



SERVICE
CORPORATION
INTERNATIONAL



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

Non-GAAP Reconciliations

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 Diluted earnings per share excluding special items

- We use Diluted earnings per share excluding special items (Adjusted EPS) as an underlying operational performance measure 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)

| | <u>Three Months Ended December 31,</u> | | | | <u>Twelve Months Ended December 31,</u> | | | |
|--|--|----------------|----------------|----------------|---|----------------|----------------|----------------|
| | <u>2017</u> | | <u>2016</u> | | <u>2017</u> | | <u>2016</u> | |
| | <u>Net</u> | <u>Diluted</u> | <u>Net</u> | <u>Diluted</u> | <u>Net</u> | <u>Diluted</u> | <u>Net</u> | <u>Diluted</u> |
| | <u>Income</u> | <u>EPS</u> | <u>Income</u> | <u>EPS</u> | <u>Income</u> | <u>EPS</u> | <u>Income</u> | <u>EPS</u> |
| Net income attributable to common stockholders, as reported | \$247.3 | \$ 1.29 | \$ 66.2 | \$ 0.34 | \$546.7 | \$ 2.84 | \$177.0 | \$ 0.90 |
| Pre-tax reconciling items: | | | | | | | | |
| (Gains) losses on divestitures and impairment charges, net | (1.5) | (0.01) | (3.6) | (0.01) | (7.0) | (0.04) | 26.8 | 0.14 |
| Losses on early extinguishment of debt | 0.3 | — | — | — | 0.3 | — | 22.5 | 0.11 |
| Legal settlements, net of insurance recoveries | — | — | — | — | 11.5 | 0.06 | — | — |
| Acquisition, integration, and system transition costs | — | — | 0.8 | — | — | — | 17.5 | 0.09 |
| Pension termination settlement | — | — | 5.6 | 0.03 | 12.8 | 0.07 | 5.6 | 0.03 |
| Tax reconciling items: | | | | | | | | |
| Tax provision (benefit) from special items | 1.0 | 0.01 | 3.9 | 0.02 | (5.7) | (0.03) | (17.2) | (0.09) |
| Change in certain tax reserves and other | (152.1) | (0.79) | 17.4 | 0.09 | (260.1) | (1.35) | 20.9 | 0.11 |
| Diluted earnings per share excluding special items (Adjusted EPS) | <u>\$ 95.0</u> | <u>\$ 0.50</u> | <u>\$ 90.3</u> | <u>\$ 0.47</u> | <u>\$298.5</u> | <u>\$ 1.55</u> | <u>\$253.1</u> | <u>\$ 1.29</u> |
| Diluted weighted average shares outstanding (in thousands) | | 191,729 | | 192,957 | | 192,246 | | 196,042 |

On December 22, 2017, the U.S. government enacted comprehensive tax legislation commonly referred to as the "Tax Act". As a result of the Tax Act, we realized a net tax benefit for the remeasurement of deferred tax assets and liabilities, partially offset by a transition tax on certain unrepatriated earnings of our foreign subsidiaries. 2017 is also impacted by the settlement of IRS tax audits related to tax years 1999-2005. 2016 was impacted by a foreign valuation allowance and non-deductible goodwill resulting from gains on divestitures.



Free Cash Flow

| <i>(In millions)</i> | Three Months Ended | | Twelve Months Ended | |
|--|---------------------------|-----------------|----------------------------|-----------------|
| | December 31, | | December 31, | |
| | 2017 | 2016 | 2017 | 2016 |
| Net cash provided by operating activities, as reported | \$ 112.7 | \$ 105.1 | \$ 502.3 | \$ 463.6 |
| Pension termination settlement | — | — | 6.3 | — |
| Premiums paid on early extinguishment of debt | — | — | — | 20.5 |
| Acquisition, integration and system transition costs | — | 0.6 | — | 11.7 |
| Legal settlements, net of insurance recoveries | 11.5 | — | 11.5 | — |
| Excess tax benefits from share-based awards | — | 1.2 | — | 12.7 |
| IRS tax settlement (on prior year audits) | — | — | 34.2 | — |
| Net cash provided by operating activities excluding special items (Adjusted operating cash flow) | <u>\$ 124.2</u> | <u>\$ 106.9</u> | <u>\$ 554.3</u> | <u>\$ 508.5</u> |
| Capital improvements at existing locations | (44.4) | (27.9) | (117.6) | (90.4) |
| Development of cemetery property | (24.4) | (29.3) | (79.1) | (85.4) |
| Free cash flow | <u>\$ 55.4</u> | <u>\$ 49.7</u> | <u>\$ 357.6</u> | <u>\$ 332.7</u> |
| <i>Net cash used in investing activities</i> | \$ (57.3) | \$ (37.0) | \$ (235.9) | \$ (216.1) |
| <i>Net cash used in financing activities</i> | \$ 11.1 | \$ (48.6) | \$ (136.4) | \$ (188.9) |



Outlook for 2018

| | LOW | MIDPOINT | HIGH |
|--|--------|----------|--------|
| Net cash provided by operating activities excluding special items <i>(Adjusted operating cash flow)</i> | \$540 | \$570 | \$600 |
| Capital improvements at existing locations & development of cemetery property | \$185 | \$185 | \$185 |
| Diluted earnings per share excluding special items <i>(Adjusted EPS)</i> | \$1.72 | \$1.81 | \$1.90 |

Diluted earnings per share excluding special items and Net cash provided by operating activities excluding special items 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 2018 excludes the following because this information is not currently available for 2018: 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 settlement payments, 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 EPS and/or our net cash provided by operating activities calculated in accordance with GAAP.

Our outlook for 2018 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.

