TITAN CAPITAL MANAGEMENT RESEARCH REPORT FOR: TCM ALL-WEATHER PORTFOLIO

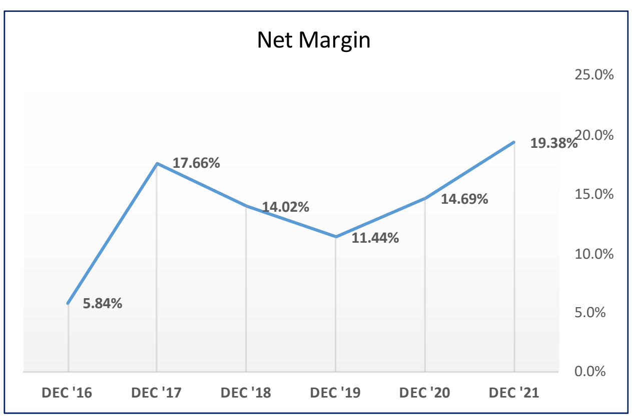
Analyst: Brandon Leon   Date: December 15th, 2022

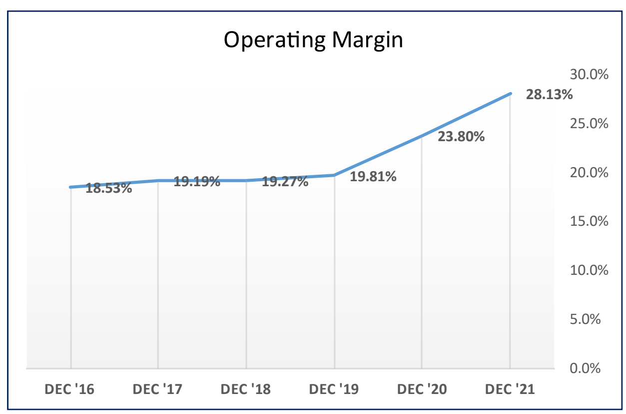
COMPANY/TICKER: **SERVICE CORP. INTERNATIONAL (SCI) $68.31** **Stock** **BUY**

EXECUTIVE SUMMARY

We recommend a BUY rating for Service Corporation International (SCI), the largest provider of Funerals and Cemetery services in North America, to increase the TCM All-Weather portfolio's exposure to resilient, niche markets that can better sustain an economic downturn. As COVID-19 pulled forward, mortality in 2020 and 2021 were solid years for Service Corp International. SCI is the most significant player in the United States, and the company is cash generative with a solid long-term secular outlook that can prove stable in any environment. Service Corp International is an attractive opportunity because, even as we anticipate low mortality compared to recent years, its valuation presents a 16.20% discount to our weighted average estimated value of $79.87. Our BUY rating is driven by our expectations that 1) Service Corp has a robust business model with a sustainable growth platform, 2) its significant and consistent cash flow continues to grow the company and enhance shareholder value with share buybacks, dividend rises, and acquisitions 3) SCI remains an industry leader in Innovation and technology with the potential for incremental growth is much greater in coming years, as the company is poised to benefit from aging demographic tailwinds.

Key Statistics	
52 Week Range	$56.85 - 75.11
Avg Daily Vol (3 Mo)	1,070,373.6
Basic Shares (M)	153.8
Market Cap (M)	10,666
Dividend Yield	1.6%
First Trading Date	21 Jan '72
FD Shares Out (M)	157.5
FD Mkt Cap (M)	10,923
EV (M)	14,950
WACC	6.9%
Float	96.9%
Institutional	86.5%
Top 10 Inst Hldrs	45.4%
Broker Contributors	4
Avg Rating	Buy (1.10)
Target Price	$80.40
LT Growth Rate	6.4%





Key uncertainties increasing variable rate debt, more people opting for cremation over burial services, how aggressive management will continue to be with the Trust Fund.

COMPANY OVERVIEW

Service Corp International is a personal services company that provides funeral and cemetery services and products from its locations throughout the United States and Canada. The company segments its operations into funeral service and cemetery business functions. At its funeral service locations, Service Corp. provides all professional services, facilities, vehicles, and merchandise related to funerals and cremations. Cemetery locations provide cemetery property, memorial markers, and graveyard services to customers. Service Corp. derives the majority of its revenue from its funeral locations, while the cemetery division also generates a significant amount of the company's total income. Geographically, the company gets a major share of revenue from the United States.

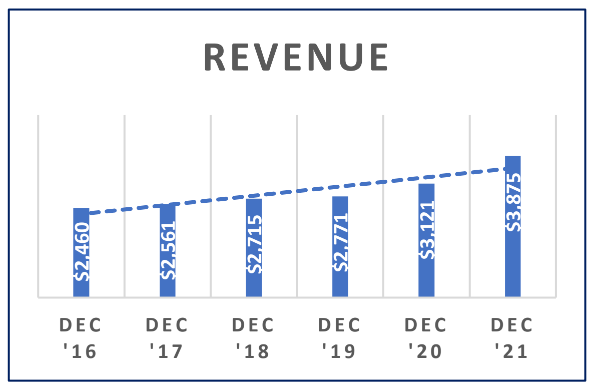
CATALYSTS

Strong Business Model with Sustainable Growth Platform

SCI is the leader in the industry as the largest provider of deathcare services across 44 states, including Puerto Rico and Canada. The company started as a "mom and pop" shop similar to many others. However, the difference between SCI and "mom-and-pop" shops was that SCI could scale its model and acquire many other similar businesses. These acquisitions include Alderwoods Group, Keystone North America, The Neptune Society, and many more. Over the past five years, SCI has invested over $770 million into "growth opportunities," including acquisitions, new builds, and event spaces.

Historically, the SCI has generated a rapid 18% Compounded Annual Growth Rate (CAGR) in its "premium property" sales. This includes gated estates which retail between $250k-$500k, and private Mausoleums, which can cost up to $5 million. As of the end of Q3, SCI now owns 1,471 funeral homes and 488 Cemeteries across North America. The business generated over $4 billion in revenue as of 2021.

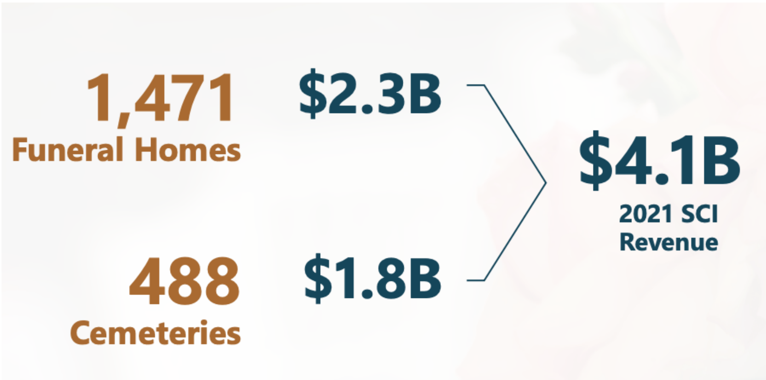
Earlier in Q2 of 2022, SCI had closed on acquiring two funeral homes on the East and West Coasts, totaling about $12 million. This shows that even in a down market, Service continues to try and expand. Right after the end of Q3 in 2022, it purchased multiple funeral homes and cemetery locations on the West Coast for about $40 million, totaling its year-to-date spend for acquisitions, including this recently closed transaction at $52 million which were done at targeted internal IRRs. Management will remain optimistic about the acquisition pipeline and believes they will end the year well into its range of $75 million to $125 million in acquisitions per year.



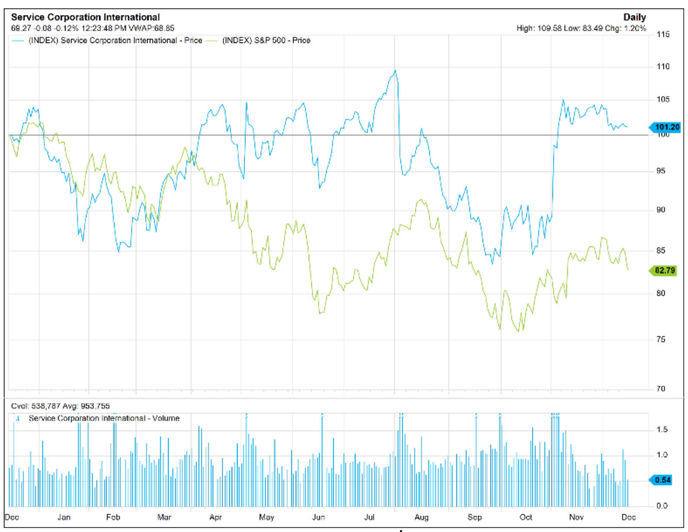
It is believed SCI has enhanced its sales and marketing productivity, in addition to its effectiveness in cemetery sales, from learnings achieved during the pandemic. A slight decline in sales velocity was more than offset by inflationary increases in the core sales average.

Their Preneed funeral sales production has continued to grow for the third year at over 2% ($6 million) compared to Q3 in 2021. SCI Direct production has been solid recently as it posted an increase of almost 10% over Q2. An increased contract velocity was generated from leads driven by management's new targeting strategies for their direct mail and community seminar programs, as well as a recent shift in focus on digital leads.

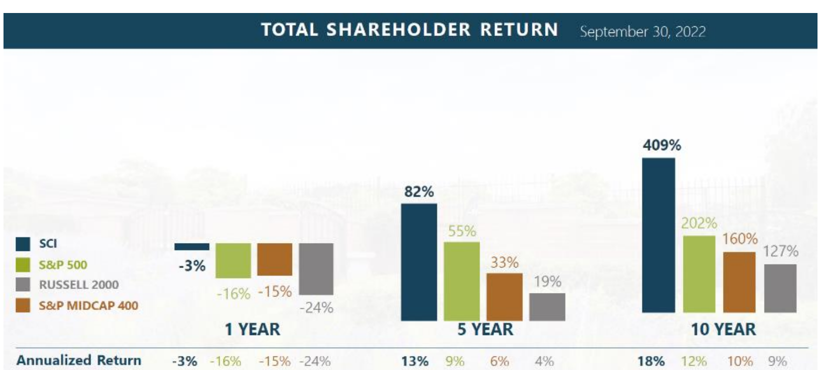
However, other revenue decreased by about $3 million over the prior year quarter as changes from capital gains and losses negatively impacted trust fund income. At the end of July, the SCI endowment care trust fund had over one-third of the company's total assets, with over $5.5 billion invested. Preneed cemetery sales production grew a respectable $16 million, or 5% overall, in the third quarter as people continued to pre-plan their funeral arrangements. It is even more impressive when preneed sales are 67% higher overall compared to Q3 2019, a growing preneed sales production at a 19% compounded annual growth rate over the three years.



Significant Free Cash Flows



Our base assumptions anticipate a decline in funeral volumes and cemetery revenues compared to 2021, particularly in the second half of 2022, as payments are expected to decline compared to 2021. Management and analysts project these levels will normalize near their 2019 pre-COVID levels in 2023. Overall, management expects preneed cemetery sales levels would only be slightly up versus 2021 levels. SCI did anticipate that the Fed would raise rates aggressively, which increased the interest expense on the variable rate debt from its balance sheet. Nonetheless, SCI generated an adjusted operating cash flow of $183 million in the third quarter, higher than the street's expectations, but it was about $49 million lower than the prior year. Again, it should be noted that 2021 was heavily impacted in an appositive way by the pandemic activity.

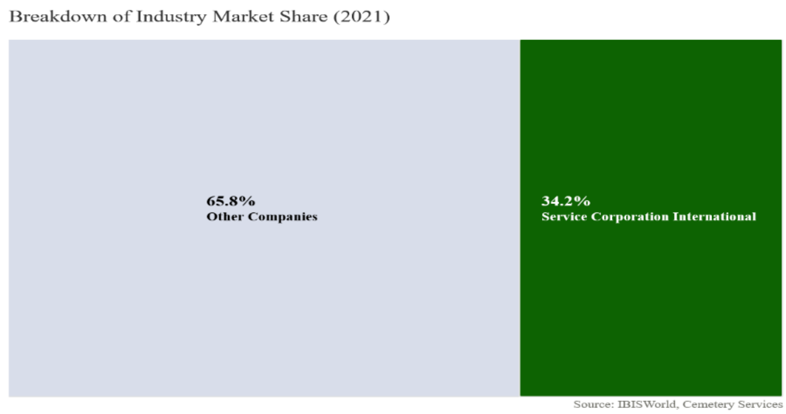


With its excess cash flow, Service will continue returning capital to shareholders, recently returning $265 million in dividends and share repurchases ($225 million in share repurchases and $40 million in dividends) in Q3. The year-to-date total returned to shareholders before Q4 is $590 million, and these investments and share repurchases in the first three quarters have already exceeded the full-year spend Service did in each of the last two full years.

These opportunistic investments demonstrate management's confidence in this business and its strategy and commitment to returning value to shareholders.

Strong Market Presence/Technology/M&A

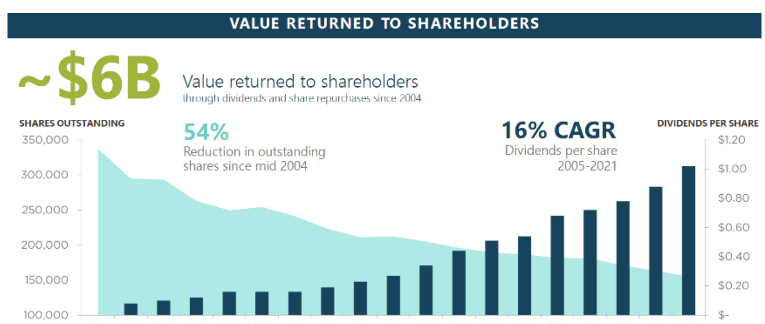
In the US, Service Corporation International has a significant market share in at least three industries: Funeral Homes, Cemetery Services, Cremation Services, and Cremation Services. Their most significant market share is in the Cemetery Services industry, accounting for an estimated 34.2% of total industry revenue, according to IBISWorld. In addition, Service displays more robust profit and revenue growth than some of its peers.



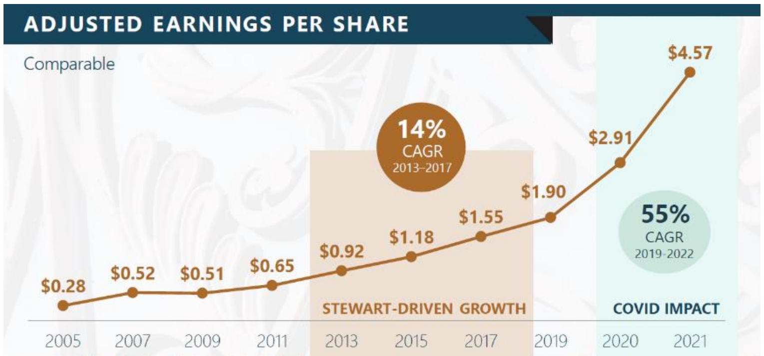
During the third quarter, Service accelerated its funeral home and cemetery technology infrastructure investments. Investing in technology prepares their locations for utilizing both customer and non-customer-facing technology. This technology is being developed to create a more contemporary experience for all involved. Their costs were also higher due to inflationary cost pressures and supply chain constraints, with the associated hardware installed at all these locations. In addition, SCI plans to continue expanding its growth through the forementioned M&A activity.

EPS Projected to increase further

In their most recent Q3 earnings release, SCI increased its 2022 adjusted earnings per share range by $0.20 from $3.60 to $3.80 or a midpoint of $3.70. This implies a range of $0.73 to $0.93 in the fourth quarter compared to a COVID-impacted fourth quarter 2021 of $1.17.

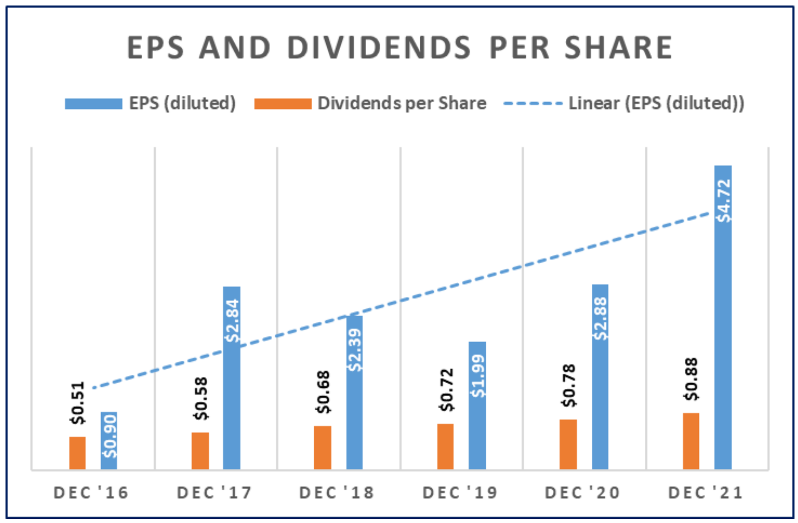


The new base was $3.18 per share for 2022, and management communicated that they anticipated an incremental $0.32 non-recurring impact from COVID for a total guidance midpoint of $3.50 for 2022.



Based on what has happened in the second half of 2022, management also believes that with higher than anticipated levels of non-COVID funeral services in at-need cemetery revenues. Management's original base assumption of $3.18 would be estimated at around $3.50, as they believe these excess services are more permanent in nature into a combination of aging demographics, higher risk, and less healthy lifestyles developed during the pandemic, in addition to certain geographic market share gains. Preneed cemetery sales are strong and tracking with what was initially assumed back in May.

Unfortunately, management did not anticipate, back in May, the combined historic downturn in both equity and fixed-income markets for 2022. The trust fund income for 2022 is expected to be reduced by about $0.22 per share. This would result in earnings per share base of $3.28 for 2022. However, when the non-recurring COVID impact is added, which increased to $0.40 from the original $0.32 discussed by management in May, it results in a 2022 revised midpoint of $3.68.

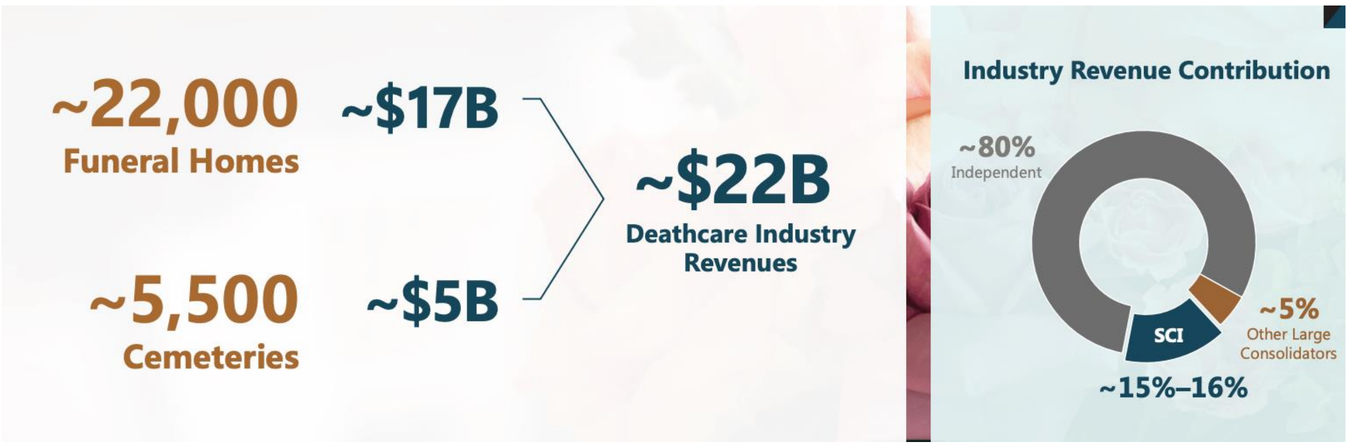


INDUSTRY OVERVIEW

Industry Business Model

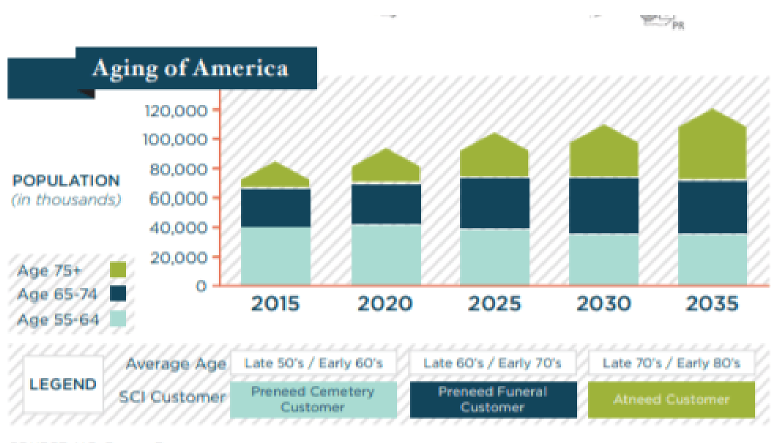
The All-Weather team looks to add long-term stability, consistency, and staying power within the portfolio, in addition to an excellent dividend growth company. Markets and industries come and go as innovative companies disrupt the landscape and create a new normal, leaving legacy businesses to fall by the wayside.

As in SCI's case, the funeral and cemetery industry will inevitably be around with steady growth. As the population grows, so does the total number of deaths and use cases for Service Corporation international.Over the five years to 2027, the Cemetery Services industry is expected to continue benefiting from a growing base of Americans aged 65 and older.



As a result, revenue is forecasted to increase at an annualized rate of 1.4% to reach $6.2 billion over the five years to 2027. Industry operators are anticipated to continue experiencing growth, similar to the levels during the COVID-19 (coronavirus) pandemic. Moreover, operators are expected to benefit from improving per capita disposable income, which enabling more families to spend on value-added burial and cremation services and products. Over the five years to 2027, the Cemetery Services industry is expected to continue benefiting from a growing base of Americans aged 65 and older.

Although the nature of the industry makes it rare for cemeteries to experience rapid revenue growth, the changing age structure of the US population will likely provide steady revenue growth. According to the US Census Bureau and IBISWorld estimates, the number of adults aged 65 and older is expected to rise at an annualized rate of 2.8% to 67.6 million individuals over the five years to 2027.



SWOT Analysis

Strengths:

- Strong brand name and market presence
- Growing margins due to acquisitions and expanding properties
- Proven to be more robust and resilient to economic hardship than the S&P

Weaknesses:

- The company has an elevated level of debt burden; about 20% of EBIT covers the interest expense.
- The industry in which the company operates is low capacity, the growth rate is low, and the current market share of SCI is relatively high
- The temporary impact of the coronavirus drove significant revenue growth, and potential growth was limited by industry size.

Opportunities:

- Expand business footprint with increased emphasis on franchisee growth either organically or thru M&A.
- Increased M&A activity is expected to increase customer bases.

Threats:

- Management is getting too aggressive with their trust fund as most of the portfolio is in equities.
- Cremations are becoming more common, and the need for burial plots could decrease.

INVESTMENT RISKS

Management Being too Aggressive with its Trust Fund

The most significant risk within SCI has nothing to do with the core business model itself. If management allows their trust fund to get too aggressive and take on unnecessary losses, we could see problems arising. There were some issues in 2022, with its fund losing a significant amount in the equities and fixed-income markets. By management's estimation, the total portfolio is exposed to 57% equities, 32% income securities, 7% alternative investments, and 4% cash. If the markets were to ever turn to dire circumstances, SCI's float could drastically drop in value and reach an underfunded position.

Trend toward Cremation

"According to research conducted by the Statista Research Department, the United States cremation rate is forecast to grow from 56.1% in 2020 to 72.8% by 2030. This increasing trend will partly counterbalance revenue gains for industry operators over the five years to 2027 because a cremation costs much less than a traditional burial. Over the five years to 2027, IBISWorld estimates the number of cremations to grow at an annualized rate of 3.5%, with an estimated 2.4 million cremations.

To combat this challenge, operators are likely to offer specialized products and services associated with cremations, such as customized urns. Cemetery operators are also likely to direct marketing efforts toward burial services, following cremation and niches in columbaria, which have higher profit." -IBISWorld

ENVIRONMENTAL, SOCIAL, & GOVERNANCE

SCI has outlined the three pillars on which its commitment to sustainability is held. SCI has identified water reclamation efforts as a top priority, implementing a number of water conservation technologies at its many cemeteries. Service Corp has also stated that as of 2019, it will be replacing its legacy fleet of 7,000 limousines and hearses with subcompact and hybrid vehicles to reduce its carbon footprint. Lastly, Service has committed to partnering with ethical suppliers as part of its Supplier Code of Conduct to assure the fair treatment of employees and the environment up and down the supply chain.

Leadership Overview

CEO	Thomas L. Ryan, CPA	Male
Dual Role	Yes	
Chairperson	Thomas L. Ryan, CPA	Male
Chief Diversity Officer	-	
Independent Directors	80%	
Average Age	61.45	
Average Tenure	18.21	
Insider Owned	3.036%	

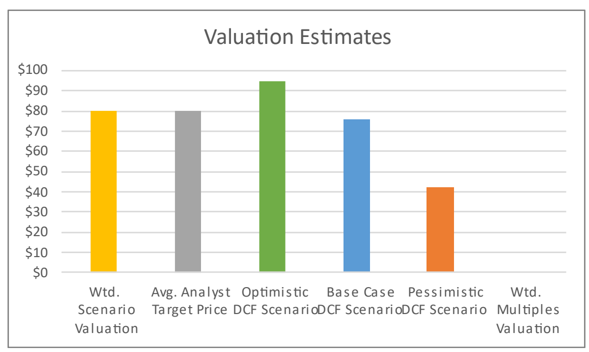
TRUVALUE LABS
A FACTSET Company

SASB Dimensions

Environment	Leadership and Governance	Human Capital	Social Capital
61	23	56	56
	Spotlight Events: 2		

DISCOUNTED CASH FLOW SUMMARY

Our DCF model gives Service a weighted average fair value estimate of $79.82, implying a 16.20% upside versus the current price of $68.31. We understand SCI has a higher P/E than its peers but remains below its 10-year historical P/E ratios with a peak in 2014. We believe the company will be able to maintain that high P/E while still increasing shareholder value.



Base Case

Our revenue forecast includes a drawdown in 2023 due to a reduction in COVID-19 cases causing, less overall deaths. Revenue will recover in 2023 after the mild downturn and steadily increase through levels by 2026, primarily driven by volume growth from secular demand, acquisitions, and selling price growth at inflation based on a normalization of industry capacity. Margins are expected to decline to a higher than historical level due to Service Corporations dominating market presence, continued investments in acquisitions, and an increasingly aging North American population.

DCF Valuation Sensitivity Analysis

WACC >	5.3%	6.2%	7.0%	7.6%	8.2%
1.3%	$95	$75	$61	$53	$46
1.8%	$110	$85	$68	$58	$50
2.3%	$129	$97	$76	$64	$55
2.8%	$155	$112	$86	$72	$61
3.3%	$194	$133	$98	$81	$68

Optimistic Case

The optimistic revenue forecast still factors in slowing revenue in 2022, but it includes a fast recovery driven by solid demand, continuous growth with its Preneeds, and acquisitions in the market. Margins are expected to decline in 2022 and recover to levels higher than in 2019 to represent a continuation of the favorable environment Service experienced through the global pandemic.

Pessimistic Case

In our pessimistic scenario, revenue declines driven by the cremation industry dominating the death care industry. Revenue then slowly returns to pre-2019 levels due to **1)** slower than expected demand **2)** Preneed sales dry up as consumers have less income to use for discretional goods and services **3)** a dry M&A market due to rising rates and volatile economic conditions, limiting potential acquisition opportunities for Service. Margins are expected to return towards pre-2019 levels (19-23%), down from nearly 30% in 2021, but remain above historical levels throughout the forecasting period to account for increasing expansion and an aging demographic. Margins would decrease to their pre-Covid19 levels.

WACC Calculation

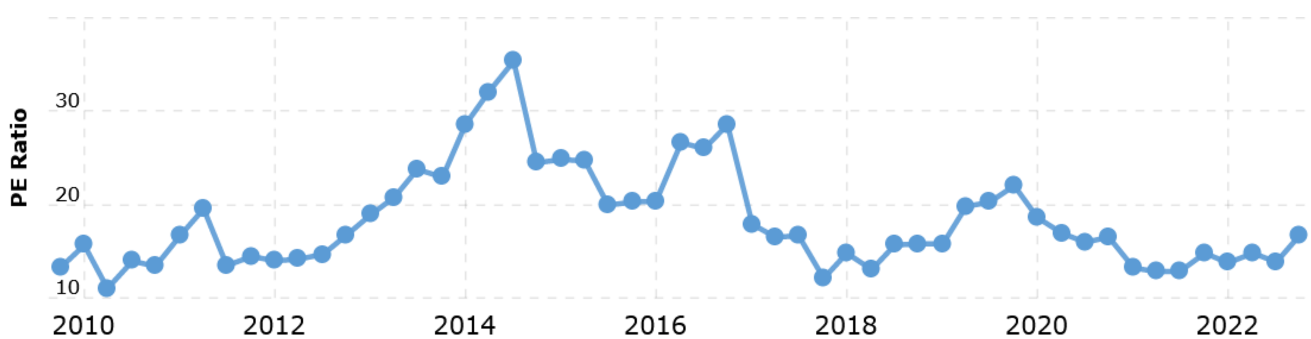
We estimated a weighted average cost of capital of 6.97% for Service. This WACC provides a fair assessment for our reasonable value estimate of $79.82 per share. We use a 10-year Treasury yield of 3.68% for the risk-free rate, and a 3-year beta of 0.96 to ensure a conservative WACC. FactSet reported a WACC of 7.1%.

Terminal Growth Rate

Our 2.25% perpetual growth rate is lower than IBISWorld's industry growth forecast of 2.4% through 2027 and the current 10-year breakeven inflation rate of 2.3% to remain conservative.

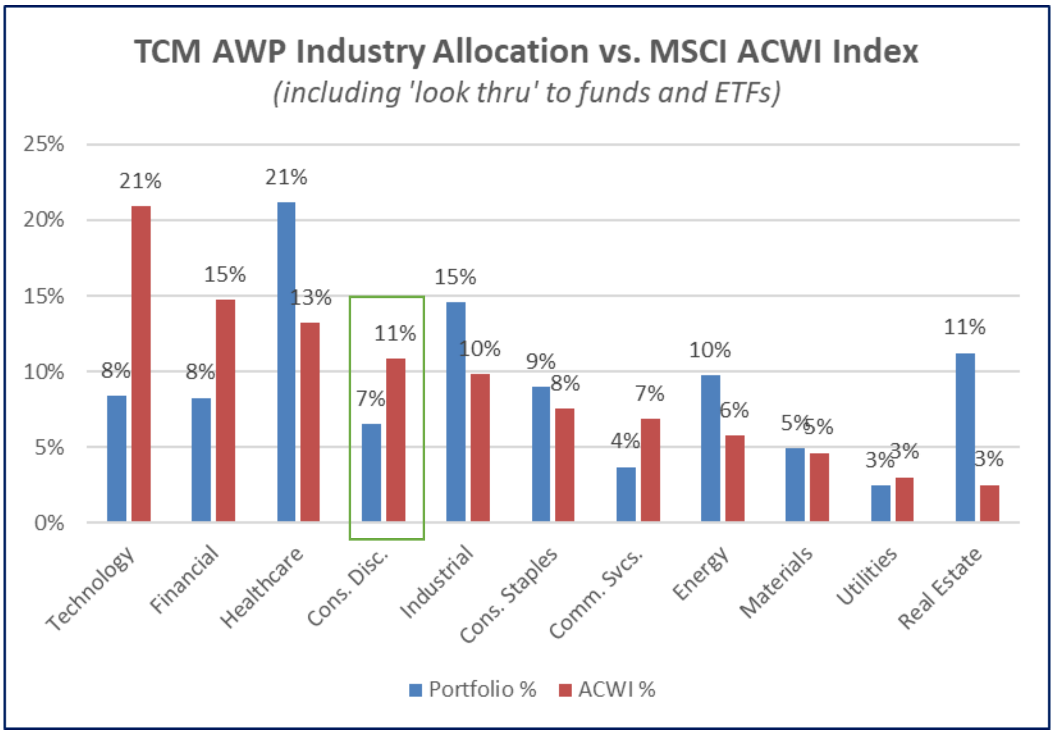
Historical P/E Ratio

As mentioned above, there is much concern about the higher P/E compared to its peers and whether the premium has dried up. Over the past ten years, Service has traded at a historical 10-year average of 22x P/E and over 35x in 2014. While its 16.5x~ P/E is higher than its competitors, more context is needed to evaluate the company.



PORTFOLIO IMPACT AND SUMMARY

Based on the data provided, Service Corporation International is still a healthy company. Sales have continued to grow, even if it does appear profitability will be an issue this year. However, Service Corporation International is a quality operator that is set up for long-term success. We believe the resilience to any crisis as well as its stable and easily predictable results would fit well within the All-Weather portfolio. Our weighted average intrinsic value estimate of $79.87 and 16.2% upside leads us to our 'Buy' rating on the business. We recommend selling a portion of our ISHARES MSCI ACWI ETF to initiate a 2% position in SCI. Service is in the Consumer Discretionary sector and the addition of this new position will increase our underweight allocation to the sector while giving us exposure to a niche and resilient funeral and cemetery services.



APPENDIX

DISCOUNTED CASH FLOW MODEL

Base Case Free Cash Flow Forecast

Detailed Assumption Rationale

Revenue: Volume growth decline in 2022 is in-line with analyst and management forecasts is expected due to a slowing economy and a reduction in deaths related to COVID-19. We expect these effects to normalize in 2023 and not have slow, steady growth in the coming years. Revenue growth year-over-year is projected to stay in the middle single digits, in line with pre-2019 historical growth but slightly above the industry average.

Margins: Gross margins are expected to decline in 2022 but then rise back to between their historical and COVID-19 levels of 21 and 29%, respectively. SCI will be able to maintain these margins in the short-term but then taper back down to middle the middle twenties, near its 2019 pre-COVID-19 levels. We are optimistic in the long-term as gross margins will expand between historical and peak levels due to 1) a strong and mature business model, 2) exceptional free cash flows that will allow for expansion or increase shareholder value while eliminating long-term debt, 3) value-added M&A transactions which will increase Service's market share and footprint with customers.

CapEx: We expect CapEx to be in line with historical through 2026 due to a slow M&A market caused by slowing economic growth and increasing capital costs. CapEx will increase relative to sales for the remainder of the forecasting period due to integration costs that we expect from Service's M&A strategy.

BASE CASE Projected Cash Flows	2022	2023	2024	2025	2026		*Annualized trailing 5-yr. revenue growth for the industry >*	
***BASE CASE** Revenue Growth (see avg. H26) >*	*-2.0%*	*5.0%*	*4.0%*	*4.2%*	*4.5%*	*3.1%*	*< Annualized avg TCM forecast revenue growth*	*5.3%*
Total Revenue	**$4,103.6**	**$4,308.8**	**$4,481.1**	**$4,669.4**	**$4,879.5**	*enter rationale*		
Average Analyst Forecast Sales	*$4,060*	*$4,002*	*$4,136*	*$4,239*	*-*			
Growth (%)	*-1.55%*	*-1.42%*	*3.33%*	*2.48%*	*0.00%*	*0.5%*	*< Annualized average analyst Net Income growth estimate*	
***BASE CASE** EBIT Profit Margin (see avg. H28)>*	*20.0%*	*25.6%*	*26.1%*	*26.4%*	*24.9%*	*24.6%*	*< Annualized average TCM forecast EBIT growth*	
Earnings Before Interest and Taxes (EBIT)	$820.7	$1,103.1	$1,169.6	$1,232.7	$1,215.0	*Took 3 year average of 26%*		
Less: Tax	-$70.6	-$94.9	-$100.6	-$106.1	-$104.5	*w/ downturn in 2022 and early 23*		
Net Operating Profit After Tax (NOPAT)	$750.1	$1,008.1	$1,068.9	$1,126.6	$1,110.4			
Less: Interest	-$199.1	-$209.1	-$217.4	-$226.5	-$236.7			
Net Income	**$551.0**	**$799.1**	**$851.5**	**$900.1**	**$873.7**			
Average Analyst Forecast Net Income	*$598.5*	*$551.6*	*$583.0*	*$636.9*	*-*			
Growth (%)	*-11.93%*	*-7.83%*	*5.70%*	*9.24%*	*0.00%*	*-1.3%*	*< Annualized average analyst Net Income growth estimate*	
Change to shares: buybacks (-), new issues (+) >	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.00%*	*< Historical annualized 5-yr. change in # of shares (for refe*	
Forecast Earnings per Share	**$3.58**	**$5.20**	**$5.54**	**$5.85**	**$5.68**	*enter rationale if changing growth rates*		
Growth (%)		*45.0%*	*6.6%*	*5.7%*	*-2.9%*	*9.7%*	*< Annualized average TCM EPS growth forecast*	
Average Analyst Forecast Earnings per Share	*$3.68*	*$3.53*	*$3.82*	*$4.23*	*-*			
Growth (%)		*-3.9%*	*8.2%*	*10.7%*	*0.0%*	*2.8%*	*< Annualized average analyst EPS growth estimates*	
	EPS Forecast OK ^			*^ EPS Forecast far from average analyst*				
Plus: Depeciation	$303.3	$318.5	$331.2	$345.1	$360.6			
CapEx % of Sales Forecast (see avg. H31)>	*8.4%*	*8.8%*	*8.9%*	*9.0%*	*9.1%*	*straight line Capex for additional purchases*		
Less: Capital Expenditures	-$344.3	-$379.2	-$398.8	-$420.2	-$444.0			
NWC % of Sales Forecast (see avg. H33) >	*-7.0%*	*-7.0%*	*-7.0%*	*-7.0%*	*-7.0%*	*enter rationale if changing growth rates*		
Net Working Capital	(285.8)	(300.1)	(312.1)	(325.2)	(339.8)			
Less: Increase in Net Working Capital	1.4	(14.3)	(12.0)	(13.1)	(14.6)			
Free Cash Flow	**$508.6**	**$752.7**	**$795.9**	**$838.1**	**$804.9**			
Growth (%)	*-17.6%*	*48.0%*	*5.7%*	*5.3%*	*-4.0%*	*5.5%*	*< Annualized average TCM EPS growth forecast*	
Average Analyst Forecast Free Cash Flow	*$531.3*	*$381.2*	*$486.2*	*-*	*-*			
Growth (%)	*-13.89%*	*-28.25%*	*27.54%*	*0.00%*	*0.00%*	*-4.7%*	*< Annualized average analyst EPS growth estimates*	
Debt maturities:	*$0.0*	*$0.0*	*$0.0*	*$0.0*	*$0.0*			
Cash flow sufficient?	*Yes*	*Yes*	*Yes*	*Yes*	*Yes*			

Optimistic Case Free Cash Flow Forecast

Detailed Assumption Rationale

Revenue: Revenue decline in 2022 will stop in 2023 and increase dramatically to the mid-high single digits. This revenue growth is due to a significant increase in preneeds sales and higher than forecasted funeral services. Another deadly strain of COVID-19 could resurface, causing a spike in mortality rates across the globe. An aging population may signal a potential near 'boom' for the industry as medical advances and technology take time to progress. In addition, Service has more diversified service offerings than its competitors, allowing for burials, cremations, private properties, and any other services needed relating to funerals. They will continue to expand on these areas and grow their market share by outpricing the "mom and pop" shops and squeezing them out of the market. Finally, Service Corp would begin to pay down their enormous debt and de-risk the company as a whole. We also expect expanding M&A opportunities within this environment.

Margins: Margins are expected to decline marginally and remain near current, all-time elevated levels as the margin expansion through the 2019-2021 global pandemic began an increase in innovation and potential demand due to aging demographics. In addition, the company can reduce its overall debt and leverage and return more cash to its shareholders. Margins increased to 29% in 2024 due to the expansion of the Preneed program, with baby boomers approaching the high seventies. The cremation industry was a short-term trend, and consumers reverted to traditional burials. Furthermore, the trust fund is restructured, and less risk is taken, allowing SCI and its board members to preserve some of its assets compared to having them in higher-risk situations. Finally, the M&A market downturn was short-term in our optimistic case, and SCI was able to expand and grow thru acquisitions of other competitors.

CapEx: We expect CapEx to be in line with historical through 2026, with an increase in CapEx if further acquisitions occur. CapEx will increase significantly relative to sales because of the more significant amount of M&A that Service can compete in this environment. CapEx does not play a substantial role in SCI's income.

OPTIMISTIC SCENARIO Projected Cash Flows	2022	2023	2024	2025	2026			
OPTIMISTIC CASE Revenue Growth Forecast >	*-2.0%*	*7.2%*	*6.0%*	*6.2%*	*6.0%*	*4.6%*	*< Annualized avg TCM forecast reven*	*5.3%*
Total Revenue	**$4,041.7**	**$4,332.8**	**$4,592.7**	**$4,877.5**	**$5,170.1**	*Tailwinds for mid to high single digit growth*		
Average Analyst Forecast Sales	*$4,060*	*$4,002*	*$4,136*	*$4,239*	-			
Growth (%)	*0.0%*	*-1.4%*	*3.3%*	*2.5%*	*0.0%*	*0.9%*	*< Annualized average analyst Net Income gro*	
OPTIMISTIC CASE EBIT Profit Margin >	*21.0%*	*25.4%*	*29.0%*	*28.3%*	*27.6%*	*26.2%*	*< Annualized average TCM forecast EBIT grow*	
Earnings Before Interest and Taxes	$848.8	$1,100.5	$1,331.9	$1,380.3	$1,427.0	*Recently margins have been as high as 28.1% and*		
Less: Tax	-$73.0	-$94.7	-$114.6	-$118.8	-$122.8	*management expects that to continue rising*		
Net Operating Profit After Tax (NOPAT)	$775.7	$1,005.8	$1,217.3	$1,261.6	$1,304.2			
Less: Interest	-$196.1	-$210.2	-$222.8	-$236.6	-$250.8			
Net Income	**$579.6**	**$795.6**	**$994.5**	**$1,024.9**	**$1,053.3**			
Average Analyst Forecast Net Income	*$598.5*	*$551.6*	*$583.0*	*$636.9*	-			
Growth (%)	*-11.9%*	*-7.8%*	*5.7%*	*9.2%*	*0.0%*	*-1.3%*	*< Annualized average analyst Net Income gro*	
Change to shares: buybacks (-), new issues (+) >	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.00%*	*< Annualized 5-yr. change in # of shares*	
Forecast Earnings per Share	**$3.77**	**$5.17**	**$6.47**	**$6.66**	**$6.85**			
Growth (%)		*37.3%*	*25.0%*	*3.1%*	*2.8%*	*12.7%*	*< Annualized average TCM EPS growth forecc*	
Average Analyst Forecast Earnings per Share	*$3.68*	*$3.53*	*$3.82*	*$4.23 -*				
Growth (%)		*-3.9%*	*8.2%*	*10.7%*	*0.0%*	*2.8%*	*< Annualized average analyst EPS growth est*	
	$3.70	*< **Highest** FactSet EPS estimate*						
EPS Forecast OK ^								
Plus: Depeciation	$298.7	$320.2	$339.4	$360.5	$382.1			
CapEx % of Sales Forecast (from base case) >	*8.4%*	*9.0%*	*9.1%*	*9.3%*	*9.4%*			
Less: Capital Expenditures	-$339.1	-$389.9	-$417.9	-$453.6	-$486.0			
NWC % of Sales Forecast (from base case) >	*-7.0%*	*-7.0%*	*-7.0%*	*-7.0%*	*-7.0%*			
Net Working Capital	(281.5)	(301.7)	(319.8)	(339.7)	(360.0)			
Less: Increase in Net Working Capital	5.7	(20.3)	(18.1)	(19.8)	(20.4)			
Free Cash Flow	**$533.5**	**$746.2**	**$934.1**	**$951.6**	**$969.8**			
Growth (%)	*-13.5%*	*39.9%*	*25.2%*	*1.9%*	*1.9%*	*9.5%*	*< Annualized average TCM EPS growth forecc*	
Average Analyst Forecast Free Cash Flow	*$531.3*	*$381.2*	*$486.2*	-	-			
Growth (%)	*-13.9%*	*-28.2%*	*27.5%*	*0.0%*	*0.0%*	*-4.7%*	*< Annualized average analyst EPS growth est*	

Pessimistic Case Free Cash Flow Forecast

Detailed Assumption Rationale

Revenue: Revenue decline in 2022 will continue in 2023 before stabilizing in 2024. This decline in revenue is due to a decrease in preneeds sales in addition to lower-than-forecasted funeral services. As the general population gets older, technology also advances. While an aging population may signal a 'boom' for industry, medical advances have been able to prolong these trends. Service has a more diversified service platform than its competitors, but volume growth will decline through 2024 and will not recover to its 2019-2022 levels. In this scenario, we also do not expect Service's prices to rise since the drop in demand could help competitors catch up on the increase market share, putting downward pressure on Service's prices. In addition, the amount of debt would begin to catch up to SCI, and their leverage would become a concern. We also expect minimal M&A opportunities in this environment.

Margins: Gross margins are expected to decline and remain near historical levels as the margin expansion through the 2019-2021 global pandemic was a one-time anomaly. The recovery could also face hardships with the cremation industry increasing demand and other potential issues like more significant losses from the trust fund than anticipated. Finally, if sales decline, there will be limited opportunities to expand thru acquisitions as free cash would begin to run dry.

CapEx: We expect CapEx to remain near historical levels due to the limited amount of M&A available, which will mitigate integration costs.

PESSIMISTIC SCENARIO Projected Cash Flows	2022	2023	2024	2025	2026			
PESSIMISTIC CASE Revenue Growth Forecast >	*-4.0%*	*-2.8%*	*3.4%*	*2.1%*	*0.9%*	*-0.1%*	*< Annualized avg TCM forecast reven*	*5.3%*
Total Revenue	**$3,959.3**	**$3,848.4**	**$3,979.3**	**$4,062.8**	**$4,099.4**	*headwinds more people choose creamation over cemeta*		
Average Analyst Forecast Sales	*$4,060*	*$4,002*	*$4,136*	*$4,239*	-			
Growth (%)	*0.0%*	*-1.4%*	*3.3%*	*2.5%*	*0.0%*	*0.9%*	*< Annualized average analyst Net Income gro*	
PESSIMISTIC CASE EBIT Profit Margin >	*19.0%*	*22.0%*	*22.5%*	*24.0%*	*21.0%*	*21.7%*	*< Annualized average TCM forecast EBIT grow*	
Earnings Before Interest and Taxes	$752.3	$846.6	$895.3	$975.1	$860.9	*Prior to 2020 the average EBIT Margins were 20%~*		
Less: Tax	-$64.7	-$72.8	-$77.0	-$83.9	-$74.1			
Net Operating Profit After Tax (NOPAT)	$687.5	$773.8	$818.3	$891.2	$786.8			
Less: Interest	-$192.1	-$186.7	-$193.1	-$197.1	-$198.9			
Net Income	**$495.4**	**$587.1**	**$625.2**	**$694.1**	**$587.9**			
Average Analyst Forecast Net Income	*$598.5*	*$551.6*	*$583.0*	*$636.9*	-			
Growth (%)	*-11.9%*	*-7.8%*	*5.7%*	*9.2%*	*0.0%*	*-1.3%*	*< Annualized average analyst Net Income gro*	
Change to shares: buybacks (-), new issues (+) >	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.00%*	*< Annualized 5-yr. change in # of shares*	
Forecast Earnings per Share	**$3.22**	**$3.82**	**$4.06**	**$4.51**	**$3.82**			
Growth (%)		*18.5%*	*6.5%*	*11.0%*	*-15.3%*	*3.5%*	*< Annualized average TCM EPS growth forecc*	
Average Analyst Forecast Earnings per Share	*$3.68*	*$3.53*	*$3.82*	*$4.23 -*				
Growth (%)		*-3.9%*	*8.2%*	*10.7%*	*0.0%*	*2.8%*	*< Annualized average analyst EPS growth est*	
	$3.60	*< **Lowest** FactSet EPS estimate*						
EPS Forecast too pessimistic ^								
Plus: Depeciation	$292.6	$284.4	$294.1	$300.3	$303.0			
CapEx % of Sales Forecast (from base case) >	*8.4%*	*8.8%*	*8.9%*	*9.0%*	*9.1%*			
Less: Capital Expenditures	-$332.2	-$338.7	-$354.2	-$365.7	-$373.0			
NWC % of Sales Forecast (from base case) >	*-7.0%*	*-7.0%*	*-7.0%*	*-7.0%*	*-7.0%*			
Net Working Capital	(275.7)	(268.0)	(277.1)	(282.9)	(285.5)			
Less: Increase in Net Working Capital	11.5	7.7	(9.1)	(5.8)	(2.5)			
Free Cash Flow	**$444.4**	**$525.1**	**$574.3**	**$634.5**	**$520.4**			
Growth (%)	*-28.0%*	*18.2%*	*9.4%*	*10.5%*	*-18.0%*	*-3.3%*	*< Annualized average TCM EPS growth forecc*	
Average Analyst Forecast Free Cash Flow	*$531.3*	*$381.2*	*$486.2*	-	-			
Growth (%)	*-13.9%*	*-28.2%*	*27.5%*	*0.0%*	*0.0%*	*-4.7%*	*< Annualized average analyst EPS growth est*	

Weighted Average Cost of Capital Calculations

The Weighted Average Cost of Capital (WACC) used in this DCF was 6.97%. Below shows the calculation of the WACC:

INPUTS

Current Market Value of Stock	68.73
Shares Outstanding	154
Short Term Debt *(BS)*	$112
Long Term Debt *(BS)*	$3,799
Book Value of Common Equity *(BS)*	$1,909
Carrying Value of Preferred Stock *(BS)*	$0
Preferred Dividend Expense *(IS)*	$0
Interest Expense *(IS)*	$162
Income Before Taxes *(IS)*	$895
Income Tax Expense *(IS)*	$215
10-yr. Treasury Yield	3.68%
WACC per FactSet	7.10%
Cost of Equity per FactSet	7.77%
3-yr. beta per FactSet	0.96
Market Risk Premium per FactSet	4.24%
After tax Cost of Debt per FactSet	5.11%
Damodaran Equity Risk Premium ERP	4.59%

		Conservative assumptions	*3 yr. β*	*1-yr. β*	*Peer avg. β*
Estimated beta	β	0.96	*0.96*	*0.00*	*0.00*
			10-yr. Tsy	*TCM minimum risk free rate*	
Risk Free Rate	R_f	3.68%	*3.68%*	*2.00%*	
			Large Cap	*Mid Cap*	*Small Cap*
Required Market Return	R_m	10.00%	*7.00%*	*8.50%*	*10.00%*

OUTPUTS

		Conservative Outputs	*Aggressive Outputs*
Market Value of Equity	E	$10,571	$10,571
Cost of Equity = $R_f + \beta(R_M - R_f)$	R_E	9.75%	2.00%
Book Value of Long-term Debt	D	$3,799	$3,799
Cost of Debt	R_D	5.11%	5.11%
Corporate Tax Rate	T_C	23.98%	23.98%
Carrying Value of Preferred Stock	P	$0.0	$0.0
Cost of Preferred Stock	R_{Pfd}	0.00%	0.00%
Total Capitalization = E + D	V	$14,370	$14,370

Required Return for Discounted Cash Flow Models (DCF)

	Average WACC	*Conservative*	*Aggressive*
TCM WACC using conservative and aggressive inputs	5.35%	*8.20%*	*2.50%*
Conservative WACC using Damodaran Equity Risk Premium (ERP)	6.97%	*(Wacc Used)*	
FactSet reported WACC	7.10%		

Leverage

Company Name	Curr Ratio	EBITDA / Int. Exp	Net Debt / EBITDA	LT Debt/ Ttl Capital	FCF Yield	Dividend Yield	Beta	Diluted Shares	Curr Ratio	EBITDA / Int. Exp	Net Debt / EBITDA	LT Debt/ Capital	Dividend Yield	FCF Yield	Debt Rank	Yield Rank
Service Corp Intl	**0.48**	**8.12x**	**3.05x**	**70.34**	**5.11**	**1.24**	**0.94**	**159.1**	5	1	2	3	2	2	2.8	2.0
Carriage Services	0.73	4.40x	5.71x	81.68	5.04	0.64	0.83	15.5	4	4	5	4	4	3	4.3	3.5
StoneMor	2.69	-0.14x	-61.17x	174.85	-3.48	0.00	0.20	118.5	1	5	1	5	5	5	3.0	5.0
Park Lawn	2.14	6.75x	3.72x	27.20	4.28	1.10	0.85	34.7	2	3	3	1	3	4	2.3	3.5
Matthews Int. Corp.	1.53	7.41x	4.40x	62.25	9.32	3.93	1.02	30.3	3	2	4	2	1	1	2.8	1.0
Average	*1.51*	*5.31x*	*-8.86x*	*83.26*	*4.05*	*1.38*	*0.77*									

Service's liquidity and leverage ratios show a financially healthy firm ranking 2nd overall within the peer group. The company's **Current Ratio** of 0.48x can present issues for the business having to pay short-term debt but with an **EBITDA/Interest Expense of** 8.12x shows sufficient liquidity and interest rate coverage. Service has a lower-than-average **Long-term Debt/Total Capital Ratio** at 70.75% ranking 3rd, but Park Lawn has significantly lower LT Debt/Capital. The **Net Debt/EBITDA** of 3.05x gives us comfort that they are not over-leveraged while still maintaining a moderate amount of leverage. Our confidence in SCI's financial position is supported by Service Corp's stable BB+ with a potential upgrade outlook from the S&P.

Profitability

Company Name	Sales Growth (3 yr.)	Gross Margin (NTM)	EBIT Margin (NTM)	ROIC (NTM)	ROE (NTM)	Sales	EBITDA	Total Debt	Sales Growth	Gross Margin	EBIT Margin	ROIC	ROE	Avg. Rank	*Evaluation*
Service Corp Intl	**28.85**	**27.27**	**23.27**	**11.81**	**27.19**	**$4,124**	**$1,315**	**$4,191**	2	4	1	1	1	2.0	*More Profitable*
Carriage Services	37.98	31.88	21.21	6.55		$373	$104	$572	1	1	2	2		1.5	*More Profitable*
StoneMor	5.22			-18.51		$323	-$5	$393	5			5		5.0	*Less Profitable*
Park Lawn	24.61	29.94	19.51	3.61	6.05	$304	$48	$165	3	3	3	3	2	3.0	*Profitable*
Matthews Int. Corp.	14.64	31.02	5.42	-7.16		$1,762	$182	$799	4	2	4	4		3.5	*Profitable*
Average	*22.26*	*30.03*	*17.35*	*-0.74*	*16.62*	*$1,377*	*$329*	*$1,224*							

SCI's **3-year revenue growth** of 28.85% is second only to Carriage Services 37.98%. However, Carriage Services is much newer and smaller than SCI. Service has the ability to continuously grow and scale even if they are the major player within the industry and we would prefer Service Corporations brand strength and market share over Carriage Services for the All-Weather Portfolio.

Service **EBIT margin (NTM)** of 23.7% is the highest among the peer group but the company's **Gross Margin (NTM)** ranks fourth, although there is not a major impactful difference between the leader, Carriage Services at 31.88%, and Service Corporations 27.27^

With a **return on invested capital** (ROIC (NTM)) of 11.81%, Service Corporation leads its peers and provides higher economic returns than peers while lagging competitors average -0.74. Service's ROIC (NTM) is almost double Carriage services at 11.81% and 6.55%, respectfully. The team believes that Service Corp's diversified business platform and already dominate presence is superior to any of its competitors for the purpose of the All-Weather Portfolio.

Relative Value

Company Name	Curr Price	FactSet Price Target	EPS	BV/Share (NTM)	EBITDA	Net Debt	P/E Multiplier	P/B Multiplier	EV/Sales Multiplier	EV/ EBITDA Multiplier	FCF Yield Multiplier	Multiples Fair Value	Potential Gain/Loss vs. Comps	Rating based on Comps	Potential Gain/Loss per FactSet	Rating based on FactSet	Peer Financial Rating
Service Corp Intl	**$71.41**	**$80.40**	**3.55**	**13.04**	**4,191**	**12,763**	**$49**	**$43**	**$79**	**$216**	**$73**	**$92**	*29.17%*	*Over-weight*	*12.59%*	*Over-weight*	*Over wgt.*
			Adjust weight if desired by changing these figures=>				*1.0*	*1.0*	*1.0*	*1.0*	*1.0*						
Carriage Services	$24.21	$40.00	2.44	0.00	572	3,264	$34		$22		$63	$24	*-1.37%*	*Market weight*	*65.22%*	*Over-weight*	*Market wgt.*
							1.0	*1.0*	*1.0*	*1.0*	*1.0*						
StoneMor	$19.43	$26.22	1.08	17.91	393	n/a	$15	$59	$8	$0	$24	$21	*9.72%*	*Market weight*	*34.96%*	*Over-weight*	*Under wgt.*
							1.0	*1.0*	*1.0*	*1.0*	*1.0*						
Park Lawn	$31.42	$46.50	2.98	0.00	165	615	$42	$31	$27	$36	$26	$32	*2.63%*	*Market weight*	*47.99%*	*Over-weight*	*Market wgt.*
							1.0	*1.0*	*1.0*	*1.0*	*1.0*						
Matthews Int. Corp.	$48.76	$67.67	4.36	0.00	799	3,511	$47	$62	$58	$77	$61	$61	*25.10%*	*Over-weight*	*38.78%*	*Over-weight*	*Over wgt.*
							1.0	*1.0*	*1.0*	*1.0*	*1.0*						

Valuation

1. VALUATION Factors (1- best, 6 - worst: low is better except for FCF/Share)

									-------------------------- RANK ----------------------						
Company Name	**P/E (NTM)**	**P/B (NTM)**	**EV/Sales (NTM)**	**EV/ EBITDA**	**BV/Shr (NTM)**	**FCF/Shr (NTM)**	**Price**	**Price Target**	**P/E Rank**	**P/B Rank**	**EV/Sales**	**EV/ EBITDA**	**FCF/Share (NTM)**	**Avg. Rank**	***Evaluation***
Service Corp Intl	**20.14x**	**5.47x**	**3.74x**	**11.40x**	**13.04**	**2.98**	**$71.41**	**$80.40**	**5**	**2**	**2**	**4**	**2**	**3.0**	***High Price***
Carriage Services	9.91x			9.15x		2.57	$24.21	$40.00	1			2	3	2.0	***Low Price***
StoneMor	17.94x	1.08x	2.36x	17.46x	17.91	0.99	$19.43	$26.22	4	1	1	5	4	3.0	***High Price***
Park Lawn	10.53x			9.67x			$31.42	$46.50	2			3		2.5	***Fair Price***
Matthews Int. Corp.	11.19x			8.63x		4.16	$48.76	$67.67	3			1	1	1.7	***Low Price***
Average	*13.94x*	*3.28x*	*3.05x*	*11.26x*	*15.48*	*2.67*	*$39.05*	*$63.19*							

Summary of Ratio Comparison

Company Name	**Stock Valua-tion**	**Profit-ability**	**Debt Rank**	**Yield Rank**	**Avg. Factor Rank**	**Over/ Under Weight?**	*Price*	*Profitability*	*Debt*	*Yield*
Service Corp Intl	**3.0**	**2.0**	**2.8**	**2.0**	**2.4**	**Over wgt.**	*High Price*	*More Profitable*	*Less Debt*	*More Yield*
Carriage Services	2.0	1.5	4.3	3.5	2.8	**Market wgt.**	*Low Price*	*More Profitable*	*More Debt*	*Less Yield*
StoneMor	3.0	5.0	3.0	5.0	4.0	**Under wgt.**	*High Price*	*Less Profitable*	*Avg. Debt*	*Less Yield*
Park Lawn	2.5	3.0	2.3	3.5	2.8	**Market wgt.**	*Fair Price*	*Profitable*	*Less Debt*	*Less Yield*
Matthews Int. Corp.	1.7	3.5	2.8	1.0	2.2	**Over wgt.**	*Low Price*	*Profitable*	*Less Debt*	*More Yield*

Chairman:

Thomas L. Ryan

Non-Independent

Occupation

- Chairman (since 2016), CEO (since 2005) and President (since 2019) of SCI

Prior Business Experience

- President, SCI (2002-2015)
- CEO European Operations, SCI (2000-2002)
- Variety of financial management roles, SCI (1996-2000)

Current Public Company Boards

- Weingarten Realty Investors (NYSE: WRI)
- Chesapeake Energy (NYSE: CHK)

Other Positions

- Lifetime Board Member, The University of Texas McCombs Business School Advisory Council

Past Public Company Boards

- Texas Industries (NYSE:TXI)

Education

- Bachelors, Business Administration, The University of Texas at Austin

Director:

Anthony L. Coelho

Lead Independent Director

Occupation

- Former Majority Whip of the U.S. House of Representatives
- Independent business and political consultant

Prior Political Experience

- Chairman of the President's Committee on Employment of People with Disabilities (1994-2001)
- General Chairman of Al Gore's Presidential campaign (1999-2000)
- Majority Whip (1987-1989)
- Member of U.S. House of Representatives (1978-1989); original sponsor/author of the Americans with Disabilities Act

Prior Business Experience

- President/CEO of Wertheim Schroder Financial Services, growing $800 million firm to $4.5 billion in 6 years (1990-1995)

Current Public Company Boards

- Chairman, Esquire Financial Holdings, Inc.
- AudioEye, Inc.

Select Past Public Company Boards

- Chairman, Cyberonics
- Chairman, Circus Circus Enterprises (now MGM Mirage)
- Chairman, ICF Kaiser International, Inc.
- Warren Resources, Inc.

Other Positions

- Former Chairman and current Board member of the Epilepsy Foundation

Education

- Bachelors, Loyola University of Los Angeles

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