



Service Corporation International (SCI)

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Outline

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Company Overview

- ▶ North America's leading provider of funeral homes, cremation and cemetery services.
- ▶ Founded in 1962
- ▶ Has a market share of 34% in the cemetery services industry, 11.2% in the funeral homes industry, and 13.5% in the cremation services industry.
- ▶ **Nothing is certain except death and taxes.** - Benjamin Franklin



*Service
Corporation
International*



Overview

SCI is the leading provider of deathcare services. They operate 1,471 funeral service locations and 488 cemeteries across 44 states, 8 Canadian provinces, DC and Puerto Rico.





How Does The Company Get Paid?

Revenue is collected two ways, pre-need and at-need services. Pre-need would be your prepaid funeral. This allows SCI to collect the premiums up front and invest them in the trust. Upon death the expenses are withdrawn from the trust. At need services are managed like more traditional transactions.

They make up ~15% of the deathcare market in the US, they have steady revenues as sadly about 0.83% of the population passes each year.



Leverage / Insulation From Downturn

\$2.5 of debt for every \$1 of equity

\$551.3 million of borrowing capacity and have used \$325 million for a remainder of 226 million.

Approximately a months' worth of expenses.

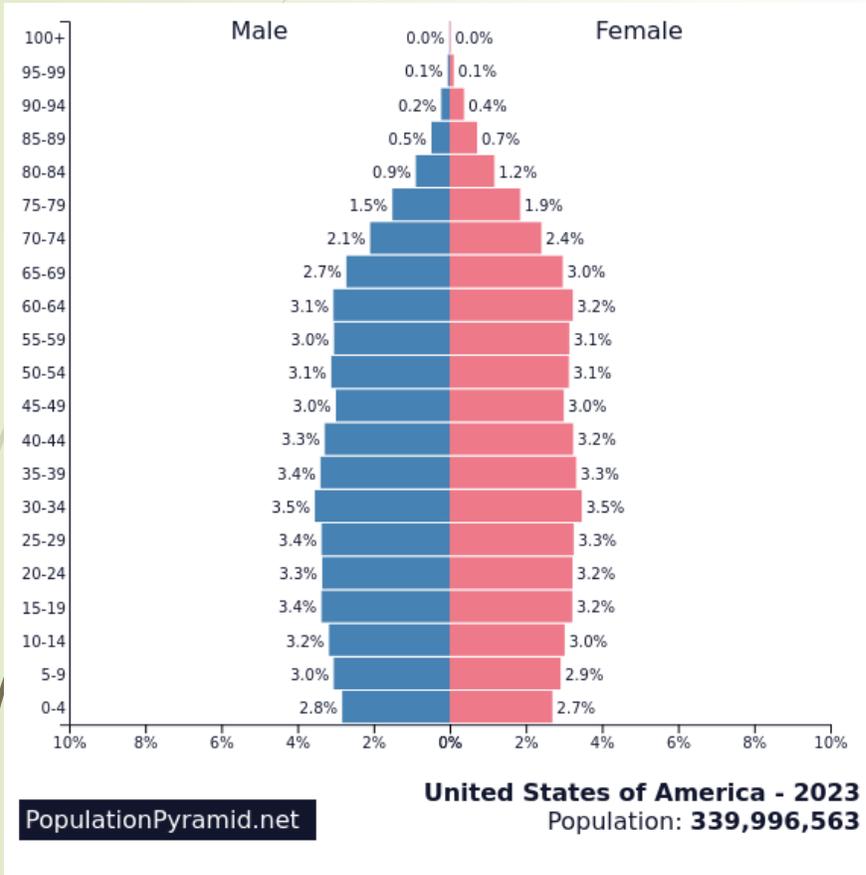


Entrenchment / Moat

Many of their assets like cemeteries and crematoriums are subject to strict regulations and require extensive permitting to establish. Not all regulators will be anxious to add another funeral home to their town/city.

Time alone is a test in and of itself and 60 years of operations suggest entrenchment.

Growing Market?



SCI consistently earns ~12% free cash flow margins, has grown fairly consistently since 1962 and had average ROEs annually of 33% per year

Currently 56 million Americans are over 65. By 2030, that amount is expected to rise to 71 million.

Fastest growing demographic



Valuation

While baby boomers will not be passing for another 15-25 years, they will be purchasing preneed cremation and burial services.

The average contract is purchased within 10 years of execution.

Those preneed contracts are put into trusts that are invested into securities.

Some are direct contracts with life insurance companies that the funeral home makes a commission on.



Valuation (Q3 2022 Notes)

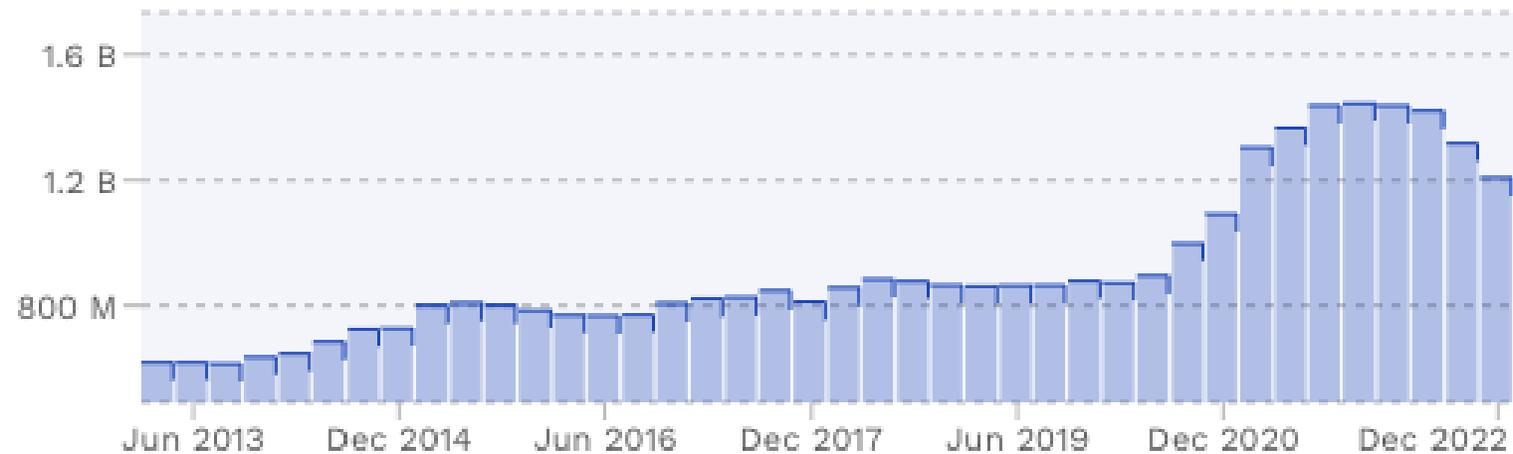
- Adjusted earnings per share has grown an impressive 22% on a compounded annual basis since 2019 (compared to an expectation of 8%-12%).
- The number of funeral services performed is trending higher than we anticipated and is approximately 5% higher than 2019 levels on a compounded annual growth basis.
- Cemetery preneed sales production continues to be strong, growing this quarter 5% versus a COVID impacted prior year quarter and has experienced nearly 19% compounded annual growth over 2019 levels.

EBITDA Doubles from 618M Between 2013 and 2023 (1.2 Billion) - 7% CAGR

Analysis

Trailing Twelve Months

The following section summarizes insights on Service Corporation International's EBITDA:





Ratio Analysis

Liquidity:

- Current Ratio: .45 in 2022

Activity:

- Days Payable Outstanding (DPO): 87.42 days
- PE Ratio: 17

Leverage:

- Net profit margin: 13.78% in 2022



Key Valuation Metrics

WACC: 6.27%

Beta: .77

Long term growth
rate: 1.7%



Undervalued by 24%



DCF Valuation

Net Reinvestment Rate: 23.21%

Return on Invested Capital: 7.1%

Long Term Growth Rate: 1.7%

Recommendation

- Recommend buying \$50,000
- - Low risk (.77 beta)
- - Undervalued by 24%
- - Don't have a company like this in the fund

ETH

-65.20



BUY