

# Service Corporation International Announces Third Quarter 2019 Financial Results And Confirms Earnings Outlook And Raises Cash Flow Guidance

- Conference call on Thursday, October 31, 2019, at 8:00 a.m. Central Time.

## Third Quarter Highlights:

- GAAP earnings per share were \$0.38.
- Adjusted earnings per share grew \$0.02, or 5.7%, over prior year quarter to \$0.37.
- Comparable funeral operating profit grew 8.4% and margin expanded 110 basis points.
- Adjusted operating cash flow increased \$72.4 million or 52.9%.

HOUSTON, Oct. 30, 2019 /PRNewswire/ -- Service Corporation International (NYSE: SCI), the largest provider of deathcare products and services in North America, today announced results for the third quarter of 2019. Our unaudited consolidated financial statements can be found at the end of this press release. The table below summarizes our key financial results:

|  | Three Months Ended<br>September 30, |          | Nine Months Ended<br>September 30, |            |
|--|-------------------------------------|----------|------------------------------------|------------|
|  | 2019                                | 2018     | 2019                               | 2018       |
| <i>(In millions, except for per share amounts)</i>                               |                                     |          |                                    |            |
| Revenue  | \$ 769.2                            | \$ 778.8 | \$ 2,380.0                         | \$ 2,369.4 |
| Operating income   | \$ 128.6                            | \$ 132.3 | \$ 425.7                           | \$ 457.9   |
| Net income attributable to common stockholders                                   | \$ 70.8                             | \$ 68.9  | \$ 222.4                           | \$ 254.2   |
| Diluted earnings per share   | \$ 0.38                             | \$ 0.37  | \$ 1.20                            | \$ 1.36    |
| Earnings excluding special items <sup>(1)</sup>                                  | \$ 67.9                             | \$ 64.3  | \$ 241.7                           | \$ 235.6   |
| Diluted earnings per share excluding special items <sup>(1)</sup>                | \$ 0.37                             | \$ 0.35  | \$ 1.30                            | \$ 1.26    |
| Diluted weighted average shares outstanding                                      | 185.8                               | 185.5    | 185.6                              | 187.5      |
| Net cash provided by operating activities  | \$ 209.3                            | \$ 136.9 | \$ 472.2                           | \$ 452.3   |
| Net cash provided by operating activities excluding special items <sup>(1)</sup> | \$ 209.3                            | \$ 136.9 | \$ 478.6                           | \$ 446.7   |

- (1) Earnings excluding special items, diluted earnings per share excluding special items, and net cash provided by operating activities excluding special items are non-GAAP financial measures. These items are also referred to as "adjusted earnings per share" and "adjusted operating cash flow". A reconciliation from net income attributable to common stockholders, diluted earnings per share, and net cash provided by operating activities computed in accordance with generally accepted accounting principles in the United States (GAAP) can be found later in this press release under the headings "Cash Flow and Capital Spending" and "Non-GAAP Financial Measures".

## Quarterly Summary:

- Diluted earnings per share were \$0.38 in the third quarter of 2019 compared to \$0.37 in the third quarter of 2018. The current period was impacted by a \$9.1 million loss on early extinguishment of debt and a \$9.5 million increase in net losses on divestiture and impairment charges, offset by a significant decrease in our effective tax rate. Diluted earnings per share excluding special items were \$0.37 for the third quarter of 2019 compared to \$0.35 in 2018. This 5.7% increase resulted from growth in our funeral segment coupled with reductions in corporate general and administrative expenses that were partially offset by a decline in cemetery revenue.
- Net cash provided by operating activities was \$209.3 million in the third quarter of 2019 compared to \$136.9 million in the third quarter of 2018 primarily due to lower cash taxes and cash interest, improved atneed operating results, as well as positive working capital impacts.
- During the third quarter, we returned \$55.5 million to shareholders through share repurchases and dividends and invested \$44.6 million in land for new cemeteries and the construction of new funeral service locations. For the nine months ended September 30, 2019, we returned \$150.8 million to

shareholders through a combination of share repurchases and dividends and deployed \$94.4 million of capital to accretive acquisitions, land for new cemeteries, and the construction of new funeral service locations.

**Tom Ryan, the Company's President, Chairman, and Chief Executive Officer, commented on the third quarter of 2019:**

"Today we reported adjusted earnings per share growth of almost 6% over the prior year quarter. Funeral revenue grew approximately \$6 million and funeral margin expanded 110 basis points as we continued to benefit from various on-going cost-reduction initiatives. This solid funeral performance driven by an increase in funeral services performed coupled with an anticipated decrease in general and administrative expenses was offset by lower cemetery segment profit associated with anticipated lower completed construction revenue. Additionally, we experienced softness in preneed cemetery sales production in two west coast markets within our Asian consumer base.

We are confirming our adjusted earnings per share guidance range of \$1.90 to \$2.00 and raising our guidance of our full year adjusted operating cash flow guidance to \$575 million to \$615 million. I would like to thank our hardworking and dedicated team of over 24,000 professionals for their continued focus on delivering extraordinary service to our client families. We continue to believe that our solid operating platform and healthy financial position will allow us to continue to grow revenue, leverage scale, and deploy capital to enhance shareholder value."

**UPDATED OUTLOOK FOR 2019**

Our revised outlook for potential earnings and cash flow in 2019 is as follows:

| <i>(In millions, except per share amounts)</i>  | <b>Original 2019<br/>Outlook</b> |              | <b>Revised 2019<br/>Outlook</b> |              |
|---|----------------------------------|--------------|---------------------------------|--------------|
| Diluted earnings per share excluding special items <sup>(1)</sup>                               | \$1.90 to \$2.00                 |              | \$1.90 to \$2.00                |              |
| Net cash provided by operating activities excluding special items and cash taxes <sup>(1)</sup> | \$640                            | \$700        | \$650                           | \$690        |
| Cash taxes expected in 2019   | (90)                             | (90)         | (75)                            | (75)         |
| Net cash provided by operating activities excluding special items <sup>(1)</sup>                | <u>\$550</u>                     | <u>\$610</u> | <u>\$575</u>                    | <u>\$615</u> |
| Capital improvements at existing locations and cemetery development expenditures                | Approximately \$195              |              | Approximately \$195             |              |

- (1) Diluted earnings per share excluding special items, net cash provided by operating activities excluding special items and, net cash provided by operating activities excluding special items and taxes, are non-GAAP financial measures. We normally reconcile these non-GAAP financial measures from diluted earnings per share and net cash provided by operating activities; however, diluted earnings per share and net cash provided by operating activities calculated in accordance with GAAP are not currently accessible on a forward-looking basis. Our outlook for 2019 excludes the following because this information is not currently available for 2019: Expenses net of insurance recoveries related to hurricanes, gains or losses associated with asset divestitures, gains or losses associated with the early extinguishment of debt, potential tax reserve adjustments and IRS payments and/or refunds, acquisition and integration costs, system implementation and transition costs, and potential costs associated with settlements of litigation or the recognition of receivables for insurance recoveries associated with litigation. The foregoing items, especially gains or losses associated with asset divestitures, could materially impact our forward-looking diluted earnings per share and/or our net cash provided by operating activities calculated in accordance with GAAP, consistent with the historical disclosures found in this press release under the headings "Cash Flow and Capital Spending" and "Non-GAAP Financial Measures".

**REVIEW OF RESULTS FOR THIRD QUARTER 2019**

**Consolidated Segment Results**

(See definitions of revenue line items later in this earnings release.)

| <i>(In millions, except funeral services performed and average revenue per service)</i> | <b>Three Months Ended<br/>September 30,</b> |             | <b>Nine Months Ended<br/>September 30,</b> |             |
|---|---|-------------|--|-------------|
|   | <b>2019</b>                                 | <b>2018</b> | <b>2019</b>                                | <b>2018</b> |
| <b>Funeral:</b>   |   |             |  |             |

|                             |          |          |            |            |
|-----------------------------|----------|----------|------------|------------|
| Atneed revenue              | \$ 236.2 | \$ 236.0 | \$ 740.3   | \$ 753.4   |
| Matured preneed revenue     | 144.4    | 138.8    | 449.4      | 450.1      |
| Core revenue                | 380.6    | 374.8    | 1,189.7    | 1,203.5    |
| Non-funeral home revenue    | 12.6     | 11.5     | 38.7       | 37.2       |
| Recognized preneed revenue  | 33.6     | 32.1     | 104.6      | 98.5       |
| Other revenue               | 33.3     | 32.6     | 98.9       | 94.8       |
| Total revenue               | \$ 460.1 | \$ 451.0 | \$ 1,431.9 | \$ 1,434.0 |
| Operating profit            | \$ 74.4  | \$ 68.1  | \$ 270.4   | \$ 279.0   |
| Operating margin percentage | 16.2 %   | 15.1 %   | 18.9 %     | 19.5 %     |
| Funeral services performed  | 75,497   | 73,896   | 238,322    | 236,391    |
| Average revenue per service | \$ 5,208 | \$ 5,228 | \$ 5,154   | \$ 5,249   |

#### **Cemetery:**

|  |          |          |          |          |
|--|----------|----------|----------|----------|
| Atneed property revenue                            | \$ 23.2  | \$ 21.6  | \$ 70.4  | \$ 66.9  |
| Atneed merchandise and service revenue             | 56.8     | 55.4     | 173.3    | 174.1    |
| Total atneed revenue                               | 80.0     | 77.0     | 243.7    | 241.0    |
| Recognized preneed property revenue                | 129.3    | 151.3    | 409.9    | 403.4    |
| Recognized preneed merchandise and service revenue | 72.2     | 69.0     | 212.8    | 210.5    |
| Total recognized preneed revenue                   | 201.5    | 220.3    | 622.7    | 613.9    |
| Core revenue                                       | 281.5    | 297.3    | 866.4    | 854.9    |
| Other cemetery revenue                             | 27.6     | 30.5     | 81.7     | 80.5     |
| Total revenue                                      | \$ 309.1 | \$ 327.8 | \$ 948.1 | \$ 935.4 |
| Operating profit                                   | \$ 85.4  | \$ 98.0  | \$ 272.4 | \$ 271.0 |
| Operating margin percentage                        | 27.6 %   | 29.9 %   | 28.7 %   | 29.0 %   |

#### **Comparable Funeral Results**

The table below details comparable funeral results of operations ("same store") for the three months ended September 30, 2019 and 2018. We consider comparable operations to be those owned for the entire period beginning January 1, 2018 and ending September 30, 2019.

*(Dollars in millions, except average revenue per service and average revenue per contract sold)*

|   | Three Months Ended September 30, |          |          |         |
|---|----------------------------------|----------|----------|---------|
|   | 2019                             | 2018     | Var      | %       |
| <b>Comparable revenue:</b>                  |                                  |          |          |         |
| Atneed revenue <sup>(1)</sup>               | \$ 229.5                         | \$ 229.9 | \$ (0.4) | (0.2) % |
| Matured preneed revenue <sup>(2)</sup>      | 141.3                            | 137.2    | 4.1      | 3.0 %   |
| Core revenue <sup>(3)</sup>                 | 370.8                            | 367.1    | 3.7      | 1.0 %   |
| Non-funeral home revenue <sup>(4)</sup>     | 12.3                             | 11.5     | 0.8      | 7.0 %   |
| Recognized preneed revenue <sup>(5)</sup>   | 32.9                             | 31.8     | 1.1      | 3.5 %   |
| Other revenue <sup>(6)</sup>                | 32.6                             | 32.5     | 0.1      | 0.3 %   |
| Total comparable revenue                    | \$ 448.6                         | \$ 442.9 | \$ 5.7   | 1.3 %   |
| Comparable operating profit                 | \$ 73.9                          | \$ 68.2  | \$ 5.7   | 8.4 %   |
| Comparable operating margin percentage      | 16.5 %                           | 15.4 %   | 1.1 %    |         |
| <b>Comparable services performed:</b>       |                                  |          |          |         |
| Atneed                                      | 40,236                           | 39,805   | 431      | 1.1 %   |
| Matured preneed                             | 22,730                           | 22,394   | 336      | 1.5 %   |
| Total core                                  | 62,966                           | 62,199   | 767      | 1.2 %   |
| Non-funeral home                            | 9,726                            | 9,285    | 441      | 4.7 %   |
| Total comparable funeral services performed | 72,692                           | 71,484   | 1,208    | 1.7 %   |
| Core cremation rate                         | 50.4 %                           | 48.8 %   | 1.6 %    |         |
| Total comparable cremation rate             | 56.8 %                           | 55.3 %   | 1.5 %    |         |

#### **Comparable sales average revenue per service:**

|  |          |          |         |         |
|--|----------|----------|---------|---------|
| Atneed                                       | \$ 5,704 | \$ 5,776 | \$ (72) | (1.2) % |
| Matured preneed                              | 6,216    | 6,127    | 89      | 1.5 %   |
| Total core                                   | 5,889    | 5,902    | (13)    | (0.2) % |
| Non-funeral home                             | 1,265    | 1,239    | 26      | 2.1 %   |
| Total comparable average revenue per service | \$ 5,270 | \$ 5,296 | \$ (26) | (0.5) % |

**Comparable preneed sales production:**

|  |          |          |          |         |
|--|----------|----------|----------|---------|
| Total preneed sales                                | \$ 234.3 | \$ 230.2 | \$ 4.1   | 1.8 %   |
| Core contracts sold                                | 31,862   | 31,012   | 850      | 2.7 %   |
| Non-funeral home contracts sold                    | 17,468   | 17,323   | 145      | 0.8 %   |
| Core average revenue per contract sold             | \$ 5,842 | \$ 5,944 | \$ (102) | (1.7) % |
| Non-funeral home average revenue per contract sold | \$ 2,760 | \$ 2,648 | \$ 112   | 4.2 %   |

- (1) Atneed revenue represents merchandise and services sold and delivered or performed once death has occurred.
  - (2) Matured preneed revenue represents merchandise and services sold on a preneed contract through our core funeral homes which have been delivered or performed as well as the related merchandise and service trust fund income.
  - (3) Core revenue represents the sum of merchandise and services sold on an atneed contract or preneed contract which were delivered or performed once death has occurred through our core funeral homes.
  - (4) Non-funeral home revenue represents services sold on a preneed or atneed contract through one of our non-funeral home sales channels (e.g. SCI Direct) and performed once death has occurred.
  - (5) Recognized preneed revenue represents travel protection, net and merchandise sold on a preneed contract and delivered before death has occurred.
  - (6) Other revenue primarily comprises general agency revenue, which is commissions we receive from third-party insurance companies for life insurance policies sold to preneed customers for the purpose of funding preneed arrangements.
- Total comparable funeral revenue increased by \$5.7 million, or 1.3%, primarily due to increases in core revenue of \$3.7 million, recognized preneed revenue of \$1.1 million, and non-funeral home revenue of \$0.8 million.
  - Core revenue increased \$3.7 million primarily as the result of a 1.2% increase in core funeral services performed somewhat offset by a 0.2% decrease in core average revenue per service. Organic sales average growth of 1.1% was more than offset by a 160 basis point increase in the core cremation rate.
  - Recognized preneed revenue grew \$1.1 million, or 3.5%, compared to the prior year as a result of higher non-funeral home sales production primarily from an increase in the average revenue per contract sold.
  - Comparable funeral operating profit increased \$5.7 million, or 8.4%, primarily due to the revenue increases described above in addition to continued effective management of our fixed costs. The operating margin percentage increased 110 basis points to 16.5%.
  - Comparable preneed funeral sales production increased \$4.1 million, or 1.8%, in the third quarter of 2019 compared to 2018. We experienced a 5.0% increase through our non-funeral home channel and a 1.0% increase through our core funeral locations.

**Comparable Cemetery Results**

The table below details comparable cemetery results of operations ("same store") for the three months ended September 30, 2019 and 2018. We consider comparable operations to be those owned for the entire period beginning January 1, 2018 and ending September 30, 2019.

(Dollars in millions)

|  | Three Months Ended September 30, |         |        |          |
|--|----------------------------------|---------|--------|----------|
|  | 2019                             | 2018    | Var    | %        |
| <b>Comparable revenue:</b>             |                                  |         |        |          |
| Atneed property revenue                | \$ 22.9                          | \$ 21.4 | \$ 1.5 | 7.0 %    |
| Atneed merchandise and service revenue | 55.3                             | 54.9    | 0.4    | 0.7 %    |
| Total atneed revenue <sup>(1)</sup>    | 78.2                             | 76.3    | 1.9    | 2.5 %    |
| Recognized preneed property revenue    | 128.5                            | 149.5   | (21.0) | (14.0) % |

|  |          |          |           |          |
|--|----------|----------|-----------|----------|
| Recognized preneed merchandise and service revenue | 70.9     | 67.5     | 3.4       | 5.0 %    |
| Total recognized preneed revenue <sup>(2)</sup>    | 199.4    | 217.0    | (17.6)    | (8.1) %  |
| Core revenue <sup>(3)</sup>                        | 277.6    | 293.3    | (15.7)    | (5.4) %  |
| Other revenue <sup>(4)</sup>                       | 26.7     | 29.8     | (3.1)     | (10.4) % |
| Total comparable revenue                           | \$ 304.3 | \$ 323.1 | \$ (18.8) | (5.8) %  |
| Comparable operating profit                        | \$ 85.3  | \$ 97.1  | \$ (11.8) | (12.2) % |
| Comparable operating margin percentage             | 28.0 %   | 30.1 %   | (2.1) %   |          |

**Comparable preneed and atneed sales production:**

|                                     |          |          |          |         |
|-------------------------------------|----------|----------|----------|---------|
| Property                            | \$ 147.0 | \$ 149.7 | \$ (2.7) | (1.8) % |
| Merchandise and services            | 134.0    | 132.2    | 1.8      | 1.4 %   |
| Discounts and other                 | (1.9)    | (1.1)    | (0.8)    | 72.7 %  |
| Preneed and atneed sales production | \$ 279.1 | \$ 280.8 | \$ (1.7) | (0.6) % |

Recognition rate<sup>(5)</sup> 99.5 % 104.5 %

- (1) Atneed revenue represents property, merchandise, and services sold and delivered or performed once death has occurred.
- (2) Recognized preneed revenue represents property, merchandise, and services sold on a preneed contract which were delivered or performed as well as the related merchandise and service trust fund income.
- (3) Core revenue represents the sum of property, merchandise, and services that have been delivered or performed as well as the related merchandise and service trust fund income.
- (4) Other revenue is primarily related to endowment care trust fund income, royalty income, and interest and finance charges earned from customer receivables on preneed installment contracts.
- (5) Represents the ratio of current period core revenue stated as a percentage of current period preneed and atneed sales production.

- Comparable cemetery revenue decreased \$18.8 million, or 5.8%, in the third quarter of 2019 compared to the third quarter of 2018. The revenue decline over the prior year quarter is due to a \$21.0 million, or 14.0%, decrease in recognized preneed property revenue as well as a \$3.1 million decline in other revenue (primarily endowment care trust fund income) due to the timing of capital gains and other distributions. These decreases were somewhat offset by a \$1.9 million increase in atneed revenue and a \$3.4 million, or 5.0%, increase in recognized preneed merchandise and service revenue.
- Recognized preneed property revenue decreased \$21.0 million, or 14.0%. While \$4.7 million of the shortfall is attributable to a decline in preneed cemetery sales production, the preponderance of the decline is attributable to a reduction in cemetery construction revenue as compared to the prior year.
- As mentioned above, comparable preneed cemetery sales production decreased \$4.7 million, or 2.3%, as a result of lower preneed property sales. We experienced lower preneed property sales in two west coast markets, particularly within our Asian consumer base. For the nine months ended September 30, 2019, comparable cemetery preneed sales production increased \$1.4 million, or 0.2%.
- Comparable cemetery operating profit decreased \$11.8 million to \$85.3 million and the operating margin percentage decreased 210 basis points to 28.0%, primarily reflecting lower recognized preneed property revenue partially offset by continued effective management of our fixed costs.

**Other Financial Results**

- General and administrative expenses decreased \$11.7 million to \$29.4 million in the third quarter of 2019, primarily related to higher expenses in the prior year for our long-term incentive compensation plan that is tied to increases in total shareholder return.
- We incurred a \$9.1 million loss on early extinguishment of debt related to open market debt repurchases that occurred during the third quarter of 2019. Additionally, we refinanced our 4.5% Senior Notes due November 2020 into our Bank Credit Facility due May 2024 during the quarter.
- The GAAP effective income tax rate for the third quarter of 2019 was 2.7%, down from the prior year third quarter of 19.8% primarily due to the reduction in a tax liability as a result of the expiration of the statute of limitations. Our adjusted effective income tax rate was 18.5% in the third quarter of 2019, compared to

an adjusted effective income tax rate of 17.6% in the prior year quarter. The adjusted effective income tax rate for the current quarter was less than anticipated primarily due to higher than expected tax benefits recognized on the settlement of employee share-based awards.

### **Cash Flow and Capital Spending**

Set forth below is a reconciliation of our reported net cash provided by operating activities prepared in accordance with GAAP to net cash provided by operating activities excluding special items (or sometimes referred to as adjusted operating cash flow). We do not intend for this information to be considered in isolation or as a substitute for other measures of performance prepared in accordance with GAAP.

| <i>(In millions)</i>   | <b>Three Months Ended<br/>September 30,</b> |                 | <b>Nine Months Ended<br/>September 30,</b> |                 |
|--|---|-----------------|--|-----------------|
|  | <b>2019</b>                                 | <b>2018</b>     | <b>2019</b>                                | <b>2018</b>     |
| Net cash provided by operating activities, as reported                                   | \$ 209.3                                    | \$ 136.9        | \$ 472.2                                   | \$ 452.3        |
| Legal settlement payments  | —   | —               | 6.4  | —               |
| IRS tax settlement refund received   | —   | —               | —  | (5.6)           |
| Net cash provided by operating activities excluding special items                        | <u>\$ 209.3</u>                             | <u>\$ 136.9</u> | <u>\$ 478.6</u>                            | <u>\$ 446.7</u> |
| Cash taxes included in net cash provided by operating activities excluding special items | <u>\$ 7.0</u>                               | <u>\$ 25.1</u>  | <u>\$ 56.5</u>                             | <u>\$ 56.0</u>  |

Net cash provided by operating activities excluding special items increased \$72.4 million to \$209.3 million in the third quarter of 2019. The increase is due to improved profitability especially from our atneed operations, improved preneed installment collections, and other working capital items. Additionally, we experienced \$18.1 million of lower cash taxes paid and \$8.3 million of lower cash interest paid. The decrease in cash interest paid primarily relates to the timing of new senior notes and our redemption of existing senior notes that occurred during the second quarter.

A summary of our capital expenditures is set forth below:

| <i>(In millions)</i>   | <b>Three Months Ended<br/>September 30,</b> |                | <b>Nine Months Ended<br/>September 30,</b> |                 |
|--|---|----------------|--|-----------------|
|  | <b>2019</b>                                 | <b>2018</b>    | <b>2019</b>                                | <b>2018</b>     |
| Capital improvements at existing operating locations                             | \$ 34.2                                     | \$ 31.3        | \$ 91.8                                    | \$ 87.9         |
| Development of cemetery property   | 20.4  | 21.9           | 58.4                                       | 56.7            |
| Capital improvements at existing operating and cemetery development expenditures | <u>54.6</u>                                 | <u>53.2</u>    | <u>150.2</u>                               | <u>144.6</u>    |
| Growth capital expenditures/construction of new funeral service locations        | 9.9   | 9.9            | 27.0                                       | 21.3            |
| Total capital expenditures   | <u>\$ 64.5</u>                              | <u>\$ 63.1</u> | <u>\$ 177.2</u>                            | <u>\$ 165.9</u> |

Total capital expenditures increased in the current quarter by \$1.4 million primarily due to higher recurring capital expenditures at existing locations in order to remain relevant with our customers.

### **TRUST FUND RETURNS**

Total trust fund returns include realized and unrealized gains and losses and dividends and are shown without netting of certain fees. A summary of our consolidated trust fund returns for the three and nine months ended September 30, 2019 is set forth below:

|                         | <b>Three Months</b> | <b>Nine Months</b> |
|-------------------------|---------------------|--------------------|
| Preneed funeral         | (0.5)%              | 13.1%              |
| Preneed cemetery        | (0.5)%              | 13.5%              |
| Cemetery perpetual care | 0.6%                | 12.0%              |
| Combined trust funds    | (0.1)%              | 12.9%              |

### **NON-GAAP FINANCIAL MEASURES**

Earnings excluding special items and diluted earnings per share excluding special items shown above are non-GAAP financial measures. We believe these non-GAAP financial measures provide a consistent basis for comparison between quarters and better reflect the performance of our core operations, as they are not influenced by certain income or expense items not affecting continuing operations. We also believe these measures help facilitate comparisons to our competitors' operating results.

Set forth below is a reconciliation of our reported net income attributable to common stockholders to earnings excluding special items and our GAAP diluted earnings per share to diluted earnings per share excluding special items. We do not intend for this information to be considered in isolation or as a substitute for other measures of performance prepared in accordance with GAAP.

*(In millions, except diluted EPS)*

|   | <b>Three Months Ended September 30,</b> |                    |                   |                    |
|---|---|--------------------|-------------------|--------------------|
|   | <b>2019</b>                             |                    | <b>2018</b>       |                    |
|   | <b>Net Income</b>                       | <b>Diluted EPS</b> | <b>Net Income</b> | <b>Diluted EPS</b> |
| Net income attributable to common stockholders, as reported                             | \$ 70.8                                 | \$ 0.38            | \$ 68.9           | \$ 0.37            |
| Pre-tax reconciling items:  |   |                    |                   |                    |
| Losses (gains) on divestitures and impairment charges, net                              | 1.5                                     | 0.01               | (8.0)             | (0.04)             |
| Loss on early extinguishment of debt, net   | 9.1                                     | 0.05               | —                 | —                  |
| Tax reconciling items:  |   |                    |                   |                    |
| Tax effect from special items   | (2.4)                                   | (0.01)             | 0.8               | —                  |
| Change in certain tax reserves and other <sup>(1)</sup>                                 | (11.1)                                  | (0.06)             | 2.6               | 0.02               |
| Earnings excluding special items and diluted earnings per share excluding special items | <u>\$ 67.9</u>                          | <u>\$ 0.37</u>     | <u>\$ 64.3</u>    | <u>\$ 0.35</u>     |
| Diluted weighted average shares outstanding (in thousands)                              |   | 185,843            |                   | 185,460            |

*(In millions, except diluted EPS)*

|   | <b>Nine Months Ended September 30,</b> |                    |                   |                    |
|---|--|--------------------|-------------------|--------------------|
|   | <b>2019</b>                            |                    | <b>2018</b>       |                    |
|   | <b>Net Income</b>                      | <b>Diluted EPS</b> | <b>Net Income</b> | <b>Diluted EPS</b> |
| Net income attributable to common stockholders, as reported                             | \$ 222.4                               | \$ 1.20            | \$ 254.2          | \$ 1.36            |
| Pre-tax reconciling items:  |  |                    |                   |                    |
| Losses (gains) on divestitures and impairment charges, net                              | 15.2                                   | 0.08               | (15.3)            | (0.08)             |
| Losses on early extinguishment of debt, net   | 16.6                                   | 0.09               | 10.1              | 0.05               |
| Legal settlements   | 6.4                                    | 0.03               | —                 | —                  |
| Tax reconciling items:  |  |                    |                   |                    |
| Tax effect from special items   | (8.9)                                  | (0.05)             | 1.4               | 0.01               |
| Change in certain tax reserves and other <sup>(1)</sup>                                 | (10.0)                                 | (0.05)             | (14.8)            | (0.08)             |
| Earnings excluding special items and diluted earnings per share excluding special items | <u>\$ 241.7</u>                        | <u>\$ 1.30</u>     | <u>\$ 235.6</u>   | <u>\$ 1.26</u>     |
| Diluted weighted average shares outstanding (in thousands)                              |  | 185,635            |                   | 187,517            |

(1) 2019 is impacted by the reduction in tax liability as a result of the expiration of statute of limitations. 2018 is impacted by the remeasurement of deferred taxes resulting from a change in estimate related to the finalization of the 2017 return.

### **Conference Call and Webcast**

We will host a conference call on Thursday, October 31, 2019, at 8:00 a.m. Central Time. A question and answer session will follow a brief presentation made by management. The conference call dial-in number is (800) 708-4540 or (847) 619-6397 with the passcode of 49106413. The conference call will also be broadcast live via the Internet and can be accessed through our website at [www.sci-corp.com](http://www.sci-corp.com). A replay of the conference call will be available through November 7, 2019 and can be accessed at (888) 843-7419 or (630) 652-3042 with the passcode of 49106413#. Additionally, a replay of the conference call will be available on our website for approximately one week.

### **Cautionary Statement on Forward-Looking Statements**

The statements in this press release that are not historical facts are forward-looking statements made in reliance on the "safe harbor" protections provided under 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 we believe are reasonable; however, many important factors could cause our 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 us, or on our behalf. Important factors, which could cause actual results to differ materially from those in forward-looking statements include, among others, the following:

- Our affiliated trust funds own investments in securities, which are affected by market conditions that are beyond our control.
- We may be required to replenish our affiliated funeral and cemetery trust funds to meet minimum funding requirements, which would have a negative effect on our earnings and cash flow.
- Our ability to execute our strategic plan depends on many factors, some of which are beyond our control.
- Our credit agreements contain covenants that may prevent us from engaging in certain transactions.
- If we lost the ability to use surety bonding to support our preneed activities, we may be required to make material cash payments to fund certain trust funds.
- The funeral and cemetery industry is competitive.
- Increasing death benefits related to preneed contracts funded through life insurance or annuity contracts may not cover future increases in the cost of providing a price-guaranteed service.
- The financial condition of third-party insurance companies that fund our preneed contracts may impact our future revenue.
- Unfavorable results of litigation could have a material adverse impact on our financial statements.
- Unfavorable publicity could affect our reputation and business.
- If the number of deaths in our markets declines, our cash flows and revenue may decrease.
- If we are not able to respond effectively to changing consumer preferences, our market share, revenue, cash flows, and/or profitability could decrease.
- The continuing upward trend in the number of cremations performed in North America could result in lower revenue, operating profit, and cash flows.
- Our funeral and cemetery businesses are high fixed-cost businesses.
- Regulation and compliance could have a material adverse impact on our financial results.
- Cemetery burial practice claims could have a material adverse impact on our financial results.
- We use a combination of insurance, self-insurance, and large deductibles in managing our exposure to certain inherent risks; therefore, we could be exposed to unexpected costs that could negatively affect our financial performance.
- A number of years may elapse before particular tax matters, for which we have established accruals, are audited and finally resolved.
- Changes in taxation as well as the inherent difficulty in quantifying potential tax effects of business decisions could have a material adverse effect on the results of our operations, financial condition, or cash flows.
- Declines in overall economic conditions beyond our control could reduce future potential earnings and cash flows and could result in future impairments to goodwill and/or other intangible assets.
- Any failure to maintain the security of the information relating to our customers, their loved ones, our associates, and our vendors could damage our reputation, could cause us to incur substantial additional costs and to become subject to litigation, and could adversely affect our operating results, financial condition, or cash flow.
- Our Canadian business exposes us to operational, economic, and currency risks.
- Our level of indebtedness could adversely affect our ability to raise additional capital to fund our operations, limit our ability to react to changes in the economy or our industry, and may prevent us from fulfilling our obligations under our indebtedness.
- A failure of a key information technology system or process could disrupt and adversely affect our business.
- Failure to maintain effective internal control over financial reporting could adversely affect our results of operations, investor confidence, and our stock price.
- The application of unclaimed property laws by certain states to our preneed funeral and cemetery backlog could have a material adverse impact on our liquidity, cash flows, and financial results.

For further information on these and other risks and uncertainties, see our Securities and Exchange Commission filings, including our 2018 Annual Report on Form 10-K. Copies of this document as well as other SEC filings can be obtained from our website at [www.sci-corp.com](http://www.sci-corp.com). We assume no obligation to publicly update or revise any forward-looking statements made herein or any other forward-looking statements made by us, whether as a result of new information, future events or otherwise.

### **About Service Corporation International**

Service Corporation International (NYSE: SCI), headquartered in Houston, Texas, is North America's leading provider of deathcare products and services. At September 30, 2019, we owned and operated 1,477 funeral service locations and 483 cemeteries (of which 290 are combination locations) in 44 states, eight Canadian



provinces, the District of Columbia, and Puerto Rico. Through our businesses, we market the Dignity Memorial® brand, which offers assurance of quality, value, caring service, and exceptional customer satisfaction. For more information about Service Corporation International, please visit our website at [www.sci-corp.com](http://www.sci-corp.com). For more information about Dignity Memorial®, please visit [www.dignitymemorial.com](http://www.dignitymemorial.com).

For additional information contact:

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Media: Jay Andrew - Director / Corporate Communications (713) 525-5235

### SERVICE CORPORATION INTERNATIONAL CONSOLIDATED STATEMENT OF OPERATIONS

|  | Three Months Ended<br>September 30, |            | Nine Months Ended<br>September 30, |              |
|--|-------------------------------------|------------|------------------------------------|--------------|
|  | 2019                                | 2018       | 2019                               | 2018         |
| (In thousands, except per share amounts)                   |                                     |            |                                    |              |
| Revenue  | \$ 769,241                          | \$ 778,786 | \$ 2,380,025                       | \$ 2,369,360 |
| Costs and expenses   | (609,509)                           | (612,616)  | (1,837,313)                        | (1,819,301)  |
| Operating profit   | 159,732                             | 166,170    | 542,712                            | 550,059      |
| General and administrative expenses                        | (29,406)                            | (41,070)   | (101,306)                          | (106,990)    |
| (Losses) gains on divestitures and impairment charges, net | (1,479)                             | 7,970      | (15,180)                           | 15,317       |
| Hurricane expenses, net                                    | (262)                               | (767)      | (558)                              | (437)        |
| Operating income   | 128,585                             | 132,303    | 425,668                            | 457,949      |
| Interest expense   | (46,678)                            | (46,419)   | (141,385)                          | (134,514)    |
| Losses on early extinguishment of debt, net                | (9,058)                             | —          | (16,637)                           | (10,131)     |
| Other income, net  | 20                                  | 152        | 1,614                              | 2,416        |
| Income before income taxes                                 | 72,869                              | 86,036     | 269,260                            | 315,720      |
| Provision for income taxes                                 | (1,997)                             | (17,043)   | (46,662)                           | (61,398)     |
| Net income   | 70,872                              | 68,993     | 222,598                            | 254,322      |
| Net income attributable to noncontrolling interests        | (80)                                | (58)       | (154)                              | (160)        |
| Net income attributable to common stockholders             | \$ 70,792                           | \$ 68,935  | \$ 222,444                         | \$ 254,162   |
| Basic earnings per share:                                  |                                     |            |                                    |              |
| Net income attributable to common stockholders             | \$ 0.39                             | \$ 0.38    | \$ 1.22                            | \$ 1.39      |
| Basic weighted average number of shares                    | 182,551                             | 180,858    | 182,218                            | 182,859      |
| Diluted earnings per share:                                |                                     |            |                                    |              |
| Net income attributable to common stockholders             | \$ 0.38                             | \$ 0.37    | \$ 1.20                            | \$ 1.36      |
| Diluted weighted average number of shares                  | 185,843                             | 185,460    | 185,635                            | 187,517      |

### SERVICE CORPORATION INTERNATIONAL CONSOLIDATED BALANCE SHEET

|                                      | September 30, 2019 | December 31, 2018 |
|--------------------------------------|--------------------|-------------------|
| (In thousands, except share amounts) |                    |                   |
| <b>ASSETS</b>                        |                    |                   |
| Current assets:                      |                    |                   |
| Cash and cash equivalents            | \$ 194,654         | \$ 198,850        |
| Receivables, net                     | 74,031             | 73,825            |
| Inventories                          | 26,645             | 24,950            |
| Current tax receivable               | 31,927             | 10,467            |
| Other                                | 24,922             | 23,140            |
| Total current assets                 | 352,179            | 331,232           |

|  |                      |                      |
|--|----------------------|----------------------|
| Preneed receivables, net and trust investments | 4,568,636            | 4,231,382            |
| Cemetery property                              | 1,870,213            | 1,837,484            |
| Property and equipment, net                    | 2,039,656            | 1,977,364            |
| Goodwill                                       | 1,844,884            | 1,863,842            |
| Deferred charges and other assets              | 1,024,974            | 934,151              |
| Cemetery perpetual care trust investments      | 1,615,779            | 1,477,798            |
| Total assets                                   | <u>\$ 13,316,321</u> | <u>\$ 12,693,243</u> |

## LIABILITIES & EQUITY

### Current liabilities:

|  |                |                |
|--|----------------|----------------|
| Accounts payable and accrued liabilities | \$ 493,890     | \$ 479,768     |
| Current maturities of long-term debt     | 69,527         | 69,896         |
| Income taxes payable                     | —              | 5,936          |
| Total current liabilities                | <u>563,417</u> | <u>555,600</u> |

|                                 |           |           |
|---------------------------------|-----------|-----------|
| Long-term debt                  | 3,466,769 | 3,532,182 |
| Deferred revenue, net           | 1,450,002 | 1,418,814 |
| Deferred tax liability          | 416,366   | 404,627   |
| Other liabilities               | 374,418   | 297,302   |
| Deferred receipts held in trust | 3,656,158 | 3,371,738 |
| Care trusts' corpus             | 1,613,671 | 1,471,165 |

### Commitments and contingencies

### Equity:

Common stock, \$1 per share par value, 500,000,000 shares authorized, 187,257,088 and 184,720,582 shares issued, respectively, and 182,830,949 and 181,470,582 shares outstanding, respectively

|  |           |         |
|--|-----------|---------|
| Capital in excess of par value         | 182,831   | 181,471 |
| Retained earnings                      | 1,015,525 | 972,710 |
| Accumulated other comprehensive income | 553,610   | 474,327 |
|  | 23,527    | 13,395  |

|                                   |                      |                      |
|-----------------------------------|----------------------|----------------------|
| Total common stockholders' equity | <u>1,775,493</u>     | <u>1,641,903</u>     |
| Noncontrolling interests          | 27                   | (88)                 |
| Total equity                      | <u>1,775,520</u>     | <u>1,641,815</u>     |
| Total liabilities and equity      | <u>\$ 13,316,321</u> | <u>\$ 12,693,243</u> |

## SERVICE CORPORATION INTERNATIONAL CONSOLIDATED STATEMENT OF CASH FLOWS

|  | <b>Nine Months Ended September 30,</b> |             |
|--|--|-------------|
|  | <b>2019</b>                            | <b>2018</b> |
| <b>Cash flows from operating activities:</b>   |  |             |
| Net income   | \$ 222,598                             | \$ 254,322  |
| Adjustments to reconcile net income to net cash provided by operating activities:    |  |             |
| Loss on early extinguishment of debt   | 16,637                                 | 10,131      |
| Depreciation and amortization  | 112,616                                | 117,496     |
| Amortization of intangibles  | 19,374                                 | 20,170      |
| Amortization of cemetery property  | 48,648                                 | 47,509      |
| Amortization of loan costs   | 4,410                                  | 4,531       |
| Provision for doubtful accounts  | 6,886                                  | 6,522       |
| Provision for deferred income taxes  | 18,335                                 | 25,491      |
| Losses (gains) on divestitures and impairment charges, net                           | 15,180                                 | (15,317)    |
| Gain on sale of investments  | —                                      | (2,636)     |
| Share-based compensation   | 11,563                                 | 11,740      |
| Change in assets and liabilities, net of effects from acquisitions and divestitures: |  |             |
| Increase in receivables  | (6,030)                                | (964)       |
| Increase in other assets   | (22,499)                               | (19,251)    |
| Decrease in payables and other liabilities   | (16,023)                               | (2,879)     |
| Effect of preneed sales production and maturities:                                   |  |             |
| Decrease (increase) in preneed receivables, net and trust investments                | 1,055                                  | (37,387)    |
| Increase in deferred revenue, net  | 56,078                                 | 43,329      |

|   |             |            |
|---|-------------|------------|
| Decrease in deferred receipts held in trust                               | (16,631)    | (10,541)   |
| Net cash provided by operating activities                                 | 472,197     | 452,266    |
| <b>Cash flows from investing activities:</b>                              |             |            |
| Capital expenditures  | (177,173)   | (165,943)  |
| Acquisitions, net of cash acquired  | (67,441)    | (187,616)  |
| Proceeds from divestitures and sales of property and equipment            | 13,949      | 29,890     |
| Proceeds from sale of investments   | —           | 2,900      |
| Payments on Company-owned life insurance policies                         | (9,017)     | (14,283)   |
| Proceeds from Company-owned life insurance policies                       | —           | 2,810      |
| Other   | —           | (14,525)   |
| Net cash used in investing activities                                     | (239,682)   | (346,767)  |
| <b>Cash flows from financing activities:</b>                              |             |            |
| Proceeds from issuance of long-term debt                                  | 1,089,263   | 395,000    |
| Debt issuance costs   | (15,537)    | —          |
| Scheduled payments of debt  | (16,906)    | (25,601)   |
| Early payments of debt  | (1,164,977) | (259,590)  |
| Principal payments on finance leases                                      | (32,258)    | (29,771)   |
| Proceeds from exercise of stock options                                   | 39,831      | 18,481     |
| Purchase of Company common stock  | (52,183)    | (275,726)  |
| Payments of dividends   | (98,581)    | (93,002)   |
| Bank overdrafts and other   | 9,341       | (8,842)    |
| Net cash used in financing activities                                     | (242,007)   | (279,051)  |
| Effect of foreign currency on cash, cash equivalents, and restricted cash | 2,201       | (1,111)    |
| Net decrease in cash, cash equivalents, and restricted cash               | (7,291)     | (174,663)  |
| Cash, cash equivalents, and restricted cash at beginning of period        | 207,584     | 340,601    |
| Cash, cash equivalents, and restricted cash at end of period              | \$ 200,293  | \$ 165,938 |

SOURCE Service Corporation International

<https://investors.sci-corp.com/news?item=122834>