Kenan–Flagler Business School
ALPHA CHALLENGE
The University of North Carolina

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Team Number: Credit Team 1

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SCI $3\frac{3}{8}$ 08/15/2030

Issuer: Service Corporation International

Maturity: August 15, 2030
Coupon: 3.375%
Yield to Worst: 5.26%

Potential Return: ~7%

Investment Summary

SCI's stable credit profile, defensive industry positioning, and predictable cash flows support a buy recommendation on the 2031 notes.

Investment Recommendation:

- **BUY** SCI 3.375% Senior Notes 8/15/2030 (S&P BB) trading at $91.93, 5.26% yield to worst and 165 OAS
- **Target Spread:** 140 bps

Thesis 1: SCI benefits from a highly fragmented, recession-resistant industry with favorable demographics. It leads the market with a 17% share in an industry having strong barriers to entry.

Thesis 2: SCI's credit profile is underpinned by stable leverage, resilient margins, and disciplined capital allocation that balances shareholder returns with investment-grade metrics.

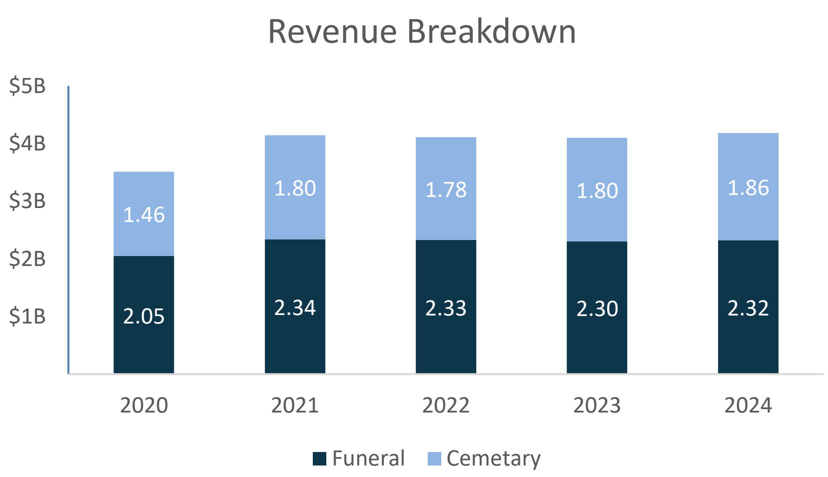
Thesis 3: SCI's leading preneed program provides strong visibility into future cash flows, with a growing $16B backlog increasingly backed by insurance-funded contracts that reduce investment risk and credit volatility.

Company Overview

Leading provider of funeral and cemetery services in North America with stable recurring cash flows, strong pricing power, and consistent margin expansion.

- Service Corporation International (SCI) is North America's largest deathcare provider, operating ~2,000 funeral homes and cemeteries across the U.S. and Canada.
- Headquartered in Houston, Texas, SCI was founded in 1962 and employs approximately 24,000 people.
- The company operates under two core segments: Funeral and Cemetery - offering burial, cremation, memorialization, and prearrangement services.
- Offers tailored services and products to meet the evolving needs of its customers.

Revenue ($M)	4,186	**Net Leverage**	3.64x
EBITDA ($M)	1,279	**Interest Coverage**	5.20x
EBITDA Margin	30.6%	**Capex (% of Revenue)**	8.8%
Free Cash Flow($M)	556	**Total Market Cap ($M)**	11,554
Gross Margin	33.9%	**Total Debt ($M)**	4,918
P/E	22.59x	**Enterprise Value ($M)**	16,472



- **Funeral**: Provides personalized funeral, cremation, and memorial services through a network of funeral homes across the U.S. and Canada, generating revenue primarily from at-need and pre-need arrangements.
- **Cemetery Segment:** Owns and operates cemeteries offering interment rights, merchandise, and related services, with sales driven by both pre-need contracts and at-need burials.

Sources: Company Fillings, FactSet

Capital Structure and Bond Selection

SCI's leverage remains within target range, supported by long-dated, fixed-rate maturities and investment-grade metrics.

- Staggered maturity profile limits refinancing risk through 2030.
- Investment-grade credit style metrics and disciplined capital allocation underpin balance-sheet strength.
- Limited financial risk with Debt to EV of 0.3x

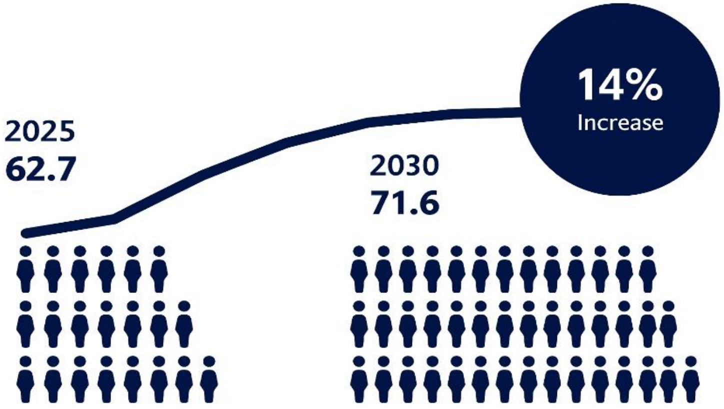
Credit Facility	Out ($MM)	Secured?	Coupon Rate	Maturity Date	Price	YTW	OAS	Ratings	Leverage
$1,500 MM Revolver	285	N	6.26%	1/1/2028	-	-	-		
Term Loan	629	N	-	1/1/2028	-	-	-		
2027 Notes	550	N	4.63%	12/15/2027	99.52	4.9	131.8	Ba3/BB	
2029 Notes	750	N	5.13%	6/1/2029	100	5.1	147.9	Ba3/BB	
2030 Notes	**850**	**N**	**3.38%**	**8/15/2030**	**92.58**	**5.2**	**174.5**	**Ba3/BB**	
2031 Notes	800	N	4.00%	5/15/2031	94.25	5.2	174.7	Ba3/BB	
2032 Notes	800	N	5.75%	10/15/2032	101.3	5.4	174.3	Ba3/BB	
Total Debt	**5,030**								**3.79x**
- Cash & Cash Equivalents	221								
Net Debt	**4,809**								**3.62x**
Market Cap Equity	11,368								
Enterprise Value	**16,177**								**12.19x**
								Interest Coverage	3.69x

Thesis #1: Market Leader in a Growing, Defensive Sector

SCI is the dominant player in a recession-resilient deathcare industry, well-positioned to benefit from aging demographics and high barriers to entry.

Demographic Shift: Rise in Americans Age 65+

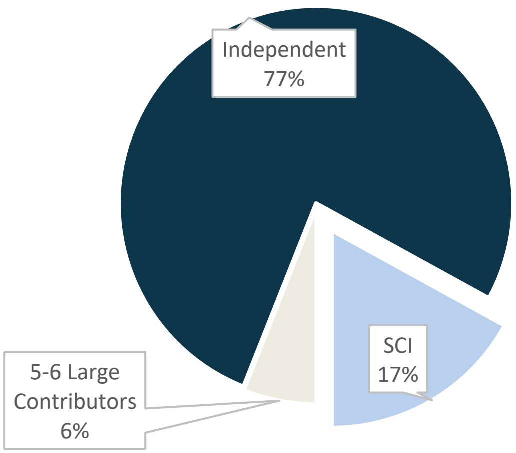
(US population, in Millions)



- Target market includes adults 55+, with preneed customers typically in their 60s and at-need customers in their late 70s to early 80s
- U.S. population aged 65+ projected to grow at **~2.5% annually**, reaching 71.6M by 2030
- The business is generally **resilient in a recession**, as economic conditions do not typically impact the death rate, which drives roughly 70% of SCI's revenue

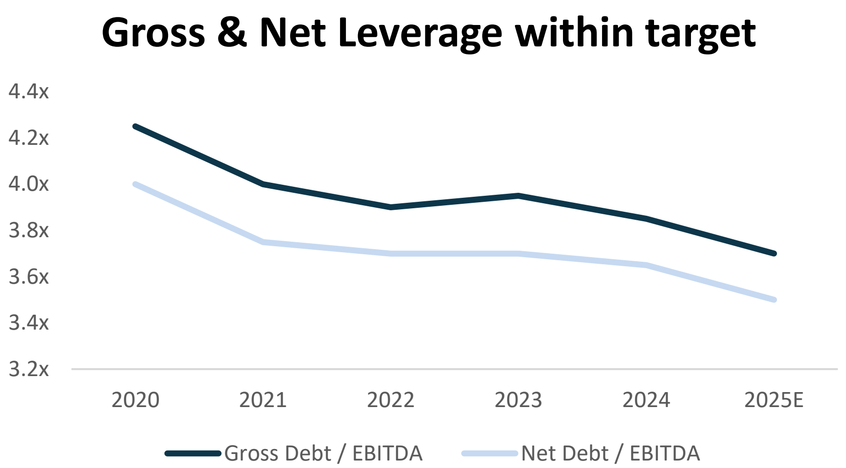
- SCI is the largest player in North America with 17% market share, 10x larger than its next competitor.
- The North American deathcare industry is highly fragmented, with roughly 80% of funeral homes and cemeteries remaining in the hands of mom-and-pop operators
- Entry into the cemetery business is restricted by significant capital requirements, limited land availability, and lengthy permitting processes

Industry Revenue Contribution

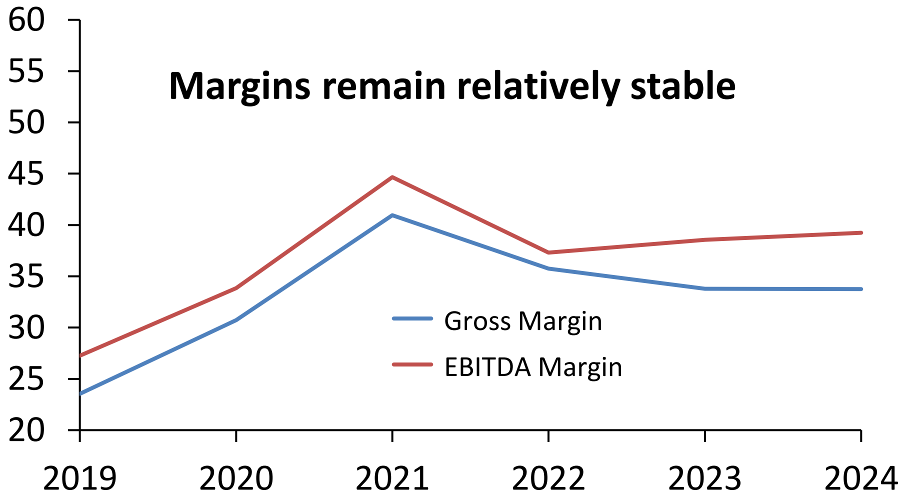


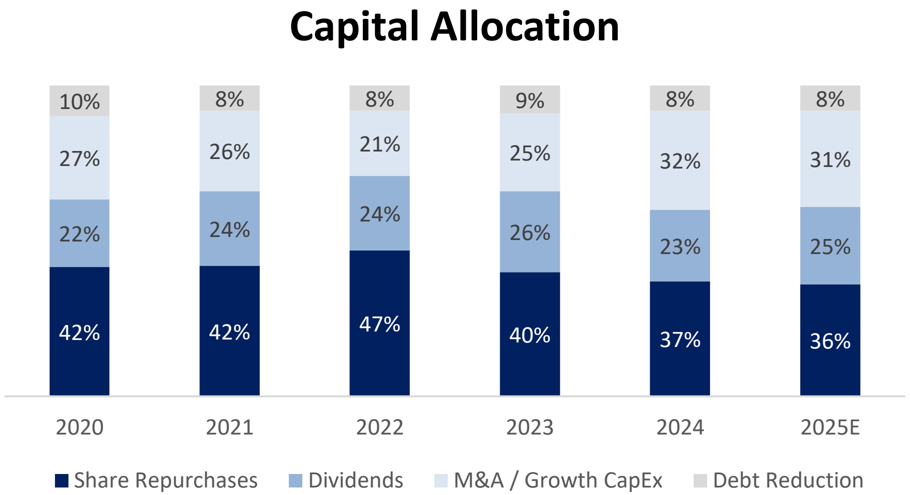
Thesis #2: Pricing Power and Scale Drive Margin Expansion

SCI leverages its national scale and strong brand to sustain pricing power, enhance efficiency, and expand margins.



- Leverage consistently within target range (3.5–4.0x), highlighting prudent balance-sheet management and financial discipline.
- Capital allocation remains balanced, with steady shareholder returns (buybacks + dividends ≈ 60%) while preserving investment-grade credit metrics.
- Strong pricing power and operational scale support stable margins despite inflationary and mix headwinds.
- Defensive carry profile offers limited downside risk and potential spread tightening as fundamentals stay resilient.

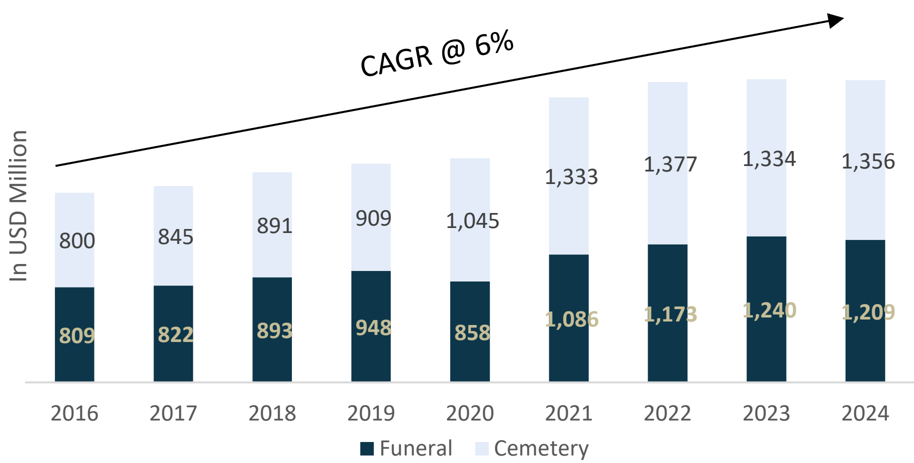




Thesis #3: Predictable Cash Flows from Preneed Contracts

SCI's preneed model provides predictable, recurring cash flows supported by strong backlog growth and reduced investment risk.

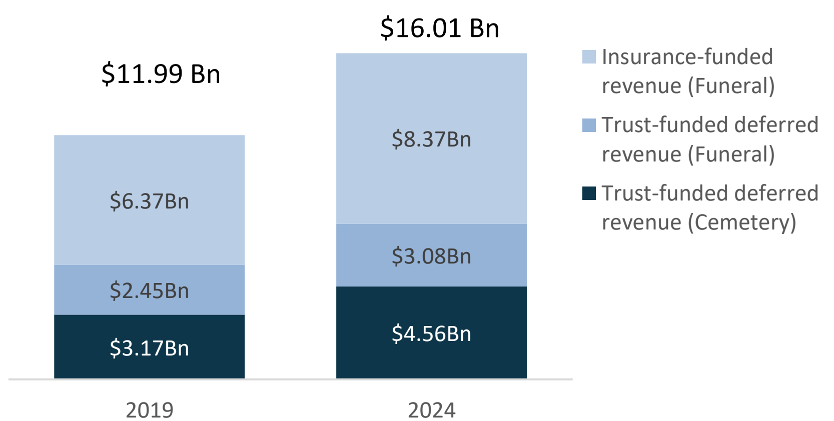
Growth in Preneed Sales Production



- Preneed sales now drive **73% of cemetery revenue** (up from 60% in 2016), underscoring SCI's growing focus on predictable, long-term cash flows.
- Historically, the company targeted consumers aged 55-75, but SCI has more recently seen people as young as 30-45 show interest in pre-planning.
- Sustained outperformance in preneed sales supporting **market share gains of ~10-20bps annually**

- Preneed backlog expanded from $11.99B in 2019 to $16.0B in 2024, reflecting robust growth in contracted future revenue and strong earnings visibility.
- Funeral backlog is ~70% insurance-funded contracts and ~30% trust-funded contracts. Cemetery is ~100% in trust as delivery is not specifically tied to the death event occurring.
- Through SCI Direct's transition from trust-funded to predominantly insurance-funded contracts, **investment risk is reduced** as market and regulatory volatility shifts to third-party insurers, creating a more predictable, lower-risk revenue backlog.

Growth in Backlog of Revenue



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Financial Summary

	Actuals						Forecasted		
For the year ending on	Dec-31-2019	Dec-31-2020	Dec-31-2021	Dec-31-2022	Dec-31-2023	Dec-31-2024	Dec-31-2025	Dec-31-2026	Dec-31-2027
Currency	*USD Millions*	*USD Millions*	*USD Millions*	*USD Millions*	*USD Millions*	*USD Millions*	*USD Millions*	*USD Millions*	*USD Millions*
Revenue	**3,231**	**3,512**	**4,143**	**4,109**	**4,100**	**4,186**	**4,392**	**4,530**	**4,677**
Funeral	*1,924*	*2,052*	*2,343*	*2,332*	*2,303*	*2,324*	*2,486*	*2,595*	*2,734*
Cemetery	*1,307*	*1,459*	*1,800*	*1,777*	*1,797*	*1,862*	*1,906*	*1,935*	*1,943*
COGS	2,223	2,261	2,543	2,666	2,697	2,768	2,867	2,948	3,034
Gross Profit	1,008	1,251	1,601	1,442	1,403	1,419	1,525	1,582	1,643
Margins%	*31.2%*	*35.6%*	*38.6%*	*35.1%*	*34.2%*	*33.9%*	*34.7%*	*34.9%*	*35.1%*
EBITDA	**881**	**1,094**	**1,443**	**1,205**	**1,246**	**1,268**	**1,375**	**1,431**	**1,492**
EBITDA Margin	*27.3%*	*31.2%*	*34.8%*	*29.3%*	*30.4%*	*30.3%*	*31.3%*	*31.6%*	*31.9%*
Operating Income (EBIT)	**634**	**836**	**1,166**	**917**	**934**	**940**	**1,046**	**1,090**	**1,143**
	19.6%	*23.8%*	*28.1%*	*22.3%*	*22.8%*	*22.5%*	*23.8%*	*24.1%*	*24.4%*
Net Income (Loss)	370	516	803	565	537	519	622	652	689
Balance Sheet									
Net Worth	1,823	1,753	1,909	1,673	1,541	1,678	1,647	1,590	1,508
Total Debt	3,583	3,743	3,966	4,342	4,712	4,835	4,921	5,081	5,223
Debt/ EBITDA	*4.07*	*3.42*	*2.75*	*3.60*	*3.78*	*3.81*	*3.58*	*3.55*	*3.50*
Cash and Cash Equivalents	186	231	269	192	222	219	179	217	262
Net Debt	3,397	3,512	3,698	4,150	4,491	4,617	4,742	4,864	4,962
Net Debt/ EBITDA	*3.86*	*3.21*	*2.56*	*3.44*	*3.61*	*3.64*	*3.45*	*3.40*	*3.32*

Risks and Mitigants

SCI's stable cash flows, strong liquidity, and diversification effectively mitigate core credit risks.

Risks	Mitigants
Shift Toward Cremation Reduces Average Revenue	SCI offsets margin pressure by offering premium memorialization products (glass niches, cremation gardens, personalized tributes) and enhancing upsell opportunities within cremation services.
Economic Downturns Pressure Preneed Sales	Diversified revenue mix with resilient at-need demand (~70% of revenue) and a $16B backlog buffer volatility. Price segmentation and at-need stability reduce macro sensitivity.
Volatility in Trust Fund Returns	• Broadly diversified trust assets managed by 20-25 professional money managers • Asset allocation: 60% equities, 25% fixed income, and 10% into alternative and commodity assets • Increased focus on insurance funded pre-need contracts

Valuation

Current pricing implies undervaluation relative to peers, with upside from tightening spreads and improving credit profile.

Comp Table as of 11/07/2025:

Service Corp International Relative Value Analysis

Issuer	Coupon Rate	Maturity Date	Ratings	Yield to Worst	Spread	Net Leverage
Service Corp International	**3.375%**	**8/15/2030**	**Ba3/BB**	**5.26**	**165.24**	**3.6x**
Comparables						
Performance Foods Group Inc	4.25%	8/1/2029	Ba1/BB	4.96	127.32	4.5x
HCA Healthcare Inc	5.45%	04/01/2031	Baa2/BBB-	4.51	117.3	3.1x
Autonation Inc.	4.75%	6/1/2030	Baa3/BBB-	4.63	126.80	5.5x

	Bear	Base	Bull
Scenario Description	• Economic downturn depresses discretionary pre-need sales • Cremation rate increase decreasing the value of future contracts	• SCI continues with the momentum of acquiring more contracts with aging population growing and marginal market share gains • Atneed experiencing flat	• Demand for premium property increases • Expansion of customer segments through culturally diverse cemetery properties
Spread Compression/Expansion	-10 bps	-25bps	-40bps
Potential Holding Period Return	6.10%	6.30%	7.02%
Probability	10%	75%	15%

Appendix

APPENDIX: CAPITAL ALLOCATION

Year	Share Repurchases ($M)	Dividends ($M)	M&A / Growth CapEx ($M)	Debt Reduction ($M)
2020	350	180	220	80
2021	370	190	230	90
2022	400	200	180	70
2023	320	210	200	70
2024	350	216	301	78

5 YEAR EQUITY CHART

Model Summary

	Actuals						Forecasted		
For the year ending on	**Dec-31-2019**	**Dec-31-2020**	**Dec-31-2021**	**Dec-31-2022**	**Dec-31-2023**	**Dec-31-2024**	**Dec-31-2025**	**Dec-31-2026**	**Dec-31-2027**
Currency	***USD Millions***	***USD Millions***	***USD Millions***	***USD Millions***	***USD Millions***	***USD Millions***	***USD Millions***	***USD Millions***	***USD Millions***
Revenue	**3,231**	**3,512**	**4,143**	**4,109**	**4,100**	**4,186**	**4,392**	**4,530**	**4,677**
COGS	2,223	2,261	2,543	2,666	2,697	2,768	2,867	2,948	3,034
Gross Profit	1,008	1,251	1,601	1,442	1,403	1,419	1,525	1,582	1,643
Margins%	*31.2%*	*35.6%*	*38.6%*	*35.1%*	*34.2%*	*33.9%*	*34.7%*	*34.9%*	*35.1%*
SGA Expenses	*(127)*	*(157)*	*(158)*	*(237)*	*(157)*	*(150)*	*(150)*	*(150)*	*(150)*
EBITDA	**881**	**1,094**	**1,443**	**1,205**	**1,246**	**1,268**	**1,375**	**1,431**	**1,492**
Depreciation	(247)	(258)	(277)	(288)	(311)	(328)	(329)	(341)	(350)
Operating Income (EBIT)	**634**	**836**	**1,166**	**917**	**934**	**940**	**1,046**	**1,090**	**1,143**
Interest Expense	(186)	(163)	(151)	(172)	(239)	(258)	(246)	(250)	(258)
Other Income/(expense)	17	(11)	31	10	14	(7)	9	8	11
Earnings before Taxes	464	662	1,046	756	709	675	809	847	895
Net Income (Loss)	370	516	803	565	537	519	622	652	689
Cash Flow Statement									
Cash Flow from Operating Activities	629	804	921	826	869	945	983	1,014	1,115
Cash Flow from Investing Activities	(279)	(318)	(415)	(448)	(469)	(621)	(456)	(427)	(441)
Cash Flow from Financing Activities	(319)	(493)	(466)	(448)	(381)	(320)	(567)	(549)	(630)
Balance Sheet									
Current Maturities of Debt	70	228	65	91	63	84	61	756	687
Long-term Debt	3,514	3,514	3,901	4,251	4,649	4,751	4,860	4,325	4,536
Total Debt	3,583	3,743	3,966	4,342	4,712	4,835	4,921	5,081	5,223
Debt/ EBITDA	*4.07*	*3.42*	*2.75*	*3.60*	*3.78*	*3.81*	*3.58*	*3.55*	*3.50*
Cash and Cash Equivalents	186	231	269	192	222	219	179	217	262
Receivables	82	93	106	97	98	94	99	102	105
Inventories	25	24	26	32	34	33	35	36	37
PPE	2,065	2,134	2,252	2,351	2,480	2,581	2,708	2,793	2,884
Other NCA Asset	11,612	12,382	13,439	12,715	13,875	14,798	15,260	15,637	15,987

Gross Margins are calculated without deducting the depreciation related to the services produced

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Key Metrics

	Actuals						Forecasted		
For the period ending on	**Dec-31-2019**	**Dec-31-2020**	**Dec-31-2021**	**Dec-31-2022**	**Dec-31-2023**	**Dec-31-2024**	**Dec-31-2025**	**Dec-31-2026**	**Dec-31-2027**
Currency	***USD Millions***	***USD Millions***	***USD Millions***	***USD Millions***	***USD Millions***	***USD Millions***	***USD Millions***	***USD Millions***	***USD Millions***
Revenue Drivers									
US Aging Population Growth							2.50%	2.50%	2.50%
Inflation							0.00%	2.00%	2.00%
Market Share Gain							0.10%	0.10%	0.10%
Negetive from Cremation							-0.40%	-0.40%	0.25%
Revenue Backlog									
Funeral	8,820	9,190	9,730	9,910	10,610	11,450	11,701	12,367	13,244
Cemetery	3,170	3,500	3,930	3,830	4,230	4,560	4,660	4,687	4,649
Total Revenue Backlog	**11,990**	**12,690**	**13,660**	**13,740**	**14,840**	**16,010**	**16,361**	**17,054**	**17,892**
Atneed Revenue	**1,323**	**1,479**	**1,746**	**1,690**	**1,619**	**1,618**	**1,618**	**1,641**	**1,666**
Funeral	997	1,092	1,268	1,242	1,185	1,186	1,186	1,210	1,234
Cemetery	326	387	478	448	434	432	432	432	432
Preneed Revenue	**1,475**	**1,621**	**1,891**	**1,912**	**1,955**	**2,021**	**2,186**	**2,234**	**2,290**
Funeral	605	663	700	705	715	726	835	853	901
Cemetery	869	959	1,190	1,207	1,240	1,296	1,351	1,381	1,389
EBITDA Margin	27.3%	31.2%	34.8%	29.3%	30.4%	30.3%	31.3%	31.6%	31.9%
Debt/EBITDA	4.07	3.42	2.75	3.60	3.78	3.81	3.58	3.55	3.50
Net Debt/EBITDA	3.86	3.21	2.56	3.44	3.61	3.64	3.45	3.40	3.32
EBIT/ Interest	3.41	5.13	7.74	5.33	3.90	3.65	4.26	4.36	4.43
EBITDA/ Interest	4.74	6.71	9.58	7.00	5.20	4.92	5.60	5.72	5.78
FCFF/Debt	0.10	0.13	0.13	0.09	0.08	0.07	0.11	0.12	0.13
CFO/Debt	0.18	0.21	0.23	0.19	0.18	0.20	0.20	0.20	0.21

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Segment Results

Business Segments	Actuals						Forecasted		
For the period ending on	Dec-31-2019	Dec-31-2020	Dec-31-2021	Dec-31-2022	Dec-31-2023	Dec-31-2024	Dec-31-2025	Dec-31-2026	Dec-31-2027
Currency	*USD Millions*	*USD Millions*	*USD Millions*	*USD Millions*	*USD Millions*	*USD Millions*	*USD Millions*	*USD Millions*	*USD Millions*
Value of Contracts sold	**1,857**	**1,904**	**2,425**	**2,548**	**2,580**	**2,561**	**2,617**	**2,728**	**2,862**
Funeral	949	859	1,088	1,171	1,246	1,205	1,231	1,311	1,404
Cemetery	909	1,046	1,337	1,377	1,334	1,356	1,386	1,417	1,459
Revenues									
Funeral	1,924	2,052	2,343	2,332	2,303	2,324	2,486	2,595	2,734
Cemetery	1,307	1,459	1,800	1,777	1,797	1,862	1,906	1,935	1,943
Total Revenues	**3,231**	**3,512**	**4,143**	**4,109**	**4,100**	**4,186**	**4,392**	**4,530**	**4,677**
Operating Income									
Funeral	373	507	640	546	497	465	537	560	590
Cemetery	388	486	683	609	595	625	640	650	653
Total Gross Profit Before Tax	**761**	**992**	**1,323**	**1,155**	**1,092**	**1,091**	**1,177**	**1,210**	**1,243**

Model Assumptions

- Revenue is modeled to grow at 2.5%–3.6% per annum, supported by aging population growth of 2.5%, annual market share gains of 5 bps, and 0–1.5% price increases, partially offset by a 40 bps annual impact from rising cremation rates.
- With cremation rates increasing, the share of cemetery in total revenue backlog is expected to decrease to 26% by FY27 from 28% in FY24.
- Preneed revenue recognition is assumed at 7.3% of the funeral revenue backlog and ~30% of the cemetery revenue backlog, with no growth assumed for Atneed revenue.
- Gross margins are expected to remain stable at 33.5%–34.5%, consistent with historical performance.
- Debt is projected as the balancing source of funds to maintain a minimum cash balance of $200–250 million and funding capital and working capital requirements

Major Cost Breakup

1. COGS (Direct Operating Costs):
- Tight vendor agreements with inflation caps on key inputs (granite, bronze, caskets) help offset material inflation and protect gross margins.
- Fixed operating costs rose only ~1% YoY in early 2025, well below inflation, supporting margin expansion.

2. Selling (Sales & Marketing Expense)
- Lead generation costs ↓ 5% vs. 2018 while lead productivity more than doubled, increasing revenue per sales dollar.
- Sales headcount reduced by ~550–600 (from ~4,300 to ~3,700) but production increased by over $500M, significantly improving sales efficiency.
- Virtual training programs and CRM tools reduced training & travel expenses by ~65%, improving field productivity and lowering sales expense ratios.

3. G&A (Corporate & Back-Office)
- G&A reduced through restructuring initiatives and lower incentive compensation.
- Quarterly G&A expected at $39–$41M in 2025, reflecting disciplined cost control and savings from technology adoption.
- Maintenance capex projected to decline to ~$315M in 2025, down from 2024, due to slowing digital and corporate investment cycles.

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SCI Porter's Five Forces

1. Threat of New Entrants	2. Bargaining Power of Suppliers	3. Bargaining Power of Buyers	4. Threat of Substitutes	5. Industry Rivalry
• Low High capital requirements, zoning restrictions, licensing, and community relationships create major barriers to entry. Cemetery land is scarce, and regulatory approval for new facilities is complex and slow.	• Low Inputs (caskets, headstones, chemicals) are largely commoditized and sourced from many small suppliers. SCI's scale allows it to negotiate favorable terms.	• Moderate Families have emotional attachment and often make quick, one-time purchases, limiting price sensitivity. However, growing transparency and cremation trends give buyers modest leverage over pricing.	Moderate Cremation, direct burial, and online funeral providers are substitutes for traditional services. SCI mitigates this by expanding its own cremation offerings and digital pre-planning services.	Low Industry is highly fragmented (80% independent operators). SCI's ~12% share gives it scale advantages. Competition mainly local, with price inelasticity supporting stable margins.

US Aging Population

	2025	2030
Population (In Millions)	337.6	345.7
Aged 65+	62.7	71.6
% of Population	18.6%	20.7%

Source: *https://www.spglobal.com/market-intelligence/en/news-insights/articles/2024/11/1-in-5-americans-to-be-65-years-old-or-older-by-2030-86270288?utm_source=chatgpt.com*

YTD Financials

	Q2FY25	Q1FY25
Amt in $ Mn		
Revenue	1,065	1,074
Operating income	224	252
Debt	4,976	4,738
Cash	255	227
Net Debt	4,721	4,511

ALPHA CHALLENGE Kenan-Flagler Business School The University of North Carolina

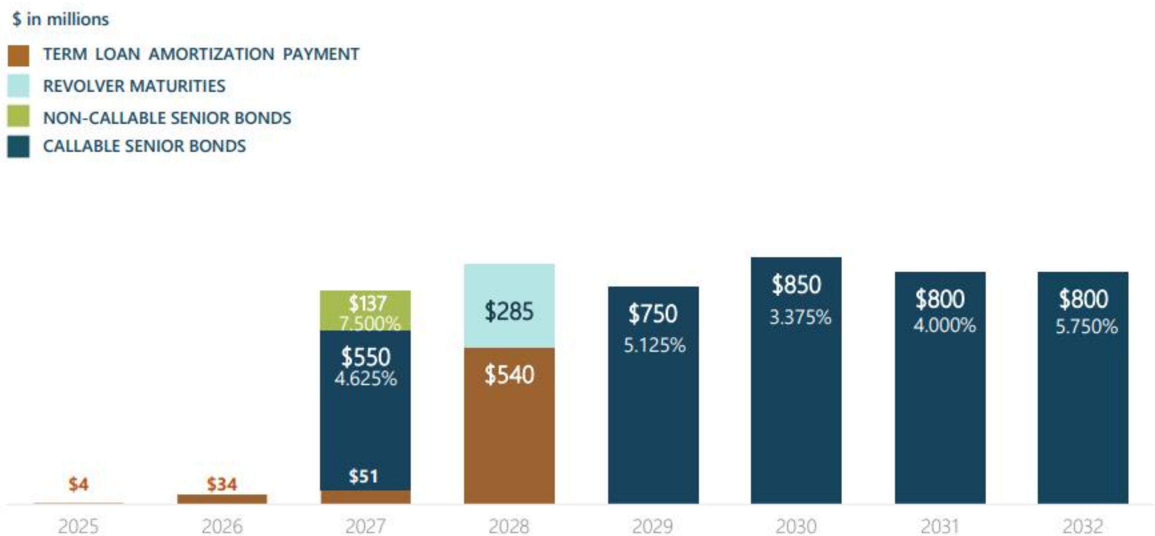
Debt Maturity Profile

LIQUIDITY

$1,455M

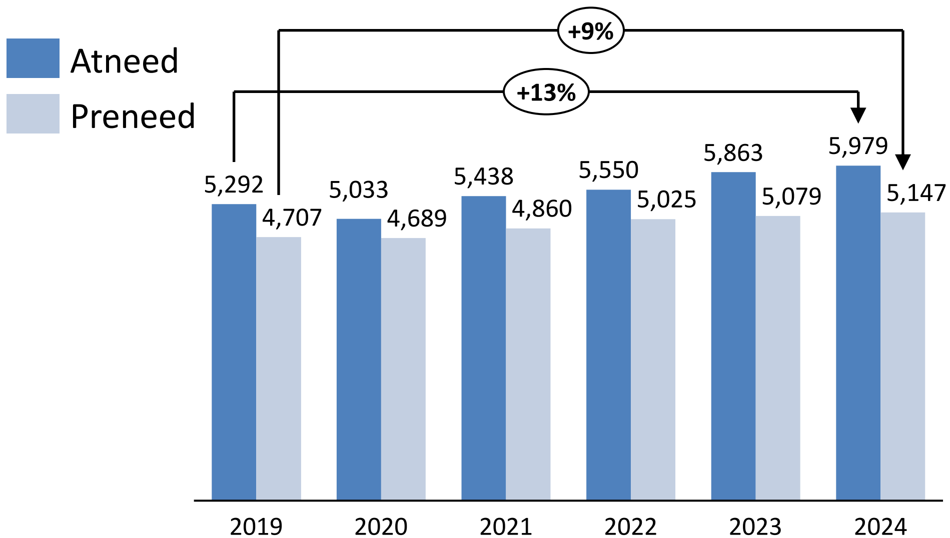
Cash $241M

Credit Facility $1,214M

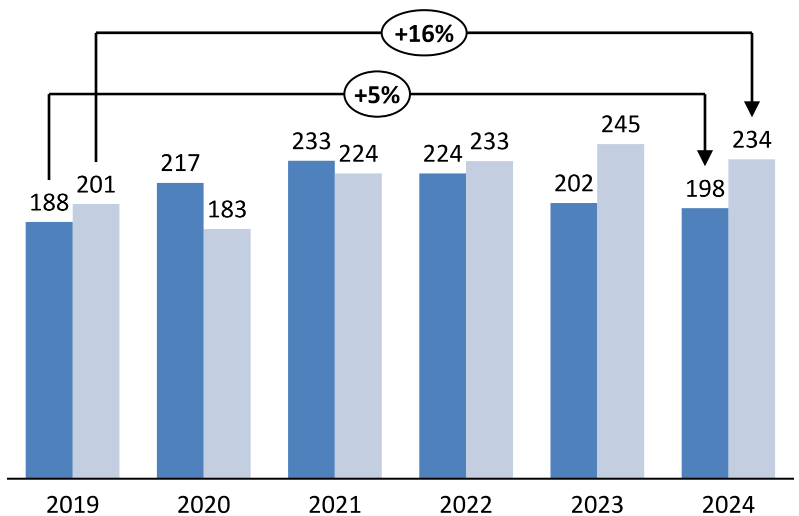


SCI Pre-Need Death Care Market Outlook and Growth Drivers

Contract Value: Preneed vs Atneed



Contracts ('000): Preneed vs Atneed



- Preneed services are priced more competitively and have experienced slower price growth compared to at-need offerings, while preneed contract volumes have expanded at a faster rate
- U.S. pre-need death care market valued at USD 65.4 billion in 2025, expected to reach USD 98.7 billion by 2033 (CAGR 5.2%)
- Average U.S. funeral cost exceeds USD 8,000, pushing consumers to lock in prices early to avoid inflation
- Digital platforms now account for an estimated 25–30% of pre-need plan sales through online booking and payments
- Personalized and themed memorial services growing at an estimated 6–7% annually, reflecting consumer preference for customization
- Prepaid funeral insurance and installment-based plans cover roughly 40% of U.S. pre-need purchases
- The U.S. contributes over 40% of global pre-need revenue, supported by established funeral home networks and strong consumer awareness

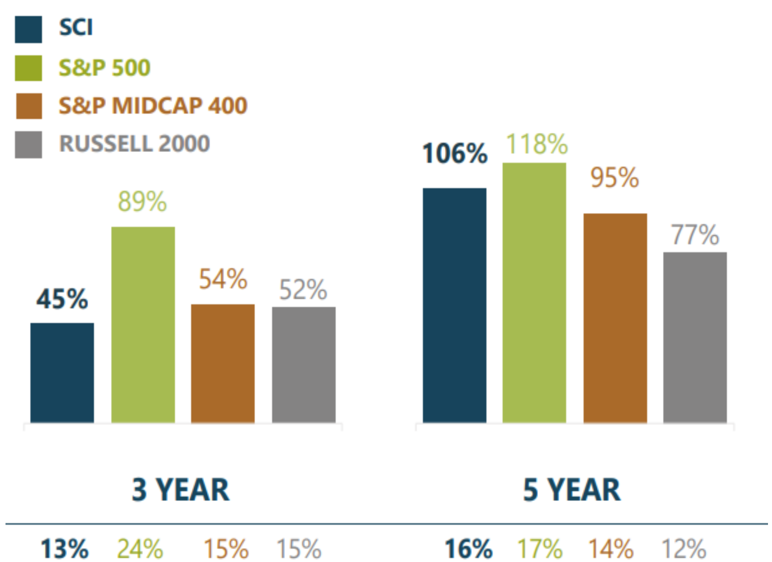
Source: https://marketmindpartners.com/Pre-need-death-care-market-334

Repurchase History

Cash Distributions to Shareholders

Fiscal Year	Repurchase (in millions)	Average Cost of Repurchase	% of Capital repurchased	DPS	Amt Returned to shareholders (Millions)	Average Market Cap (Millions)	% of Market Cap distributed
2019	$129.60	$44.55	2%	$0.72	$260.26	7,905	3%
2020	$516.90	$42.92	7%	$0.78	$658.22	8,623	8%
2021	$554.60	$58.77	6%	$0.88	$704.83	9,635	7%
2022	$661.10	$63.84	6%	$1.02	$827.48	10,457	8%
2023	$549.60	$63.17	6%	$1.12	$722.01	9,726	7%
2024	$249.80	$72.63	2%	$1.20	$425.39	10,898	4%
YTD2025	$473.00	$77.54	4%	$0.93	$608.00	11,360	5%

Shareholder Return



Annualized Return

- Repurchase stays in the range of 4-6% of the market capitalization
- Dividend payout ratio stays in the range of 30-40% of the earnings
- Management intends to manage leverage at the lower end of the targeted range (3.5x to 4x) and payments to shareholders will be determined accordingly

Acquisition History

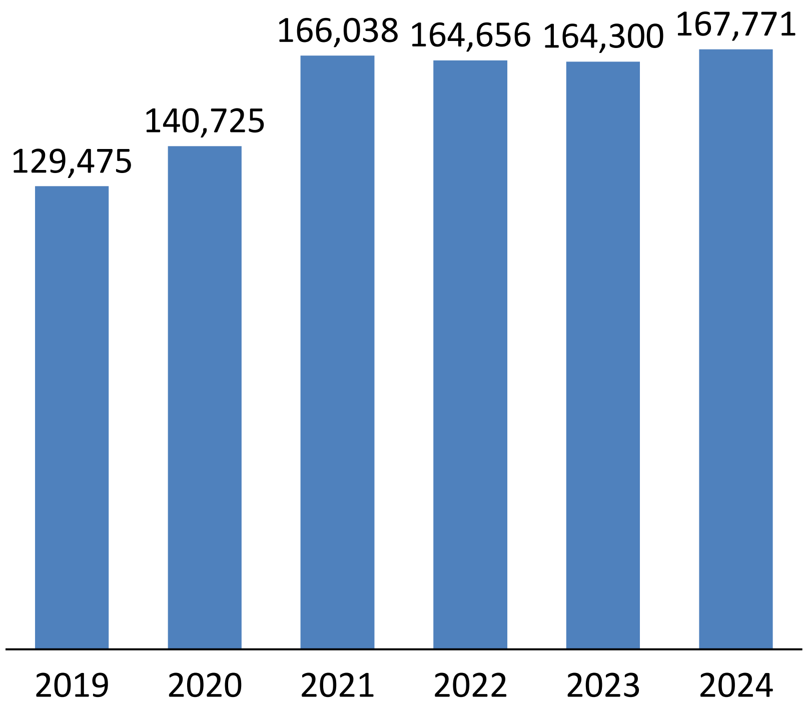
Year	Aggregate Spend on Business Acquisitions (in millions)	Total Locations Acquired
2019	56	18
2020	64	17
2021	121	32
2022	103	21 (incl 3 combo locations)
2023	73	19
2024	181	32 (incl 3 combo locations)
Total	598	139

Average Funeral Home Acquisition Profile	
Revenue	1,500
EBITDA	330
Acquisition multiple	9.0x
Amount paid	3,000
Synergies	100
EBITDA in 18 months	430
Realized multiple	7.0x

- The company's standard annual acquisition target for the year remains within the $75-$125 million (YTD: $65 Million)
- SCI achieves immediate cost savings after acquisition through greater purchasing power and back-office consolidation
- SCI integrates acquired businesses into it's salesforce-based platform to enhance analytics, lead tracking, and productivity
- Retains former owners and leaders within SCI's management to preserve local expertise and drive long-term accretive growth

Operational Productivity Accelerators Driving Higher Output per Employee

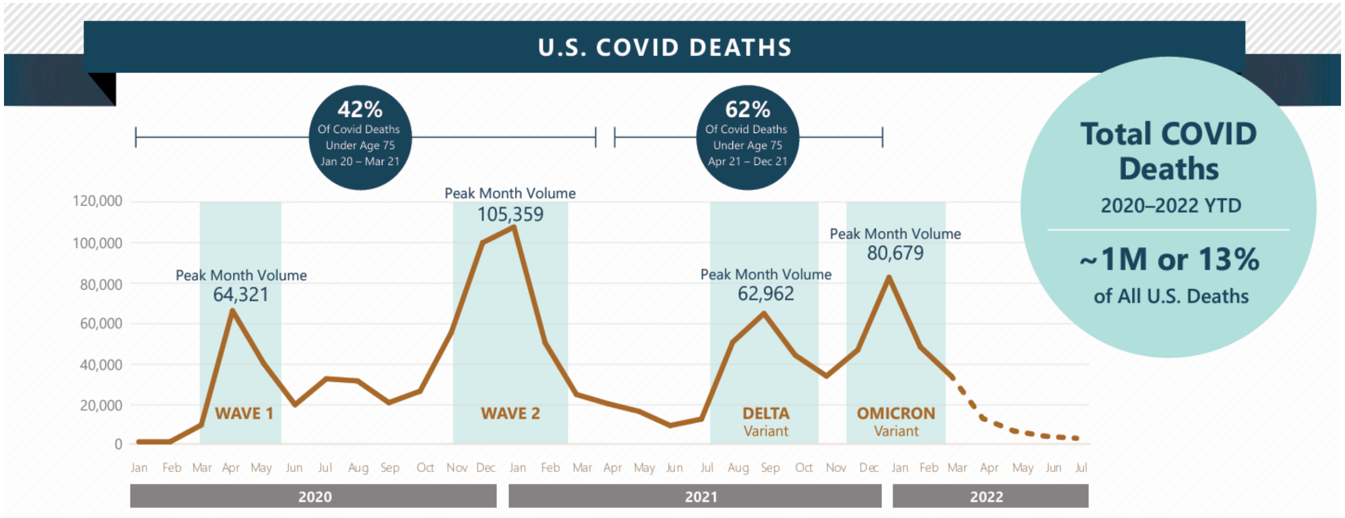
Turnover per Employee

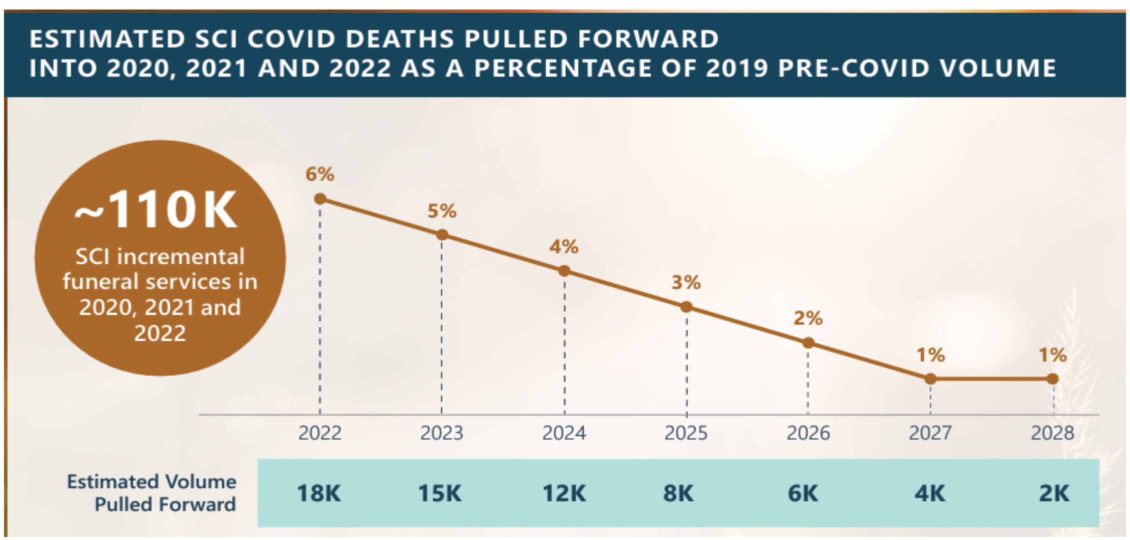


- SCI operates at higher revenue per employee compared to the funeral industry average of $165,306, reflecting stronger workforce productivity
- Sales force streamlined by ~550–600 employees (to ~3,700–3,800) while still growing production by over $500M, indicating materially higher output per salesperson
- CRM and digital platforms including Salesforce, Beacon, and DocuSign improved lead tracking, reduced sales-leader travel time by approximately 65 percent, and increased counselor efficiency
- Virtual sales training reduced training costs by ~65% and kept counselors in the field longer, materially improving on-market productivity
- Operational efficiency strengthened as funerals per FTE increased from ~23 to ~25, driven by process automation and centralized management

https://www.marketresearch.com/Kentley-Insights-v4035/Funeral-Homes-Services-Research-Recession-42745058/

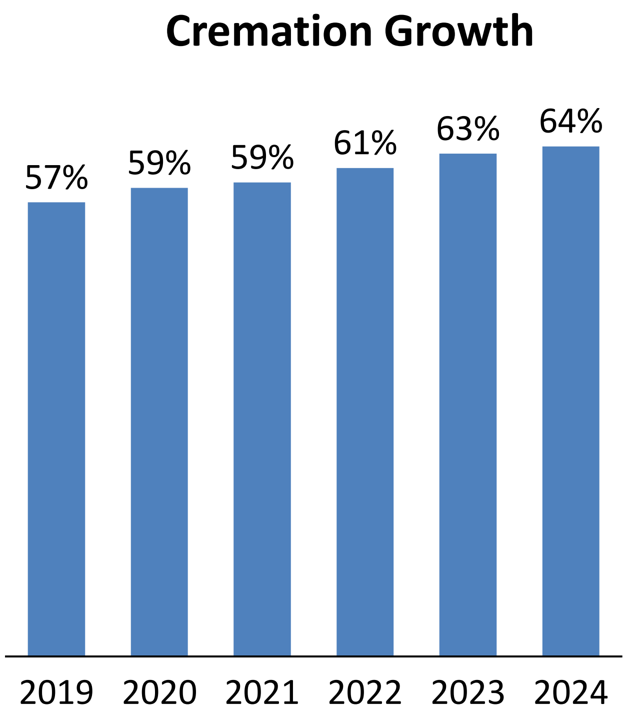
Covid Pull forward effect diminishing and Sales growth to normalize





Source: SCI's Investor Day Presentation

Capturing Cremation market through SCI Direct



- U.S. cremation rate exceeds 60% in 2025 and continues to rise, making cremation the largest and fastest-growing funeral segment.
- SCI Direct is the nation's largest direct cremation provider, using an asset-light, low-cost model to capture price-sensitive consumers that traditional funeral homes often miss.
- Recent sales production slowdown (2024–2025) driven by the shift from trust-funded to insurance-funded contracts:
  - Sales counselors required new licensing
  - More complex payment structures
  - Transition to a fully underwritten insurance product
- Transition nearly complete (80% converted in 2024; 100% expected year-end) and management expects growth to normalize by early 2026.
- Significant long-term upside: average revenue per SCI Direct contract expected to increase from $1,200–$1,500 historically to over $3,000 under the new insurance model.

SCI Cemetery Business: Scale, Tiered Strategy & Long-Term Value Creation

	2023	2024
# Cemetries	489	496
Acre of Land	35,500	35,800
Undeveloped Acre	11,715	11,814
Value of Undeveloped Land ($M)	1,328	1,381
Value of Undeveloped Land per Acre	113,390	116,863
Developed Land Inventory ($M)	692	749
% of Undeveloped Land	66%	65%

1. **Large, Long-Duration Land Base**
   - SCI operates ~35,800 total cemetery acres in 2024, with ~66% developed.
   - At an estimated ~110 acres sold per year, SCI has ~110 years of remaining cemetery inventory, ensuring exceptional revenue visibility.

2. **Tiered Property Strategy Driving Revenue Per Sale (Qualitative for prior years)**
   - SCI offers a tiered structure across price points:
     - High-end family estates at flagship locations (e.g., starting around $15k+ at Rose Hills)
     - Mid-tier hedge estates and landscaped sections
     - Traditional lots, lawn crypts, mausoleum spaces
     - Cremation memorialization including niches, glass-front niches, columbaria, and gardens (vary widely, $5k–$75k).
   - Inventory is curated to match religious and cultural preferences (Hispanic, Chinese, Vietnamese, etc.).
   - Tiering allows SCI to shift mix toward premium property, strengthening margins typically in the low-30% range (management outlook for 2025 maintains cemetery margins in 32–33% band).

3. **Capital Deployment Ensures Future Inventory (2024–2025 Data Only)**
   - SCI continues investing in development projects that convert low-cost land into high-value inventory.
   - The company maintains a strategic pipeline by acquiring land in key markets (qualitative).
   - For 2025, SCI indicates stable development spending and a moderation in digital/corporate capital needs, supporting cemetery expansion without incremental capex pressure.

Marketing Channels Generating ~12% of Preneed Sales

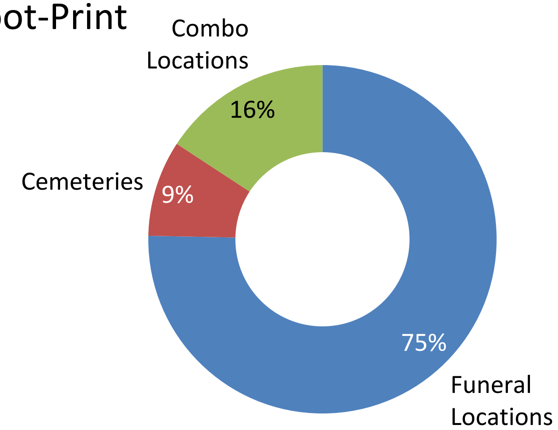
Digital
- 100+ enhancements released annually
- Dynamic, consumer-focused website experience
- Major driver of preneed lead growth
- In-house obituary platform ownership
- Traffic scaled to 17–20M monthly visits

Direct Mail
- Predictive targeting using 200+ demographic & behavioral variables
- Data-driven response, conversion, and sales modeling
- Centralized strategy and spend optimization

Seminars
- Predictive modeling for response and conversion
- Centralized planning of spend and seminar locations
- Improved efficiency and qualified lead generation

Core Generating ~88% of Preneed Sales

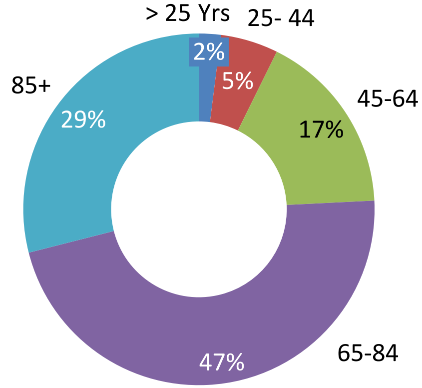
Foot-Print



At need Contracts

~350,000

Market Segmentation Age wise



Total Families Served

~700,000

01 Core generated sales are driven by leads resulting from continued relationships and referrals from at-need families.

02 These sales rely heavily on the strength of local brands and the reputation of the funeral homes and cemeteries

03 Concerns about retirement savings and medical expenses are driving adults aged 45–64 to seek more affordable funeral choices

Management Profile

Name	Position	Background & Education
Thomas L. Ryan	Chairman of the Board & Chief Executive Officer	Holds a BBA from the University of Texas at Austin. Previously worked ~8 years as a CPA at Coopers & Lybrand LLP. Joined SCI in 1996, served in financial management roles, became CEO of European Operations 2000–2002, President/COO in 2002, CEO in 2005, Chairman in 2016.
Sumner J. Waring, III	President	Holds a bachelor's degree in Business Administration from Stetson University, a degree in Mortuary Science from Mount Ida College, and an MBA from University of Massachusetts Dartmouth. Joined SCI in 1996 as Area Vice President of Operations when SCI acquired his family's funeral business. Prior roles: Northeast Region President (1999), Pacific Region President (2001), Senior VP North American Operations (2015). Promoted to President in 2024.
Eric D. Tanzberger	Executive Vice President & Chief Financial Officer	Holds a BBA from the University of Notre Dame. Began his career at Coopers & Lybrand LLP. Joined SCI in August 1996 in various management roles, promoted to Corporate Controller in 2002, Senior VP & CFO (2006+), Executive VP & CFO in 2024.
Lori Spilde	Senior Vice President, General Counsel & Secretary	Earned a Juris Doctor, Master of Arts, and Bachelor's from University of South Dakota; holds an MBA from University of Texas. She joined SCI in 2000 via acquisition, worked in operations initially, then in legal/M&A/real estate, promoted to SVP General Counsel & Secretary in 2023.
Elisabeth G. Nash	Senior Vice President, Operations Services	Holds a Bachelor's degree in Business Administration (Accounting) from Texas A&M University. Prior to SCI, she held senior management accounting/finance roles at Pennzoil Corp. Joined SCI (date unspecified) and was named SVP Operations Services in 2010.

Full Recovery Scenario

Applying asset haircuts and accounting for liquidation costs, total distributable value exceeds senior unsecured claims, implying full recovery for noteholders.

Liquidation Analysis			
$M			
Balance Sheet as of:	2024	Recovery %	Recovery ($)
Cash & Equivalents	221	100%	221
Total Cash & Equivalents	**221**		
Accounts Receivables	98	85%	83
Total Receivables	**98**		
Inventory	33	60%	20
Other Current Assets	25	15%	4
Total Current Assets	**377**		328
Property, Plant & Equipment	4,761	50%	2,381
Long-Term Investments	8,902	60%	5,341
Intangibles Assets	2,593	25%	648
Other Assets	746	60%	448
Total Liquidation Value	**17,379**	53%	9,145

Waterfall Analysis	
$M	**Estimated Recovery**
Total Liquidation Value	9,145
Liquidation Cost	457
Secured Claims	-
Distributable Value to Senior Claims	**8,688**
Revoling Credit & Term Loans	1,029
Senior Notes	3,887
Total Unsecured Senior Claims	**4,916**
Senior Unsecured Recovery (%)	**100%**

SCI's asset coverage of 1.9× unsecured debt underscores low default risk and supports full par recovery under a stressed scenario

Key Covenants & Financial Strategy Details

- SCI's debt covenants include a maximum Net Debt / EBITDA of 4.5× and a minimum Interest Coverage Ratio of 3.0×, aligning with its disciplined investment-grade profile.
- Management targets 3.5–4.0× leverage through a balanced capital allocation of share repurchases, dividends, and growth Capex.
- Strong liquidity, including a $1.35 B undrawn revolver and $1.6 B total availability, provides flexibility to refinance maturities with no secured debt outstanding.