



SERVICE  
CORPORATION  
INTERNATIONAL



North America's largest provider of funeral, cemetery & cremation services

# Non-GAAP Reconciliations

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*This information should not be considered in isolation or as a substitute for related GAAP measures. Additionally, these measures as calculated by the Company may not be comparable to similarly titled measures used by other companies.*

## ■ Adjusted EPS or Earnings from continuing operations excluding special items

- We use Earnings from continuing operations excluding special items (Adjusted EPS) as an underlying operational performance measure of the continuing operations of the business and to have a basis to compare underlying operating results to prior and future periods. We make adjustments to net income (a GAAP measure) to remove non-recurring charges and credits. We believe these adjustments are relevant in evaluating the overall performance of the business.

## ■ Adjusted cash flow from operations or Net cash provided by operating activities excluding special items

- We use Adjusted cash flow from operations, or Net cash provided by operating activities excluding special items, as an underlying operational performance measure of the continuing operations of the business and to have a basis to compare underlying cash flow results to prior and future periods. We make adjustments to cash flow from operations (a GAAP measure) to remove non-recurring receipts and payments. We believe these adjustments are relevant in evaluating the overall performance of the business.

## ■ Free cash flow

- We define Free cash flow as Adjusted cash flow from operations minus expenditures for capital improvements at existing locations and expenditures for the development of cemetery property, collectively referred to as Recurring Capex.
- We use free cash flow to assess the financial performance of the Company. We believe that Free cash flow is useful to investors because it relates the operating cash flow of the Company to the capital that is spent to continue and improve business operations, such as investment in the Company's existing businesses. Further, free cash flow facilitates our ability to strengthen the Company's balance sheet, to repay our debt obligations, pay cash dividends, and to repurchase our common shares. We also believe the presentation of this measure will enhance the investors' ability to analyze trends in the business and evaluate our underlying performance relative to other companies in the industry.



# Adjusted EPS

(In millions, except diluted EPS)

	Three Months Ended March 31,			
	2017		2016	
	Net Income	Diluted EPS	Net Income	Diluted EPS
Net income attributable to common stockholders, as reported	\$174.7	\$ 0.91	\$ 47.4	\$ 0.24
Pre-tax reconciling items:				
(Gains) losses on divestitures and impairment charges, net	(4.9)	(0.03)	0.3	—
Losses on early extinguishment of debt	—	—	0.6	—
Acquisition and integration costs	—	—	5.5	0.03
System transition costs	—	—	4.1	0.02
Pension termination settlement	11.6	0.06	—	—
Tax reconciling items:				
Tax benefit from special items	(2.4)	(0.01)	(3.7)	(0.02)
Change in certain tax reserves and other	(106.0)	(0.55)	1.1	0.01
Earnings from continuing operations and diluted earnings per share excluding special items (Adjusted EPS)	\$ 73.0	\$ 0.38	\$ 55.3	\$ 0.28
Diluted weighted average shares outstanding (in thousands)		192,867		198,030

2017 is primarily impacted by the settlement of IRS tax audits related to tax years 1999-2005.



# Free Cash Flow

<i>(In millions)</i>	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2017</b>	<b>2016</b>
Net cash provided by operating activities, as reported	\$ 188.4	\$ 184.8
Excess tax benefits from share-based awards	—	2.3
System transition costs	—	2.9
Net cash provided by operating activities excluding special items (Adjusted operating cash flow)	<u>\$ 188.4</u>	<u>\$ 190.0</u>
Capital improvements at existing locations	(17.5)	(19.0)
Development of cemetery property	(17.1)	(19.7)
Free cash flow	<u>\$ 153.8</u>	<u>\$ 151.3</u>
<i>Net cash used in investing activities</i>	\$ (56.3)	\$ (26.5)
<i>Net cash used in financing activities</i>	\$ (89.6)	\$ (84.9)
Cash taxes included in Adjusted operating cash flow	19.0	7.1



# Outlook for 2017

	2017		
	Low	Midpoint	High
<i>(In millions, except diluted EPS)</i> Net cash provided by operating activities excluding special items (A) (Adjusted cash flow from operations)	\$465	\$485	\$505
Capital improvements at existing locations & development of cemetery property	\$180	\$180	\$180
Diluted earnings per share from continuing operations excluding special items (B) (Adjusted EPS)	\$1.29	\$1.36	\$1.43

(A) Reconciliations to GAAP net cash provided by operating activities are not provided for these forward-looking estimates because GAAP net cash provided by operating activities for the fiscal year ending December 31, 2017 is not accessible and reconciling information is not available without unreasonable effort. We are unable to predict changes in assets and liabilities; future acquisition and transition costs, system and process transitions costs; potential tax adjustments to reserves, payments, credits or refunds; potential legal defense costs or settlements of litigation or the recognition of receivables for insurance recoveries associated with litigation, and these amounts could be material such that the amount of net cash provided by operating activities would vary substantially from the amount of projected net cash provided by operating activities excluding special items.

(B) Reconciliations to GAAP Net income per share are not provided for these forward-looking estimates because GAAP Net income per share for the fiscal year ending December 31, 2017 is not accessible and reconciling information is not available without unreasonable effort. We are not able to predict future system and process transitions costs; acquisition and transition costs, gains/losses and impairment charges associated with asset dispositions; gains/losses associated with the early extinguishment of debt or foreign currency transactions; 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, and these amounts could be material, such that the amount of Net income per share would vary substantially from the amount of projected Normalized earnings per share.

Our outlook for 2017 reflects management's current views and estimates regarding future economic and financial market conditions, company performance and financial results, business prospects, the competitive environment and other events. These views and estimates that support the outlook provided are subject to a number of risks and uncertainties, many of which are beyond the control of SCI, that could cause actual results to differ materially from the potential results.

