

### Service Corporation International

Bank of America Merrill Lynch Healthcare Conference May 2011

Tom Ryan, President & CEO Eric Tanzberger, SVP, CFO & Treasurer



### Service Corporation International

#### **Tom Ryan**

**President & CEO** 

### Forward-Looking Statements

The statements in this presentation that are not historical facts are forward-looking statements made in reference on the "safe harbor" protections provided under the Private Securities Litigation Reform Act of 1995. 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.

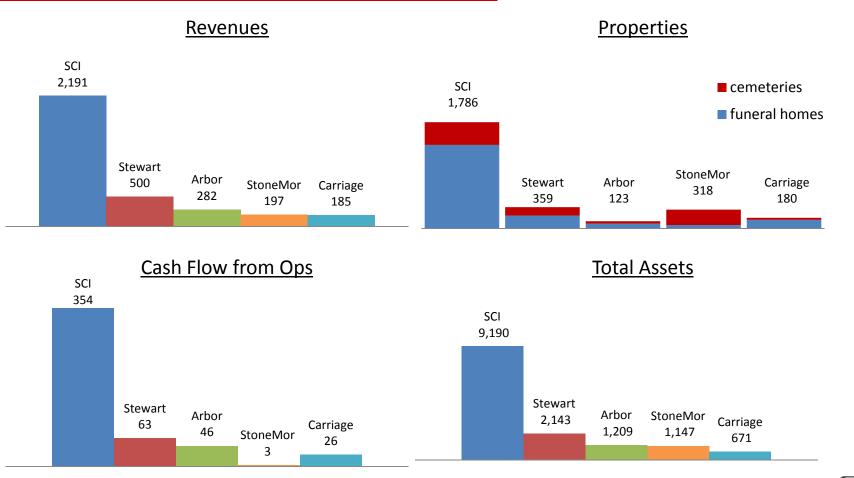
For further information on these and other risks and uncertainties, see our Securities and Exchange Commission filings, including our 2010 Annual Report on Form 10-K. Copies of this document as well as other SEC filings can be obtained from our website at <a href="https://www.sci-corp.com">www.sci-corp.com</a>. 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.

#### SCI at a glance

- Founded in 1962 & headquartered in Houston, TX
- Largest company in North America funeral & cemetery industry with nearly 1,800 locations
- NYSE:SCI with a market cap of ~\$2.7 billion
- 2010 revenues of \$2.2 billion or ~12% share of industry revenues
- Backlog of future revenues of approx \$7 billion or more than 3x annual revenues
  - Primarily supported by cash in state-regulated trust funds or third party life insurance policies
- 2010 free cash flow\* of \$265 million
  - Used to enhance shareholder value through strategic acquisitions, share repurchases and, in some instances, opportunistic debt repurchases
- Poised to benefit from aging of America



# Industry landscape – SCI is by far the predominant player



#### Our competitive strengths

- Unparalleled network
  - 1,398 funeral homes and 381 cemeteries (57% combos\*)
  - 43 states and 8 Canadian provinces
- Multi-brand portfolio: key brand called Dignity Memorial®



- Ability to leverage scale
  - Sharing of personnel, vehicles & other resources
  - Centralized or outsourced operating & accounting functions
  - Purchasing power
  - Preneed sales opportunity
- Premier education platform for our 21,000 employees



- Unique products & services
- Community involvement



#### Results exceeded expectations in 2010

 Strong operating performance driven by recent acquisitions with 7% revenue growth leveraged into normalized earnings growth of 16%

Acquisitions	Properties	Revenues	Closing
Keystone – 5 <sup>th</sup> largest deathcare company	199 FHs, 15 cems	\$110M	March 2010
Palm Mortuaries - Las Vegas, NV	8 FHS, 6 cems	\$27M	Dec 2009

- We grew funeral & cemetery preneed sales in the mid-single digit % range
- Produced better than expected free cash flow\* of \$265 million
- Returned more than \$156 million to shareholders thru a combination of share repurchases and dividends
- Maintained strong balance sheet and target financial leverage



### Off to a strong start in 2011

In millions, except per share data & gross margin %

	Q1 10	Q1 11	Chg %
Consolidated:			
Revenues	\$530.9	\$579.7	9.2%
Normalized EPS*	\$.13	\$.17	30.8%
Comparable:			
Funeral revenues	\$363.7	\$379.3	4.3%
Funeral gross margin	23.1%	24.5%	
Cemetery revenues	\$159.9	\$169.9	6.3%
Cemetery gross margin	17.7%	16.1%	

<sup>\*</sup>Normalized EPS is a non-GAAP financial term. Please see appendix for a reconciliation to the appropriate GAAP term and for other disclosures.

## Capital priorities Focused & disciplined approach



• Reinvest in core strategies

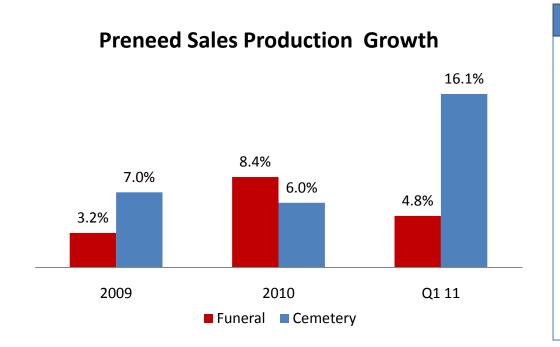
Invest in strategic acquisitions

Return value to shareholders

Manage debt & liquidity profile

# Growing preneed sales is our key internal growth initiative

Our size, scale & financial strength give us "game changing" opportunity



#### **Benefits of Preneed**

#### **FOR SCI**

- Cemetery property sales generally have current P&L and cash flow impact
- Locks up future market share
- Funded preneed contracts are NPV positive over the life of the contract
- Incremental business leverages fixed costs

#### **FOR CUSTOMER**

- Alleviates making decisions at difficult time
- Guarantees price, if funded
- National portability, if SCI

### Business model summary & outlook

- We believe we can grow earnings and cash flow
- Funeral business revenue growth opportunities limited in the near-term, but expect continued good expense management and significant/steady cash flows
- Cemetery business has more opportunities to grow by driving preneed sales as well as strategic cost reduction initiatives
- Significant liquidity and strong free cash flow allow us to deploy capital to enhance shareholder value
- We are well-positioned to capture differential growth when the baby boomer generation begins to affect our industry



### Service Corporation International

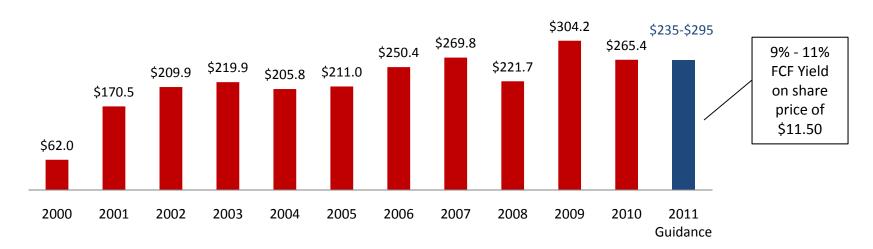
#### **Eric Tanzberger**

Senior Vice President, CFO & Treasurer

# Our consistently strong free cash flow is what distinguishes us

#### **Normalized Free Cash Flow**

In Millions



# First quarter 2011 cash flow ahead of internal expectations

In millions

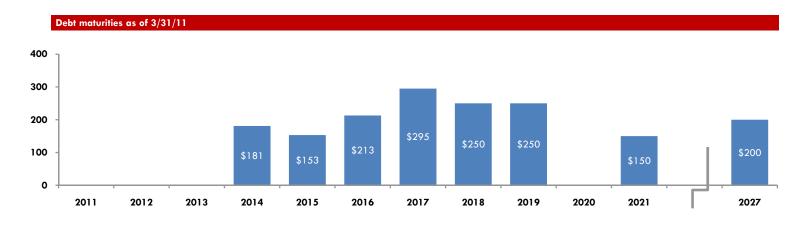
	Q1 10	Q1 11	Chg %	2011 Guidance
Adj Cash flow from Ops	\$108.9	\$108.0	(0.8%)	\$330 to \$380
Recurring capex	(\$17.1)	(\$23.4)	(36.8%)	(\$85 to \$95)
Free cash flow	\$91.8	\$84.6	(7.8%)	\$235 to \$295

Higher earnings & tax refund in Q1 11 were offset by anticipated working capital timing differences



### Strong financial position and liquidity

- Cash of approximately \$175 million
- Credit availability of \$500 million
  - In Q1 11, this facility was increased from \$400M to \$500M and the maturity was extended from Nov 2013 to March 2016. No borrowings currently, but used to support letters of credit of \$42M.
- Total debt at 3/31/11 of \$1.85 billion
- Leverage (Net Debt/EBITDA) was 3.1x at 3/31/11 versus our target range of 3.0x-3.5x
- Favorable debt maturity profile with no meaningful maturities until Oct 2014



## Capital spending highlights

	2010	Q1 11	Comments
ACQUISITIONS	\$300M	\$10M	Opportunities available with 80% of industry unconsolidated; good track record of execution & integration ability
SHARE REPURCHASES	\$117M	\$30M	Share count has been reduced by approx 30% since mid 2004
DIVIDENDS	\$40M	\$10M	Recently increased our quarterly cash dividend from \$.04 to \$.05 (~22.5% of Normalized Fully Taxed Free Cash Flow; our target is 20%-30%)
DEBT REPURCHASES	\$111M	\$5M	We will continue to be opportunistic while focusing on reducing liquidity risk and managing our debt maturity profile

### SCI: A solid long-term investment

#### Business fundamentals and financial position remain strong

- Predominant player in stable funeral & cemetery industry
- Unparalleled network and scale
- Significant and consistent cash flows
- Strong liquidity, financial flexibility, favorable debt maturity profile
- Disciplined and focused capital allocation strategy
- Differential growth strategies that are not capital intensive
- Attractive demographic trends

#### Our Purpose...

A company that is dedicated to compassionately supporting families at difficult times, celebrating the significance of lives that have been lived, and preserving memories that transcend generations, with dignity and honor

Service Corporation International







## **Appendix**

- **20** Normalized EPS
- **21** Free Cash Flow years 2000 to 2010
- 22 Free Cash flow first qtrs 2011/2010

#### Normalized EPS

	Q1	. 11	Q1 10				
	Net Diluted Income EPS		Net Income	Diluted EPS			
Net income, as reported	\$ 38.8	\$ .16	\$ 30.9	\$ .12			
Losses on divestitures and impairment charges, net	0.4		0.4				
Acquisition & transition costs	0.6		2.3	.01			
Losses (Gain) on early extinguishment of debt	0.2						
Change in certain tax reserves & tax accounting method changes	1.0	.01	0.8				
Earnings from continuing operations excluding special items	\$ 41.0	\$ .17	\$ 34.4	\$ .13			

- Normalized EPS is a non-GAAP financial measure. We believe this non-GAAP financial measure provides a consistent basis for comparison between quarters and better reflects the performance of our core operations, as it is not influenced by certain income and expense items not affecting continuing operations. We also believe this measure helps facilitate comparisons to competitors' operating results.
- Diluted earnings per share calculated in accordance with GAAP is not currently accessible on a forward-looking basis. Our outlook for fiscal 2011 excludes the following because this information is not currently available: Gains or losses associated with asset dispositions; Gains or losses associated with the early extinguishment of debt or foreign currency transactions; Potential tax adjustments to reserves, payments, credits or refunds; acquisition costs; Potential costs associated with settlements of litigation or the recognition of receivables for insurance recoveries associated with litigation.

## Adj. Cash Flow from Ops & Free cash flow – Years 2000 to 2010

(in millions)

	2000	2001	2002	2003	2004	2005	2006	2007 *	2008	2009	2010
Cash flow from ops, as reported	223.6	383.3	352.2	374.1	94.0	312.7	324.2	330.3	350.3	372.1	354.4
Termination of pension plans/Other	(157.7)	(79.8)	-	-	31.4	-	-	23.9	3.0	-	-
Settlement of litigation, net	79.5	57.4	-	27.1	131.1	-	-	-	-	-	-
Premiums paid on extinguishment of debt	-	-	-	-	13.8	12.2	15.7	11.7	-	-	-
Net tax refund/payment	-	(116.3)	(67.2)	(94.5)	-	(29.0)	-	-	(1.2)	-	-
Acquisition & transition costs	-	-	-	-	-	-	3.2	38.6	3.3	-	5.1
Adj. Cash flow from ops	145.4	244.6	285.0	306.7	270.3	295.9	343.1	404.5	355.4	372.1	359.5
Certain capital expenditures	(83.4)	(74.1)	(73.0)	(86.7)	(64.5)	(84.9)	(92.7)	(134.7)	(133.7)	(67.9)	(94.1)
Free cash flow	62.0	170.5	212.0	220.0	205.8	211.0	250.4	269.8	221.7	304.2	265.4
Cash flow (used in) from	193.1	325.4	226.0	(37.4)	289.5	171 0	(1,297)	270 1	(151 2)	(152 5)	(279.7)
investing activities	195.1	323.4	320.9	(37.4)	269.5	171.0	(1,297)	3/0.1	(131.3)	(132.3)	(2/9./)
Cash flow (used in) from financing activities	(564.5)	(727.4)	(503.9)	(300.1)	(349.6)	(326.4)	565.2	(607.5)	(230.5)	(178.4)	(88.2)



<sup>\*</sup> SCI's FCF in 2007 excludes \$26M from Mayflower (discontinued) & Katrina insurance proceeds.

Certain capex = maintenance expenditures in years 2002-2004 and maintenance & cemetery development expenditures in 2005 forward

# Adj. Cash Flow from Ops & Free cash flow – First Qtrs 2011/2010

(in millions)

	Q1 10	Q1 11
Cash flow from ops, as reported	108.9	108.0
Certain capital expenditures	(17.1)	(23.4)
Free cash flow	91.8	84.6
Cash flow (used in) from investing activities	(227.0)	(27.4)
Cash flow (used in) from financing activities	114.5	(43.4)

- Free cash flow and adj. cash flow from ops are non-GAAP financial measures. These are not measures of performance or liquidity under GAAP and should not be used in isolation or as a substitute for cash flows from operating activities or other income or cash flow statement data prepared in accordance with GAAP or as a measure of profitability or liquidity.
- Free cash flow and adjusted cash flow from operations calculated in accordance with GAAP are not currently accessible on a forward-looking basis. Our outlook for fiscal 2011 excludes the following because this information is not currently available: Potential tax adjustments to reserves, payments, credits or refunds; Potential costs associated with settlements of litigation or the recognition of receivables for insurance recoveries associated with litigation.