



Service Corporation International Announces Results for the Fourth Quarter Of 1999 and Outlook for 2000

February 10, 2000

HOUSTON, Feb. 10 /PRNewswire/ -- Service Corporation International (NYSE: SRV), the world's largest funeral and cemetery company, today reported results for the fourth quarter of 1999 and commented on their outlook for 2000. Excluding the Company's fourth quarter restructuring charge of \$273 million and \$39 million of non-recurring charges related to reserves established on certain loans held by the Company's lending subsidiary, the Company reported diluted earnings per share of \$.10 (\$.10 basic) for the three months ended December 31, 1999. Excluding the Company's first and fourth quarter restructuring charges, the \$39 million of non-recurring charges and early extinguishment of debt, the Company reported diluted earnings per share of \$.86 (\$.86 basic) for the twelve months ended December 31, 1999.

Including all non-recurring charges in 1999 described above, the Company reported a net loss of \$184.2 million or \$.68 per diluted share (\$.68 basic) for the fourth quarter of 1999 compared to net income of \$59.2 million or \$.23 per diluted share (\$.23 basic) for the fourth quarter of 1998. For the twelve months ended December 31, 1999, the Company reported a net loss of \$32.4 million or \$.12 per diluted share (\$.12 basic) compared to \$342.1 million of net income or \$1.31 per diluted share (\$1.34 basic) for the twelve months ended December 31, 1998.

The Company reported revenues of \$810.7 million for the three months ended December 31, 1999 compared to \$773.5 million of revenues reported for the same period of 1998. For the twelve months ended December 31, 1999, the Company reported revenues of \$3,321.8 million compared to revenues of \$2,875.1 million for the twelve months ended December 31, 1998.

1999 FOURTH QUARTER HIGHLIGHTS

Funeral

Funeral segment revenues for the fourth quarter of 1999 increased 7.3% to \$512.4 million compared to the fourth quarter of 1998. Funeral segment gross profits for the fourth quarter of 1999 increased 15.8% to \$88.0 million compared to the fourth quarter of 1998. The funeral service gross margin percentage was 17.2% in the fourth quarter of 1999 compared to 15.9% for the three months ended December 31, 1998. The increase in funeral segment revenues and related gross profits is primarily attributable to acquisitions in 1999.

In North America comparable funeral service locations, approximately 63,800 funeral services were performed during the fourth quarter of 1999, representing 2.9% more funeral services performed during the fourth quarter of 1998. The average revenue per funeral service for comparable North America funeral service locations decreased 1.6% to \$3,768 in the fourth quarter of 1999 compared to the same period of 1998, primarily as a result of the mix of cremation versus traditional funeral services. The average revenue per funeral service in all North America funeral service locations was \$3,818 in both the fourth quarters of 1999 and 1998.

In the fourth quarter of 1999, 29.7% of funeral services performed in comparable North America funeral service locations were previously prearranged funeral contracts compared to 27.8% in the fourth quarter of 1998. The average revenue per funeral service related to these prearranged funeral contracts becoming atneed was \$3,438 in the fourth quarter of 1999, representing a 3.3% increase compared to the same period of 1998. Of total funeral services performed in comparable North America funeral service locations, 36.0% were cremation services in the fourth quarter of 1999 compared to 34.5% in the fourth quarter of 1998.

For the twelve months ended December 31, 1999, North America comparable funeral service locations performed approximately 1,800 or 0.7% more funeral services compared to the same period of 1998. U.S. Government statistics indicate the Company's North America comparable funeral service locations gained respective market share during 1999 compared to 1998. The average revenue per funeral service in comparable North America funeral service locations decreased 0.5% to \$3,807 for the twelve months ended December 31, 1999 compared to the same period of 1998.

Comparable funeral services performed in the Company's European locations decreased 2.7% in the fourth quarter of 1999 versus the fourth quarter of 1998 primarily as a result of weakened death rates in Europe. Comparable funeral services performed for the full year 1999 were equivalent to comparable funeral services performed for the full year 1998 in the Company's European locations. Excluding foreign currency fluctuations, the average revenue per funeral service in comparable funeral service locations in Europe decreased 1.5% in the fourth quarter of 1999 compared to the same period of 1998. The average revenue per funeral service in European comparable funeral service locations increased 1.0% for the full year 1999 compared to the full year 1998.

Cemetery

Cemetery segment revenues for the fourth quarter of 1999 were \$205.0 million compared to \$210.5 million in the fourth quarter of 1998. Cemetery segment gross profits for the fourth quarter of 1999 decreased 47.4% to \$29.4 million compared to the fourth quarter of 1998. The cemetery segment gross margin percentage in the fourth quarter of 1999 was 14.3% compared to 26.5% in the same period of 1998.

Realized investment earnings and capital gains related to cemetery trust funds were \$5.3 million in the fourth quarter of 1999 compared to \$26.1 million in the fourth quarter of 1998. Additionally, revenue from North America comparable cemetery locations decreased \$7.8 million or 5.4% from amounts generated in the fourth quarter 1998. Cemetery segment gross profits and related gross margin percentage decreased in the fourth quarter of 1999 due to the reduction in cemetery trust fund income and the reduction in North America comparable revenue coupled with a 3.9% increase in North America comparable cost of services. The increase in cost of services primarily relates to inefficiencies in standardizing the Company's sales cost structure and the focus on sales of heritage cemetery property, which generate higher commission expense and property cost, but will assist the Company in increasing market share in its cemetery operations.

Financial Services

Revenues from the financial services segment were \$93.3 million in the fourth quarter of 1999 compared to \$85.5 million in the fourth quarter of 1998. The increase in revenues is primarily a result of the Company's directive to fund prearranged funeral contracts whenever possible using the Company's captive insurance company in North America. The financial services segment reported a loss of \$30.7 million in the fourth quarter of 1999 compared to a gross profit of \$9.5 million in the fourth quarter of 1998. The decrease in segment results is due to the \$39 million non-recurring charge related to reserves established on certain loans held by the Company's lending subsidiary and the suspension of interest income recognition on the related loans.

Other Costs and Expenses

For the fourth quarter of 1999, general and administrative expenses were \$26.7 million compared to \$17.2 million in the fourth quarter of 1998. The increase in general and administrative expenses in the fourth quarter of 1999 is primarily related to non-recurring cost items such as information technology costs related to the Company's year 2000 preparation and professional costs associated with process improvement initiatives and implementation of EVA(R) based incentive compensation models.

Interest expense increased approximately \$13.5 million to \$64.6 million in the fourth quarter of 1999 compared to the same period of 1998. The increase in interest expense is primarily related to increased indebtedness as a result of business acquisitions in 1999 and higher financing costs associated with changes in market rates and the Company's credit rating being lowered.

Acquisition Activity

Exclusive of the Company's merger with Equity Corporation International in January 1999, the Company acquired 75 funeral service locations, 15 cemeteries and 2 crematoria in 1999 for an aggregate purchase price of \$108.0 million. These businesses are projected 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 6.9 times. Approximately \$28 million and \$29 million of the above annualized revenues are related to 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.

OUTLOOK FOR 2000

The Company's primary objectives for 2000 are to reduce costs, increase cash flow and reduce debt.

Reduction in Costs

In the fourth quarter of 1999, the Company recorded restructuring and other non-recurring charges of approximately \$312 million as a result of the Company's cost reduction and cash flow enhancement initiatives. These charges related primarily to the involuntary termination of 1,141 employees, the write-down of certain assets held for sale that do not generate an acceptable return on capital, as well as various other cost saving initiatives. As a result of these cost reduction initiatives, the Company expects savings of \$45 to \$50 million in 2000, of which \$35 to \$40 million is expected to be cash savings. The Company's cost reduction program will be ongoing in 2000 in an attempt to further transition the Company into an efficient operating company.

Increase Cash Flow

The Company continues to implement initiatives to generate improved returns on invested capital and to produce positive free cash flow. The Company defines free cash flow as cash flow from operating activities determined by generally accepted accounting principles, less capital expenditures, dividends paid and the net effect of prearranged funeral production and maturities.

The Company has certain recurring cash flow initiatives to increase free cash flow in 2000 compared to 1999 levels. Such items include the elimination of the payment of quarterly dividends which will increase free cash flow by \$97 million, the reduction of capital expenditures by \$80 million and other working capital initiatives. The Company also has initiatives to obtain funds available from trusts more efficiently, which is expected to increase free cash flow in 2000. The above items will be offset by higher estimated tax and interest cash payments in 2000 compared to 1999 as well as the net cash outflow in 2000 associated with the Company's 1999 fourth quarter restructuring charge.

Based on the above cash flow initiatives, the Company is targeting \$100 to \$200 million of free cash flow in 2000 on an after tax basis, excluding severance payments and proceeds from assets held for sale in the restructuring charges, and other non-core asset sales. The Company is targeting \$200 to \$300 million in after tax proceeds from sales of non-core operational and financial assets in 2000, which increases the Company's cash flow available for reducing debt to \$300 to \$500 million on an after tax basis in 2000.

Reduction of Debt

As of December 31, 1999, the Company's total debt was approximately \$4.06 billion with \$410 million of available borrowings under its primary revolving credit facilities. Subsequent to December 31, 1999, the Company received proceeds from the sale of certain financial assets of \$110 million on a pretax basis. These proceeds enabled the Company to retire approximately \$50 million in face value of various bond issuances as well as to reduce amounts outstanding under the Company's primary revolving credit facilities. The Company currently has \$480 million of available borrowing capacity under these facilities. With the further implementation of the Company's operational and cash flow initiatives, the Company is targeting total debt to be \$3.6 to \$3.8 billion by the end of 2000.

Commenting on the Company's cash flow initiatives, SCI Senior Vice President and Chief Financial Officer, Jeffrey E. Curtiss, said:

"We are confident the initiatives outlined today will allow the Company to achieve its positive free cash flow targets for 2000, and coupled with proceeds from non-core asset sales will allow the Company to reduce its debt in 2000. The Company is pleased with its current banking relationships, and we fully expect the Company to have sufficient liquidity to meet all of its financial requirements in 2000."

Earnings Outlook

On November 23, 1999, the Company announced certain factors expected to negatively impact the Company's earnings outlook for 2000 by

approximately \$80 million on a pretax basis. These factors included the reduction of net cemetery trust gains related to equity portfolios, reduction in gains on sales of businesses, reduction of operating earnings related to the sale of undeveloped cemetery property and increases in interest expense related to the Company's lower credit rating. The Company now believes the above factors will negatively impact the Company's 2000 earnings outlook by approximately \$85 to \$90.

The Company continues to progress with the implementation of its long-term strategic revenue and marketing initiatives intended to provide revenue growth without the outlay of significant additional capital instead of growth historically generated through acquisitions. These strategic revenue and marketing initiatives primarily include: implementation of Dignity(TM) Memorial Plan funeral packages and the associated branding of certain Company locations; continued development of global affinity relationships; increase of heritage cemetery property sales in the Company's overall cemetery revenue mix; the introduction of an expanded range of products and services; and continued growth in the sale of prearranged funeral contracts in all jurisdictions.

The Company presently does not believe the above strategic revenue and marketing initiatives will have a significant impact on the Company's worldwide revenue growth in 2000 and expects revenues from its core funeral and cemetery segments to be slightly lower in 2000 compared to 1999 levels. From a gross profit standpoint, lower revenues from the Company's funeral and cemetery segments coupled with normal inflationary cost increases are expected to offset the savings projected in 2000 from the Company's 1999 first and fourth quarter restructuring charges. Based on all of the previously mentioned factors, the Company expects full year 2000 diluted earnings per share to be in the range of \$.65 to \$.75.

Commenting on the Company's future earnings outlook, SCI President and Chief Operating Officer, Jerald L. Pullins, said:

"We are completing the transition from a company generating growth through acquisitions to an operating company focused on improving returns on our assets and operating cash flows. Our number one priority is to continue with the implementation of our strategic revenue and marketing initiatives to produce future revenue growth on an internally generated basis."

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 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) that could negatively affect the Company, particularly but not limited to the Company's cemetery trust revenues, levels of interest expense and changes in credit relationships impacting the availability of credit.
- 2) Changes in domestic and international political and/or regulatory environments in which the Company operates, including tax and accounting policies.
- 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 of 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 ongoing cost reduction initiatives, as well as changes in domestic and international economic, political and/or regulatory environments, which could negatively affect the implementation of the Company's cost reduction initiatives.
- 7) The Company's ability to successfully realize the estimated cash and non-cash savings and the estimated cash payback period associated with the Company's cost reduction initiatives.
- 8) 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 but not limited to the sale of non-core assets, the previously announced funeral and cemetery consumer financing program, which could improve or generate cash flow for the Company and enhance the Company's ability to reduce debt.
- 9) The Company's ability to successfully exploit its substantial purchasing power with certain of the Company's vendors.

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 December 31, 1999, SCI affiliates operated 3,823 funeral service locations, 525 cemeteries and 198 crematoria. SCI provides funeral and cemetery services in 20 countries on five continents.

Other Service Corporation International 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 December 31,		Twelve Months Ended December 31,	
	1999	1998	1999	1998
Revenues:				
Funeral	\$ 512,391	\$ 477,533	\$ 2,039,348	\$ 1,829,136
Cemetery	204,989	210,463	947,852	846,601
Financial services	93,296	85,500	334,613	199,353
	810,676	773,496	3,321,813	2,875,090
Cost and expenses:				
Funeral	424,428	401,548	1,672,854	1,444,529
Cemetery	175,640	154,667	700,133	540,440
Financial services	123,950	76,035	335,067	171,351
	724,018	632,250	2,708,054	2,156,320
	86,658	141,246	613,759	718,770
General and administrative expense	(26,746)	(17,158)	(82,585)	(66,839)
Restructuring charges	(272,544)	---	(362,428)	---
Income (loss) from operations	(212,632)	124,088	168,746	651,931
Interest expense	(64,582)	(51,063)	(238,195)	(177,053)
Other income	4,725	8,383	31,759	43,649
	(59,857)	(42,680)	(206,436)	(133,404)
Income (loss) before income taxes and extraordinary gain	(272,489)	81,408	(37,690)	518,527
Provision (benefit) for income taxes	(88,241)	22,213	(3,393)	176,385
Net income (loss) before extraordinary gain	(184,248)	59,195	(34,297)	342,142
Extraordinary gain on early extinguishments of debt (net of income taxes of \$1,071)	---	---	1,885	---
Net income (loss)	\$ (184,248)	\$ 59,195	\$ (32,412)	\$ 342,142
Earnings per share:				
Basic:				
Income before non-recurring items	\$.10	\$.23	\$.86	\$ 1.34
Restructuring charges and non-recurring charges	(.78)	---	(.99)	---
Extraordinary gain on early extinguishments				

of debt	---	---	.01	---
Net income (loss)	\$ (.68)	\$.23	\$ (.12)	\$ 1.34
Diluted:				
Income before non-recurring items	\$.10	\$.23	\$.86	\$ 1.31
Restructuring charges and non-recurring charges	(.78)	---	(.99)	---
Extraordinary gain on early extinguishments of debt	---	---	.01	---
Net income (loss)	\$ (.68)	\$.23	\$ (.12)	\$ 1.31

Basic weighted average number of shares	272,061	258,063	272,281	256,271
Diluted weighted average number of shares	272,061	263,155	273,792	262,520

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

	North America	France	Other Europe	Other Foreign
Revenues:				
Three months ended				
December 31:				
1999	\$ 544,222	\$ 142,426	\$ 78,401	\$ 45,627
1998	490,118	175,296	77,837	30,245
Change from prior year	\$ 54,104	\$ (32,870)	\$ 564	\$ 15,382
Percentage change from prior year	11.0%	(18.8)%	0.7%	50.9%
Twelve months ended				
December 31:				
1999	\$ 2,265,788	\$ 574,979	\$ 308,939	\$ 172,107
1998	1,878,103	621,359	265,869	109,759
Change from prior year	\$ 387,685	\$ (46,380)	\$ 43,070	\$ 62,348
Percentage change from prior year	20.6%	(7.5)%	16.2%	56.8%

Income from operations:

Three months ended December 31 (1999 amounts exclude effect of Restructuring Charge):

1999	\$ 25,151	\$ 12,673	\$ 9,142	\$ 12,946
1998	97,127	19,293	1,781	5,887
Change from prior year	\$ (71,976)	\$ (6,620)	\$ 7,361	\$ 7,059
Percentage change from prior year	(74.1)%	(34.3)%	413.3%	119.9%

Twelve months ended December 31 (1999 amounts exclude effect of Restructuring Charges):

1999	\$ 391,683	\$ 56,760	\$ 36,062	\$ 46,669
1998	529,158	71,499	24,068	27,206

Change from prior year	\$ (137,475)	\$ (14,739)	\$ 11,994	\$ 19,463
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Percentage change from prior year	(26.0)%	(20.6)%	49.8%	71.5%
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Operating income margin:

Three months ended December 31 (1999 amounts exclude effect of
Restructuring Charge):

1999	4.6%	8.9%	11.7%	28.4%
1998	19.8%	11.0%	2.3%	19.5%

Twelve months ended December 31 (1999 amounts exclude effect of
Restructuring Charges):

1999	17.3%	9.9%	11.7%	27.1%
1998	28.2%	11.5%	9.1%	24.8%

Funeral services performed:

Three months ended December 31:

1999	77,329	36,595	32,718	7,544
1998	66,731	36,812	31,957	7,256

Percentage change from prior year	15.9%	(0.6)%	2.4%	4.0%
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Twelve months ended December 31:

1999	306,762	147,610	132,663	31,042
1998	263,094	147,994	117,776	29,946

Percentage change from prior year	16.6%	(0.3)%	12.6%	3.7%
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Number of locations at December 31:

1999	2,291	1,236	835	184
1998	1,843	1,214	840	169

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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