Service Corporation International Announces Results of North America Facility Review and Comments on Effect of SAB No. 101

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HOUSTON, Jan. 5 /PRNewswire/ -- Service Corporation International (NYSE: SRV), the world's largest funeral and cemetery company, today announced the results of a comprehensive facility review performed on its funeral and cemetery operations in North America.

Robert L. Waltrip, Chairman and Chief Executive Officer, commented: "In 2000, we communicated our Company's long-term strategy to focus on internal growth within our Company's funeral and cemetery businesses. Central to this internal growth strategy are our initiatives to focus on customer satisfaction, prearranged funeral sales and leveraging our unparalleled network through affinity relationships and the continued development and implementation of the Dignity Memorial(TM) Plan funeral packages and the Dignity Memorial(TM) brand name. In December 2000, we completed a comprehensive facility review of all of our funeral and cemetery operations in North America. During this review, certain funeral and cemetery operations were identified as not being well aligned with our long-term growth strategy primarily because of their lack of geographic proximity to the major population areas in North America. While these operations are generating earnings and cash flows, we determined it would be more prudent to hold these operations for sale and use the net cash proceeds from such sales to reduce our debt."

As a result of this facility review, the Company is planning to divest 228 funeral locations anticipated to be sold as funeral businesses, 203 funeral locations anticipated to be sold as real estate due to their underlying real estate values exceeding their funeral business values and 105 cemeteries. Included in the 203 funeral locations expected to be sold as real estate are 67 funeral businesses that will be merged into other existing Company owned funeral businesses. All locations being divested represent approximately $150 million of revenues, $18 million of EBITDA, 34,000 funeral services performed and 12,000 interments performed on an annual basis. These locations are geographically dispersed throughout North America in 42 states and 3 Canadian Provinces.

The Company expects to receive net pretax cash proceeds of approximately $200 to $250 million from the divestiture of all these operations over the next 24 months. The net pretax cash proceeds expected from selling the 228 funeral locations as funeral businesses and the 105 cemeteries are based on a 5 to 7 times multiple of EBITDA adjusted for non-recurring expenses and certain overhead expenses historically allocated to these locations. The net pretax cash proceeds expected from selling the 203 funeral locations as real estate are based on current appraised values of such real estate.

As a result of this plan to sell certain operations which will generate losses, the Company will record in the fourth quarter of 2000 an expected pretax loss of approximately $425 to $475 million. The remaining operations sold under this plan are expected to generate pretax gains of approximately $60 to $75 million which will be recognized in subsequent periods. These estimated pretax losses and gains are calculated using the net assets of these businesses prior to the implementation of SAB No. 101. As a result of the implementation of SAB No. 101, the above estimated pretax losses could be significantly lower than currently projected. The Company is not able to estimate the implementation effect of SAB No. 101 on each of these locations at this time. A more detailed analysis of the implementation of SAB No. 101 is discussed later in this release.

Mr. Waltrip added: "This plan to divest certain funeral and cemetery operations in North America is consistent with our internal revenue growth initiatives, our goal to increase cash flow in our core businesses and our goal of continued debt reduction. On an ongoing basis, the divestiture of these operations is projected to be cash flow positive to our Company due to the reduction of interest payments offsetting the loss of the annual cash flows produced by these operations. While we substantially reduced our debt in 2000, our goal over the next 24 months is to reduce our debt to within the range of $2.0 to $2.5 billion and to improve our recurring operating free cash flow from our funeral and cemetery operations to approximately $200 to $250 million on an annual basis. We are currently developing detailed plans to accomplish these goals."

As a component of its comprehensive facility review in North America, the Company examined all aspects of its operations in conjunction with its internal growth strategy, including equity investments in certain funeral home and cemetery operations. As a result of this review, the Company has reduced the carrying value through a non-cash charge in the fourth quarter of 2000 of its equity investment in Arbor Memorial Services Inc. by approximately $95 million on a pretax basis. The Company will seek to restructure this equity investment in 2001.

The Company and other participants in the funeral and cemetery industry are continuing discussions with the Securities and Exchange Commission regarding the implementation of SAB No. 101, "Revenue Recognition in Financial Statements." The implementation of any changes in accounting policies required by SAB No. 101 will not impact the cash flows of the Company. While the Company has arrived at some preliminary conclusions with the SEC concerning accounting practices within the funeral and cemetery industry, a final agreement covering all material accounting practices has not been reached with the SEC. As a result of the preliminary conclusions reached with the SEC, the Company estimates the implementation of SAB No. 101 will result in a one time, non-cash charge of $800 to $950 million as of January 1, 2000 for the cumulative effect of these accounting changes. The implementation of these revised accounting practices will result in an additional backlog of approximately $1.7 to $1.9 billion of deferred revenues which will be recognized in future periods. The implementation of these changes in accounting practices is also estimated to negatively affect diluted earnings per share from operating results for the year 2000 by approximately $.29 to $.37 per diluted share, but as indicated above will have no cash flow affect on these operating results. At the time the impact of implementing SAB No. 101 is reported for 2000, all quarterly financial results previously reported in 2000 will be restated to reflect these changes in accounting practices.

The non-cash charges recorded in the fourth quarter of 2000 as a result of the Company's North America facility review and any impact on the Company's financial statements as a result of the implementation of SAB No. 101 will not have a material impact on the Company's compliance with the covenants contained in the Company's bank credit facility agreements. These agreements were amended in November 2000 to give the Company the financial flexibility to execute its strategic plan which includes the North America facility review.

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 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, particularly but not limited to, levels of interest expense and negative currency translation effects.
2) Changes in credit relationships impacting the availability of credit and the general availability of credit in the marketplace.
3) The Company's ability to successfully implement and complete all three phases of its strategic plan as defined in the Company's Form 10-Q as of September 30, 2000, including the interest of third parties to enter into and consummate alliances and joint ventures with the Company, and the successful implementation of its Internet initiatives.
4) The Company's ability to generate expected proceeds from the sale of certain funeral and cemetery operations and to implement plans to improve recurring operating free cash flow.
5) The results of final discussions with the Securities and Exchange Commission regarding the implementation of SAB No. 101.
6) 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.
7) The Company's ability to sell preneed heritage cemetery property which is usually associated with new customers of the Company's cemeteries.
8) 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 effect the implementation of the Company's cost reduction initiatives.
9) The Company's ability to successfully realize the estimated savings associated with the Company's cost reduction initiatives announced in 1999.
10) The Company's ability to successfully implement certain strategic revenue and marketing initiatives resulting in increased volume through its existing facilities.
11) The Company's ability to successfully implement certain strategic cash flow initiatives, including but not limited to 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.
12) Changes in domestic and international political and/or regulatory environments in which the Company operates, including tax and accounting policies.
13) 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 September 30, 2000, SCI affiliates operated 3,755 funeral service locations, 575 cemeteries and 203 crematoria. SCI provides funeral and cemetery services in 20 countries on five continents.

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