Service Corp International
(NYSE: SCI)

Presented by Alexis He | 31 March 2010
Agenda

• Company Overview
• Industry Analysis
• Misperceptions
• Thesis Points
• Risks & Catalysts
• Recommendation
Business Overview

Operations

- North America’s largest provider of funeral and cemetery services
  - Funeral service locations
  - Cemeteries
  - Funeral service/cemetery combination locations
  - Crematoria
  - Related business e.g. flowers, travel, grief counseling, memorabilia, and insurance (3rd party)
Business Overview

Operations

• Funeral
  • Revenue: $1,391.8M

• Cemetery
  • Revenue: $692.27M
  • Lower margins
  • More loyal customer base
Business Overview
Growth

• Incorporated in Texas 1962, based on efficiencies of scale, “specifically reducing overhead costs by sharing resources such as embalming, accounting, transportation, and personnel among funeral homes in a business “cluster”

• Selling operations abroad to focus on N America expansion: Argentina, Uruguay and Chile (2005), Singapore (2006), Germany (?)

• Growth by acquisitions: Transcontinental branding, but keeping original names
Business Overview

Growth

• Acquisitions
  • Equity Corporation International (4th largest) – 1999
  • The Loewen Group, Inc. (2nd largest), later Alderwoods Group, Inc., acquired November 2006.
  • Keystone North America, Inc. (5th largest), October 2009
• 1,266 funeral service locations & 372 cemeteries
• 43 states, 8 Canadian provinces, Puerto Rico, and Germany
Business Overview
Brands

- Dignity Memorial (funeral services)
- National Cremation Society (cremation)
- Advantage (traditional, economical)
- Funeraria del angel (Hispanic)
- Making Everlasting Memories
- Memorial Plan
Business Overview

Partners

• Veterans of Foreign War of the United States
• Alliance for Retired Americans
• Disabled American Veterans
• American Legion Department of Missouri
• Employee Bereavement Programs
  – AIG
  – Florida Hospice Association
Industry Overview

• Financial ability does not effect spending

• Ceremonies in the US are very homogenized – In fact there is a real effort to makes sure that the cause of death is not a big issue and the ceremony remains unchanged by it.

• Cremation vs Burial
  • Trend in industry – 45% cremation by 2015
  • SCI Revenue – 41% of 2009 revenue from cremation
  • Growing to adapt to trend, focus on merchandise
  • New ways to profit – funeral homes now offer a number of "urns" to store the the ashes, some of them are very expensive.
Cremation Data & Predictions: Data Trends

- Percentage of Deaths Resulting in Cremation Since 1985

2007 Trend Analysis - United States Only

*Projected figures*
Industry Overview

• Funeral & Cemetery & Merchandise
  • Funeral services will continue to be used despite the move toward cremation
  • Cemeteries are still needed in most cremations

• Atneed & Preplan
  • Hospice workers push families to pick a funeral home early and make arrangements
  • Cash for firms
  • Pre-plan Trust regulation
Industry Overview

• Fragmented Industry
  • 80% are locally/family owned funeral homes

• Stable Revenue
  • Financial abilities do not impact spending on death

• High fixed-costs
  • Personnel, land (cemetery), embalming, etc.
  • Creates high barriers to entry

• Family loyalty, especially in cemeteries

• Price, location, name and reputation
Misperception

• Deathcare industry is dead (no pun intended)
  • Funeral services, cemeteries, and merchandise will continue to be important even with prevalence of cremation in the coming years
  • Casket makers are the ones being hit

• Slow growth industry
  • America aging rapidly
  • Industry consolidation will help boost margins
Investment Thesis

• Economies of Scale
  • Low Bargaining Power of Suppliers
  • Low Competitive Rivalry with industry

• Low Threat of New Entrants
  • Name recognition & reputation
  • High fixed costs

• Customer Loyalty

• Expansion possibilities
  • Fragmented industry – room for consolidation
  • High market share
Investment Thesis

Economics of Scale

• Leader in Growing Industry
  • America is aging at increasing rate
  • Widest geographical network; population concentrated locations

• Lack of Competition
  • 12% market share, STEI est. 3%
  • Acquired its largest competitors, most recently Keystone
  • Synergy, e.g. cost-spreading, combination locations, “clusters”

• Power over suppliers
  • Accounts for 20% of the revenue at Hillenbrand (NYSE: HI)

• Higher Margins
<table>
<thead>
<tr>
<th>FINANCIALS</th>
<th>NON-FINANCIALS</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>SCI</td>
</tr>
<tr>
<td>Price</td>
<td>9.24</td>
</tr>
<tr>
<td>Market Cap</td>
<td>2.33 B</td>
</tr>
<tr>
<td>Market Share</td>
<td>12%</td>
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<tr>
<td>Revenue</td>
<td>2.05B</td>
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<tr>
<td>EBITDA Margin</td>
<td>23.5%</td>
</tr>
<tr>
<td>EV/EBITDA</td>
<td>8.438</td>
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<tr>
<td>EPS</td>
<td>0.49</td>
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<tr>
<td>52wk Range</td>
<td>3.27-9.27</td>
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<tr>
<td>Dividend (Yield)</td>
<td>0.16 (1.70%)</td>
</tr>
<tr>
<td>Debt</td>
<td>1.91B (70% after 15)</td>
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<tr>
<td>FCF</td>
<td>288.28M</td>
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<tr>
<td>FCF Yield</td>
<td>12.37%</td>
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<tr>
<td>Current Ratio</td>
<td>1.033</td>
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<tr>
<td>Short Ratio</td>
<td>6.2</td>
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<table>
<thead>
<tr>
<th></th>
<th>SCI</th>
<th>STEI</th>
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<tbody>
<tr>
<td>Funeral Homes</td>
<td>1,266</td>
<td>140</td>
</tr>
<tr>
<td>Cemeteries</td>
<td>372</td>
<td>218</td>
</tr>
<tr>
<td>Area</td>
<td>26,273</td>
<td>9,900 acres</td>
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</table>

Mar 23 Susquehanna initiated Positive positions on both SCI and STEI, with target prices of $11 and $8 respectively.
## Financials

<table>
<thead>
<tr>
<th>Liabilities</th>
<th>Amount</th>
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</thead>
<tbody>
<tr>
<td><strong>Current Liabilities</strong></td>
<td></td>
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<tr>
<td>Accounts Payable</td>
<td>315,057</td>
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<tr>
<td>Short/Current Long Term Debt</td>
<td>49,957</td>
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<td>Other Current Liabilities</td>
<td>501</td>
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<tr>
<td><strong>Total Current Liabilities</strong></td>
<td>365,515</td>
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<tr>
<td><strong>Long Term Debt</strong></td>
<td>2,437,498</td>
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<td><strong>Other Liabilities</strong></td>
<td>1,339,504</td>
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<tr>
<td>Deferred Long Term Liability Charges</td>
<td>3,265,676</td>
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<tr>
<td>Minority Interest</td>
<td>12</td>
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<tr>
<td>Negative Goodwill</td>
<td>-</td>
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<tr>
<td><strong>Total Liabilities</strong></td>
<td>7,408,205</td>
</tr>
</tbody>
</table>

70% of Long Term Debt is due after 2015
Deferred Liabilities include Funeral Rev, Cemetery Rev, and Preneed in Trust
## Financials

<table>
<thead>
<tr>
<th>Assets</th>
<th>Amount</th>
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<tbody>
<tr>
<td><strong>Assets</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Current Assets</strong></td>
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<tr>
<td>Cash And Cash Equivalents</td>
<td>179,745</td>
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<tr>
<td>Short Term Investments</td>
<td>-</td>
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<tr>
<td>Net Receivables</td>
<td>143,762</td>
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<td>Inventory</td>
<td>31,117</td>
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<td>Other Current Assets</td>
<td>22,837</td>
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<td><strong>Total Current Assets</strong></td>
<td>377,461</td>
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<tr>
<td>Long Term Investments</td>
<td>3,628,759</td>
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<tr>
<td>Property Plant and Equipment</td>
<td>3,161,040</td>
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<tr>
<td>Goodwill</td>
<td>1,201,332</td>
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<tr>
<td>Intangible Assets</td>
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<tr>
<td>Accumulated Amortization</td>
<td>-</td>
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<tr>
<td>Other Assets</td>
<td>-</td>
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<tr>
<td>Deferred Long Term Asset Charges</td>
<td>522,389</td>
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<tr>
<td><strong>Total Assets</strong></td>
<td>8,890,981</td>
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</tbody>
</table>

Total Liabilities without Preneed: $4,142,529  
Total Assets without Preneed (unearned rev): $5,625,305  
Total Liabilities without debt beyond 2015: $2,810,440
Investment Thesis
Threat of Entrants

- Local Name & Reputation
  - Keeping original names & goodwill
  - Difficult to start a new brand – reason by SCI acquires
  - Over 95% of responding customers will recommend SCI

- Transcontinental Branding
  - Brings reliability & flexibility for customers
  - Makes possible national advertising

- High Fixed Costs
  - Land/Cemetery Ownership
  - Combination locations, “clusters” allow for cost-spreading
Investment Thesis

Customer Loyalty

• Funeral Homes
  • Families tend to choose the same funeral homes

• Cemeteries
  • Even more customer loyalty – families wish to be buried in the same place most of the time
  • SCI: 26,273 acres, 59% developed
same web, different domains
same web, different domains
Management

• Chairman & Founder Richard Waltrip
  • Longtime family friend of former President Bush

• Management
  • Range of years with the firm
Risks

• Preneed Trust & Perpetual Care Trust
  • Prone to market volatility
• Misconduct & Litigation
• FTC Antitrust Concerns
  • Ordered to divest 22 funeral homes and five cemeteries in order to resolve competition concerns in its $200 million purchase of rival Keystone North America Inc.
Catalysts

• First Quarter Earnings
• Keystone acquisition
• Selling operations in Germany
• Debt Coverage in the coming years
Recommendation

• Long
• Pair Trade
  • Traditional burial only
  • Casket maker