructuring Charge):				
1999	15.2%	6.8%	6.6%	30.3%
1998	26.1%	14.4%	4.6%	35.3%

Nine months ended

September 30 (1999 amounts exclude effect of Restructuring Charge):				
1999	21.3%	10.2%	11.7%	26.7%
1998	31.1%	11.7%	11.9%	26.8%

Funeral services performed:

Three months Ended September 30:				
1999	70,248	34,352	29,404	8,906
1998	61,186	35,085	28,283	8,619
Percentage change from prior year	14.8%	-2.1%	4.0%	3.3%

Nine months ended September 30:

1999	229,433	111,015	99,945	23,498
1998	196,363	111,182	85,819	22,690
Percentage change from prior year	16.8%	-0.2%	16.5%	3.6%

Number of locations

at September 30:				
1999	2,292	1,236	835	182
1998	1,837	1,200	782	161

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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