

## Service Corp.

# Visitations at SCI's locations: strong December after weaker Oct-Nov

Reiterate Rating: BUY | PO: 77.00 USD | Price: 66.63 USD

## Q4 visits up Q/Q but down y/y; high-end doing well

As per Placer.ai, the average daily visitations at Service Corp.'s (SCI) locations grew 7% sequentially in December, well above the historical trends. The strong Dec. followed somewhat slower Oct-Nov, resulting in the 4Q23 avg up 6% Q/Q and down 7% y/y. Visitations at the Rose Hills location were much better than the SCI's average, up 14% Q/Q in 4Q on the strong traffic in December. This is a positive indication for the high-end market. We remain Buy given the attractive valuation and solid trends despite some weakness in the overall consumer discretionary spending.

## Visits per day +7% m/m in Dec., better than historical avg

In December, visitations at SCI's locations were down 4% y/y but 1% above 2019. Visits per day improved 7% m/m, better than recent trends - Exhibit 8. The +7% m/m increase in Dec. 2023 is better than the pre-COVID average growth of +4% m/m in Dec.

## Q4 visits down 7% y/y and 4% below 2019

Visitations in 4Q23 declined -7% y/y (better than the -8% est based on Oct-Nov data), a deceleration from -4% y/y in 3Q23. Q4 is 4% below 2019, worse than -1% below in Q3.

## Y/Y trends in CA better than SCI overall; 15% above 2019

Activity in California (CA), SCI's biggest state, was strong in Dec (+14% m/m). 4Q23 visitations declined 5% y/y, better than the -7% decline for the entire portfolio - Exhibit 16. CA visits were 15% above 2019 levels in Q4, helping offset Texas and Florida below 2019 (Exhibit 17). Arizona (4<sup>th</sup> largest) has been tracking much better than SCI overall. The 15% above 2019 in 4Q23 for CA is an improvement from 13% above in 3Q23.

## Strength at Rose Hills positive read for high-end mkt

Visitations at Rose Hills increased 38% m/m in December, 64% above the 2018-19 average. The avg daily visits in Q4 were 7.8k, up 14% Q/Q, better than CA and SCI's avg. The Y/Y trends at Rose Hills (-4% /y) were better than California (-5% y/y), and better than the SCI's average (-7% y/y). We view Rose Hills as an indication for trends among the high-end consumers as the entry level property at this location is \$15k (Exhibit 19).

Estimates (Dec) (US\$)	2021A	2022A	2023E	2024E	2025E
EPS	4.57	3.79	3.49	3.66	4.06
GAAP EPS	4.72	3.53	3.54	3.66	4.06
EPS Change (YoY)	56.5%	-17.1%	-7.9%	4.9%	10.9%
Consensus EPS (Bloomberg)			3.46	3.61	3.94
DPS	0.88	1.02	1.12	1.22	1.28
Valuation (Dec)					
P/E	14.6x	17.6x	19.1x	18.2x	16.4x
GAAP P/E	14.1x	18.9x	18.8x	18.2x	16.4x
Dividend Yield	1.3%	1.5%	1.7%	1.8%	1.9%
EV / EBITDA*	10.1x	11.4x	11.7x	11.4x	10.9x
Free Cash Flow Yield*	6.1%	4.5%	5.0%	6.2%	5.6%

\* For full definitions of *IQmethod*<sup>SM</sup> measures, see page 15.

11 January 2024

### Equity

BofA

Data  
Analytics



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### Stock Data

Price	66.63 USD
Price Objective	77.00 USD
Date Established	15-Dec-2023
Investment Opinion	B-1-7
52-Week Range	52.89 USD - 74.66 USD
Mrkt Val (mn) / Shares Out (mn)	10,147 USD / 152.3
Free Float	96.3%
Average Daily Value (mn)	58.61 USD
BofA Ticker / Exchange	SCI / NYS
Bloomberg / Reuters	SCI US / SCI.N
ROE (2023E)	31.9%
Net Dbt to Eqty (Dec-2022A)	248.0%
ESGMeter <sup>TM</sup>	Medium

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to "BofA ESGMeter Methodology".

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Timestamp: 11 January 2024 12:05AM EST

# iQprofile<sup>SM</sup> Service Corp.

## iQmethod<sup>SM</sup> – Bus Performance\*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Return on Capital Employed	6.2%	5.0%	4.9%	4.9%	5.1%
Return on Equity	42.5%	33.9%	31.9%	32.8%	35.9%
Operating Margin	28.1%	23.9%	23.2%	23.5%	24.2%
Free Cash Flow	617	456	509	628	573

## iQmethod<sup>SM</sup> – Quality of Earnings\*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash Realization Ratio	1.2x	1.4x	1.6x	1.7x	1.4x
Asset Replacement Ratio	1.9x	2.1x	1.8x	1.5x	1.5x
Tax Rate	23.2%	25.1%	24.2%	24.5%	24.5%
Net Debt-to-Equity Ratio	193.7%	248.0%	263.0%	255.2%	251.1%
Interest Cover	7.7x	5.7x	4.0x	4.0x	4.4x

## Income Statement Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Sales	4,143	4,109	4,060	4,118	4,240
% Change	18.0%	-0.8%	-1.2%	1.4%	3.0%
Gross Profit	1,581	1,442	1,386	1,426	1,493
% Change	28.0%	-8.8%	-3.9%	2.9%	4.7%
EBITDA	1,443	1,270	1,240	1,270	1,337
% Change	31.9%	-12.0%	-2.4%	2.5%	5.2%
Net Interest & Other Income	(120)	(226)	(225)	(242)	(234)
<b>Net Income (Adjusted)</b>	<b>778</b>	<b>608</b>	<b>533</b>	<b>548</b>	<b>599</b>
<b>% Change</b>	<b>49.0%</b>	<b>-21.9%</b>	<b>-12.2%</b>	<b>2.7%</b>	<b>9.4%</b>

## Free Cash Flow Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Net Income from Cont Operations (GAAP)	803	566	542	548	599
Depreciation & Amortization	159	175	190	194	194
Change in Working Capital	(166)	(60)	(192)	20	(80)
Deferred Taxation Charge	(6)	3	177	0	0
Other Adjustments, Net	130	141	139	151	151
Capital Expenditure	(304)	(370)	(347)	(285)	(291)
<b>Free Cash Flow</b>	<b>617</b>	<b>456</b>	<b>509</b>	<b>628</b>	<b>573</b>
<b>% Change</b>	<b>6.0%</b>	<b>-26.1%</b>	<b>11.6%</b>	<b>23.4%</b>	<b>-8.7%</b>
Share / Issue Repurchase	(554)	(661)	(440)	(240)	(240)
Cost of Dividends Paid	(147)	(160)	(169)	(182)	(189)
Change in Debt	210	346	184	(131)	(69)

## Balance Sheet Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash & Equivalents	269	192	173	173	173
Trade Receivables	106	97	91	94	96
Other Current Assets	66	71	197	197	197
Property, Plant & Equipment	2,252	2,351	2,472	2,563	2,661
Other Non-Current Assets	12,998	12,356	12,787	12,787	12,787
<b>Total Assets</b>	<b>15,691</b>	<b>15,066</b>	<b>15,721</b>	<b>15,814</b>	<b>15,914</b>
Short-Term Debt	65	91	63	63	63
Other Current Liabilities	663	709	708	723	744
Long-Term Debt	3,901	4,251	4,500	4,370	4,300
Other Non-Current Liabilities	9,152	8,342	8,820	9,027	9,176
<b>Total Liabilities</b>	<b>13,782</b>	<b>13,393</b>	<b>14,090</b>	<b>14,183</b>	<b>14,283</b>
<b>Total Equity</b>	<b>1,909</b>	<b>1,673</b>	<b>1,669</b>	<b>1,669</b>	<b>1,669</b>
<b>Total Equity &amp; Liabilities</b>	<b>15,691</b>	<b>15,066</b>	<b>15,759</b>	<b>15,852</b>	<b>15,952</b>

\* For full definitions of iQmethod<sup>SM</sup> measures, see page 15.

## Company Sector

Death Care

## Company Description

SCI is the largest provider of death care services in the US. The company operates funeral service locations, cemeteries, and crematoria. Service Corp also sells prearranged funeral services in most service markets. The company has a 16% market share of the funeral and cemetery market in North America.

## Investment Rationale

SCI is a long-term investment in the US aging demographics. While we wait for the aging wave to aid results in a more meaningful way, the company drives shareholder returns via continued share repo and increasing dividends while building a pipeline of revenue growth through pre-need sales. We believe the death care industry is relatively more resistant to a recession.

## Stock Data

Average Daily Volume

879,591

## Quarterly Earnings Estimates

	2022	2023
Q1	1.34A	0.93A
Q2	0.84A	0.83A
Q3	0.68A	0.78A
Q4	0.92A	0.94E

## Visitations correlated with SCI's sales

In order to assess near term trends at SCI's locations, we analyzed foot traffic/visitations at over 1,000 SCI locations in the US based on data from Placer.ai. The platform provides mobile location data that is aggregated and extrapolated to provide insights to a geofenced location.

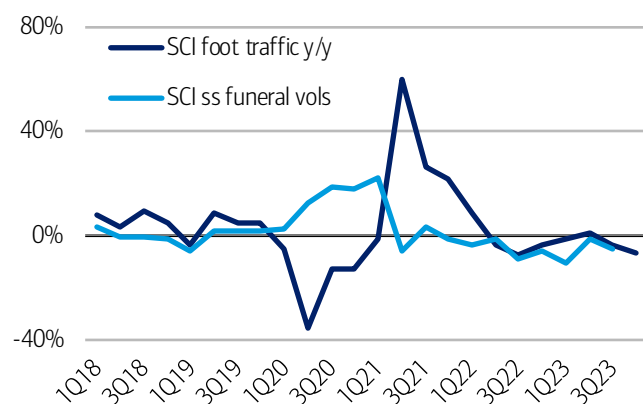
With the July 2023 data release, Placer.ai updated its methodology based on additional information which improved the ability to estimate visits from its panelists. With Oct release, Placer added 10 more SCI locations. These changes resulted in data revisions compared to our prior reports.

We view foot traffic as an indicator for both the at-need and pre-need transactions. At-need services generate foot traffic which can also generate companion pre-need sales. In addition, pre-need sales process might involve a visit to the cemetery/ funeral home before the contract is finalized. As such, the foot traffic/visitations at a location could be a leading indicator to pre-need transactions.

We found a strong correlation between the foot traffic at SCI's locations and SCI's comparable or same store (SS) funeral preneed sales y/y growth (92%). While the correlation with SS funeral volumes y/y growth is negative (-36%) for the entire period we studied, it is high (79% correlation) for the pre-pandemic period, 2018-2019. As a reminder, COVID disrupted the funeral services given the shelter-in-place orders and limitations on group gatherings in 2020 which limited foot traffic.

### Exhibit 1: SCI SS funeral vols not as correlated with foot traffic

SCI same store funeral volumes vs foot traffic at SCI locations, % y/y change

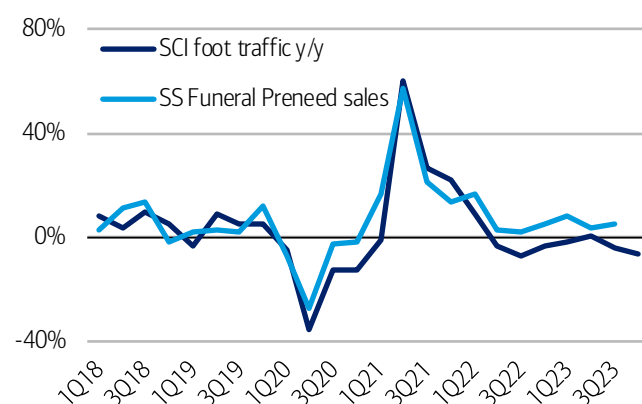


Source: SCI ss data from Company filings, Foot traffic data from Placer.ai

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### Exhibit 2: SCI funeral preneed sales are highly correlated with foot traffic

SCI same store funeral pre-need sales vs foot traffic, % y/y change



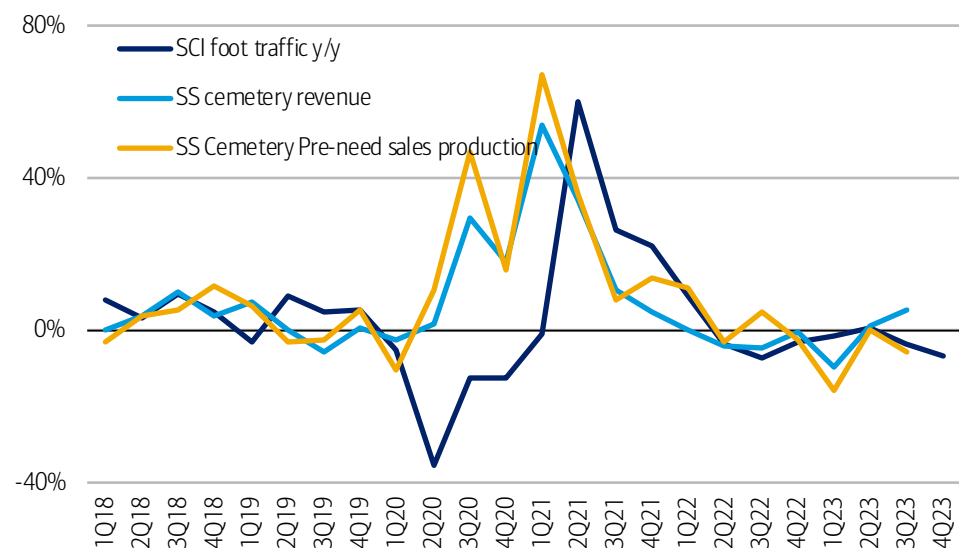
Source: SCI ss data from Company filings, Foot traffic data from Placer.ai

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Meanwhile, the foot traffic is less correlated with cemetery trends: 25% correlation with SS cemetery revenue y/y growth, and 14% correlation with SS cemetery pre-need sales production. Nevertheless, the foot traffic y/y changes were directionally consistent with the SS cemetery pre-need sales production in 9 of the last 10 consecutive quarters.

**Exhibit 3: Foot traffic is loosely correlated with SCI cemetery revs and pre-need production**

SCI ss cemetery revs vs foot traffic at SCI locations, % y/y change



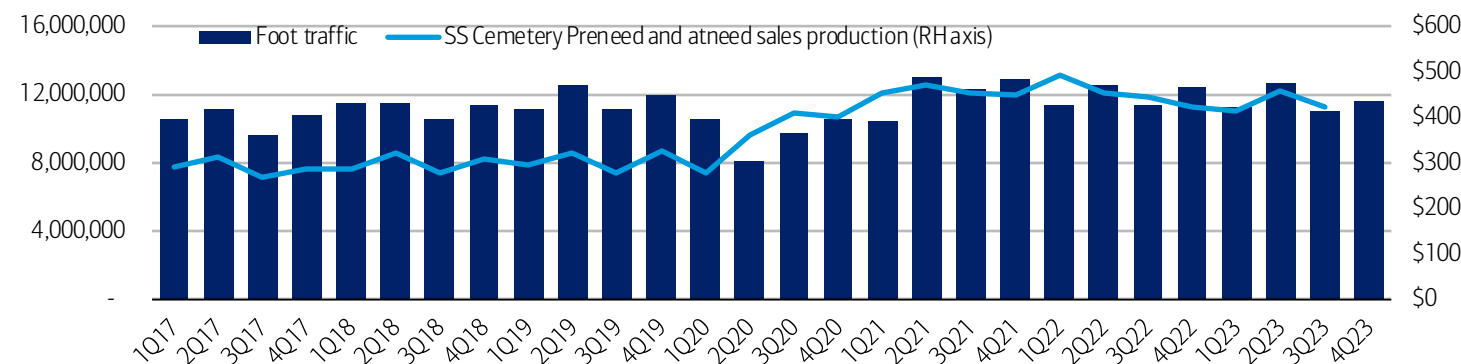
Source: Company filings, Placer.ai

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We found that the foot traffic data is relatively well correlated with the absolute amount of SCI cemetery at-need and preneed sales production dollars (38% correlation).

**Exhibit 4: SCI cemetery atneed & preneed production is somewhat correlated to foot traffic**

SCI same-store cemetery atneed &amp; preneed production (\$m) vs foot traffic at SCI locations (count of visitors)



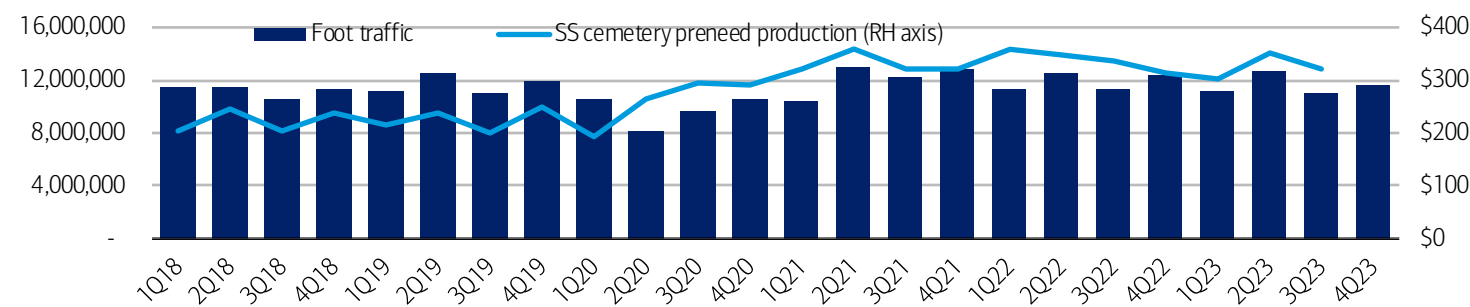
Source: Company filings, Placer.ai

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Similarly, there's a small correlation with the pre-need cemetery production.

**Exhibit 5: SCI cemetery preneed production is moderately correlated to foot traffic**

SCI same-store cemetery preneed production (\$m) vs foot traffic at SCI locations (count of visitors)



Source: Company filings, Placer.ai

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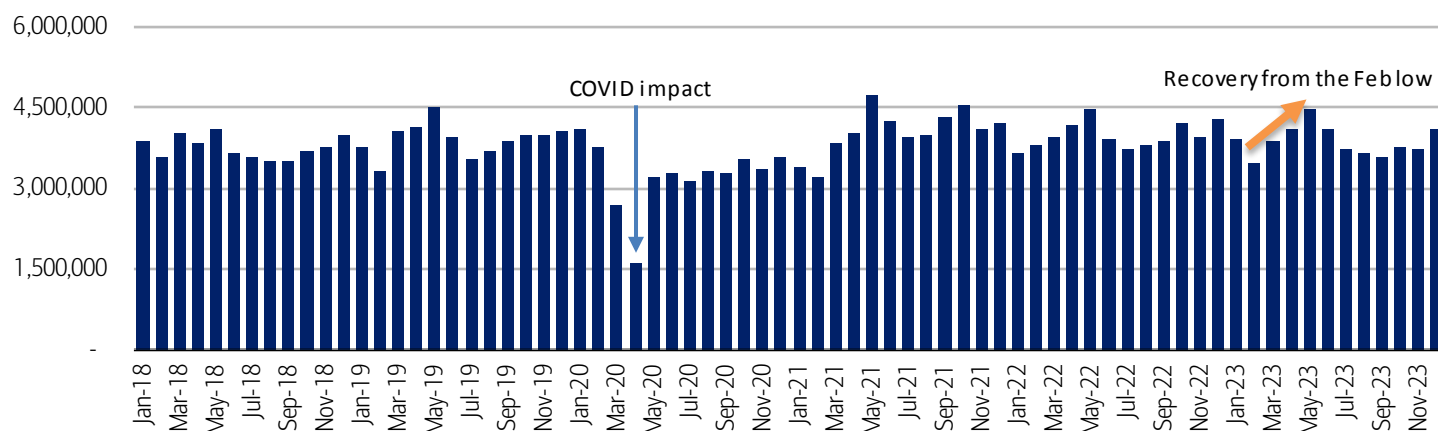
## Visitations increased 10% m/m in December

SCI saw slowing down pre-need cemetery sales production in 1H23. In 1Q23, it was negatively impacted by unfavorable weather conditions in its key markets (mostly California and specifically its biggest cemetery, Rose Hills). In 2Q23, the production was impacted by a slowdown in transactions for lower-priced properties. The foot traffic data implied that visitations declined in 3Q23 from 2Q23 and SCI reported pre-need sales production that was slightly worse than expected (-6% y/y).

Based on the Placer data, visitations in December increased 10% m/m, better than the historical +8% m/m increase in 2017-19 (ranging from +2% m/m in Dec 2019 to +15% m/m in Dec 2017). The +10% m/m in Dec 2023 follows flattish visitations m/m in November 2023.

### Exhibit 6: Visitations grew 10% in December 2023 compared to November 2023

Monthly visitations at SCI locations



Source: Placer.ai

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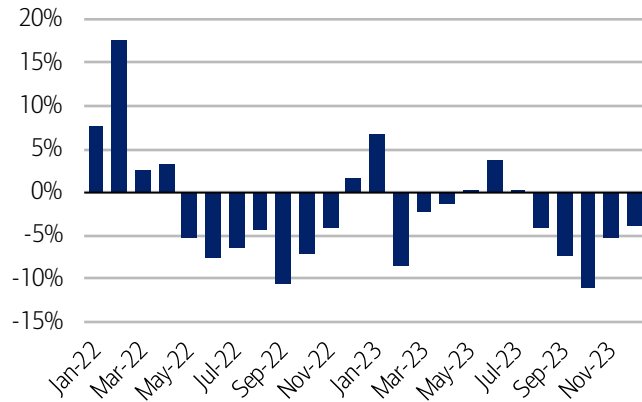
Given the high mortality rates due to COVID in early 2022 (Jan-Feb 2022 foot traffic increased dramatically due to the Omicron spike), the y/y comps were negative in early 2023.

As per the latest Placer data, the foot traffic in December declined 4% y/y, an improvement from recent y/y trends (-5% y/y in November, -11% y/y in October and -7% y/y in September) – see Exhibit 7.

In order to compare the sequential growth, we also looked at visits per day which normalizes for the number of days in a month. The visitations per day in December 2023 increased 7% m/m, better than +3% in Nov and +4% m/m growth in October. The m/m growth in Dec. is better than the +5% m/m increase in Dec. 2022 (Exhibit 8) and it is better than the +4% m/m average increase in 2017-2019.

**Exhibit 7: Visits declined 4% y/y in Dec., better than -5% y/y in Nov.**

SCI visitations by month, % y/y change

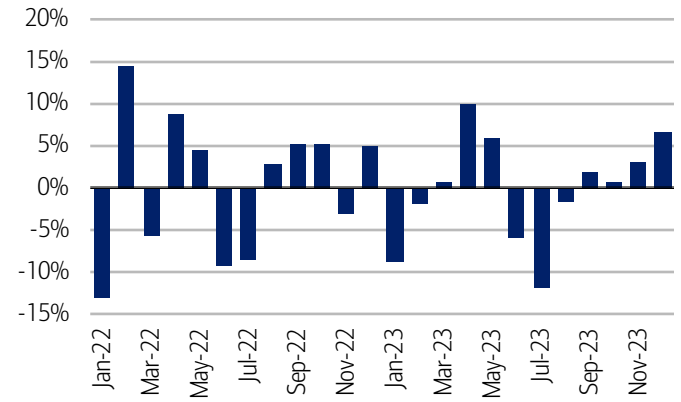


Source: Placer.ai

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**Exhibit 8: Visitations per day grew 7% m/m in December**

SCI visitations by month; Days adjusted m/m % change



Source: Placer.ai

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**Pre-COVID, visitations in December increased from November**

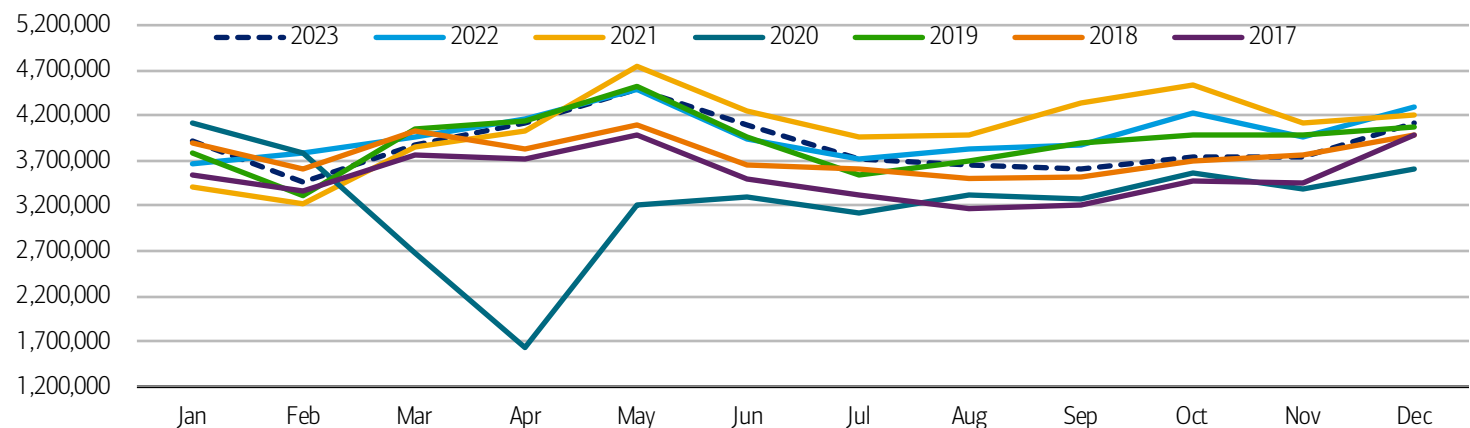
We observed seasonality in the foot traffic data: February is typically down from January, and March increases from February, followed by a continued growth in April. The month of May tends to be the highest visitation month, which makes sense given the weather patterns as well as the fact that this is the month that follows Ching Ming festival (early April) and includes Mother's Day holiday.

Meanwhile, summer months (June, July, and August) usually are the weakest which is followed by traffic picking up in September. Historically, visitations grew every month through Q4 with the strongest pick up in December (holidays).

Pre COVID, on average, visitations in December increased +8% from November, ranging from +2% m/m in 2019 to +6% m/m in 2018 and +15% m/m in 2017). In 2023, the foot traffic in December increased better than the avg, +10% m/m.

**Exhibit 9: May tends to be the highest traffic month, followed by declines in June and July before starting to pick up in September/October**

Foot traffic at SCI locations by month, 2017-2023 (though December 2023)



Source: Placer.ai

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**2023 seasonality resembled 2019. December 2023 was 1% above 2019**

In 1H23, the foot traffic was very close to the 2022 levels except for February when it was down y/y on tough comps (early 2022 saw COVID related excess mortality driving more traffic at SCI locations).

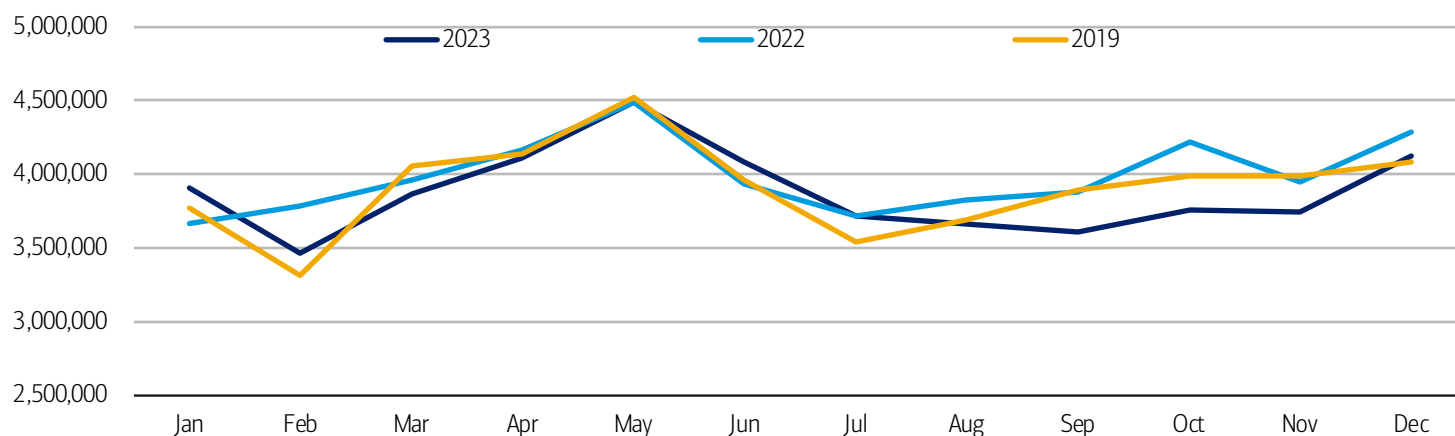
Also, the patterns look close to the 2019 levels. Visitations in March-April were below the 2019 levels, which could be explained by the unfavorable weather patterns that the

company had flagged on its 1Q23 conference call. The gap vs 2019 narrowed in May 2023, and traffic in June and July was above 2019 levels. Meanwhile, visitations in August were 1% below 2019, and the gap widened in September to 7% below 2019, and 6% below 2019 in October / November.

After four months below 2019, the traffic in December came in above 2019 levels.

#### Exhibit 10: Foot traffic in 2023 was close to the 2019 levels. December was 1% above 2019

Foot traffic by month 2023 (though December 2023) vs 2022 and 2019



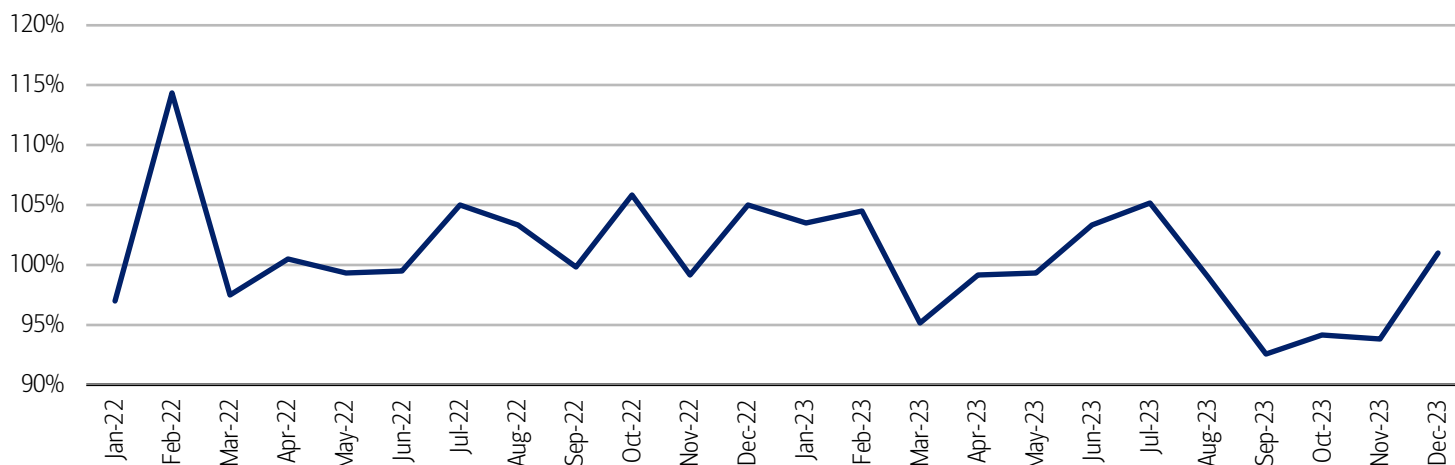
Source: Placer.ai

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As % of 2019 levels, Dec. 2023 visitations improved from the Q3 trends and were 101% of Dec. 2019 levels vs 99% average for 3Q23. It is a nice improvement from the September 2023 low (93%). The avg in 4Q23 was 96%, worse than 99% in 3Q23.

#### Exhibit 11: Visitations in December were 1% above the 2019 levels

Visitations to all SCL locations as % of 2019 levels, Jan 2022 – December 2023



Source: Placer.ai, BofA Global Research

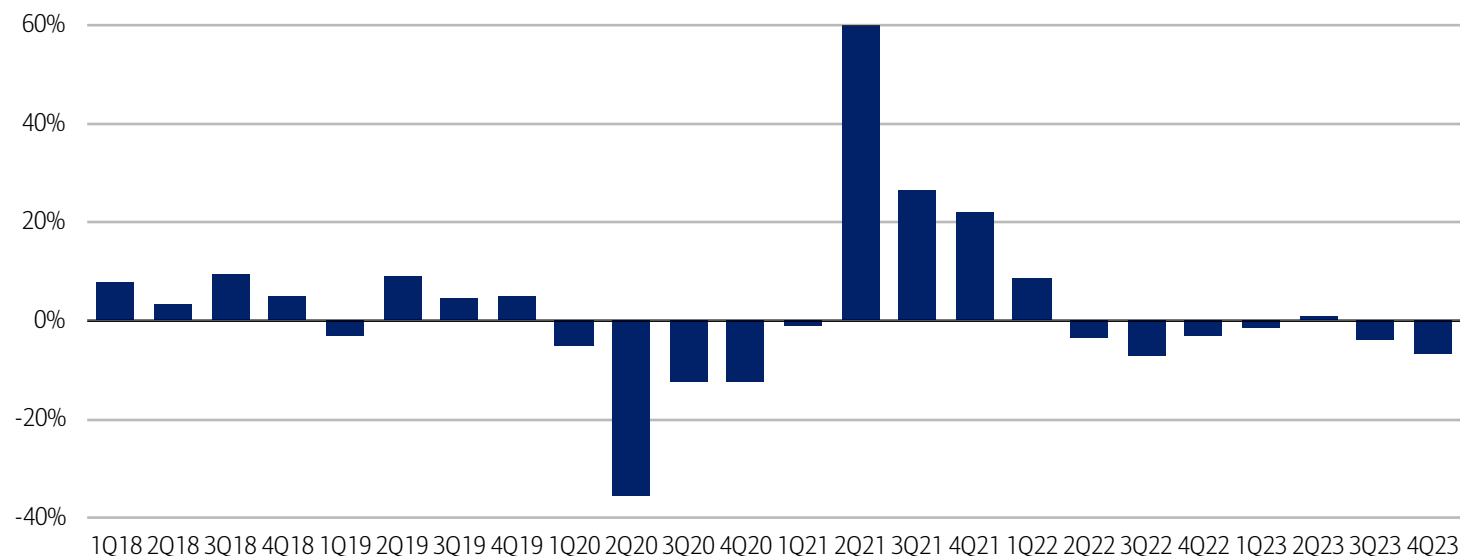
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### Visitations in Q4 declined 7% y/y

Based on the Oct-Dec 2023 data, visitations in 4Q23 declined 7% y/y, a deceleration from -4% y/y in 3Q23. However, this is an improvement from the -8% y/y decline based on the October-November data.

**Exhibit 12: Visitations in 4Q23 were down 7% y/y**

Foot traffic at SCI locations by quarter, y/y % change; 1Q18-4Q23 (through December 2023)



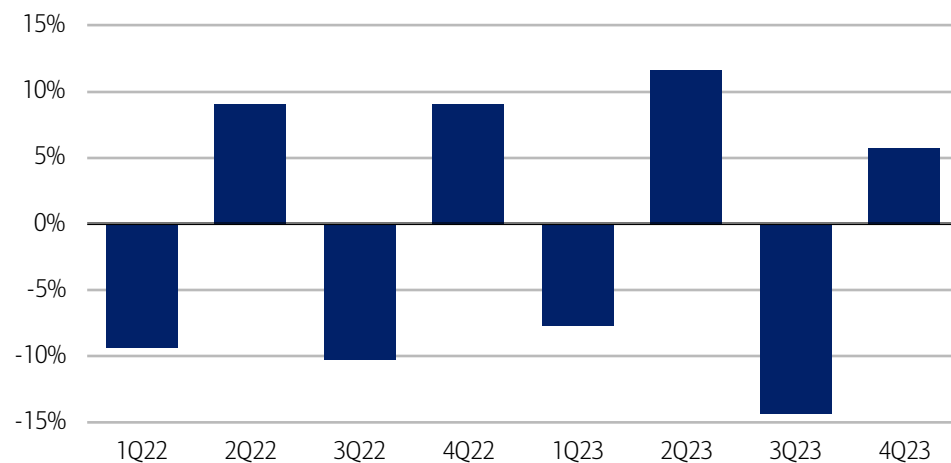
Source: Placer.ai

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Normalizing for the number of days in a period, the visitations in 4Q23 increased 6% compared to the average visits per day in 3Q23. It follows a -14% Q/Q decline in 3Q23 vs 2Q23. The 4Q23 increase is worse than the sequential increase observed last year (+9% Q/Q in 4Q22) and worse than the average +11% Q/Q increase in 2017-19.

**Exhibit 13: In 4Q23, SCI visitations per day were 6% above the 3Q23 avg**

Days adjusted Q/Q change in foot traffic at SCI locations, % change Q/Q (4Q23 through Dec. 2023)



Source: Placer.ai

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**Trends in California better than SCI overall**

Since the California (CA) market is the biggest state for SCI, we looked at the trends in the state.

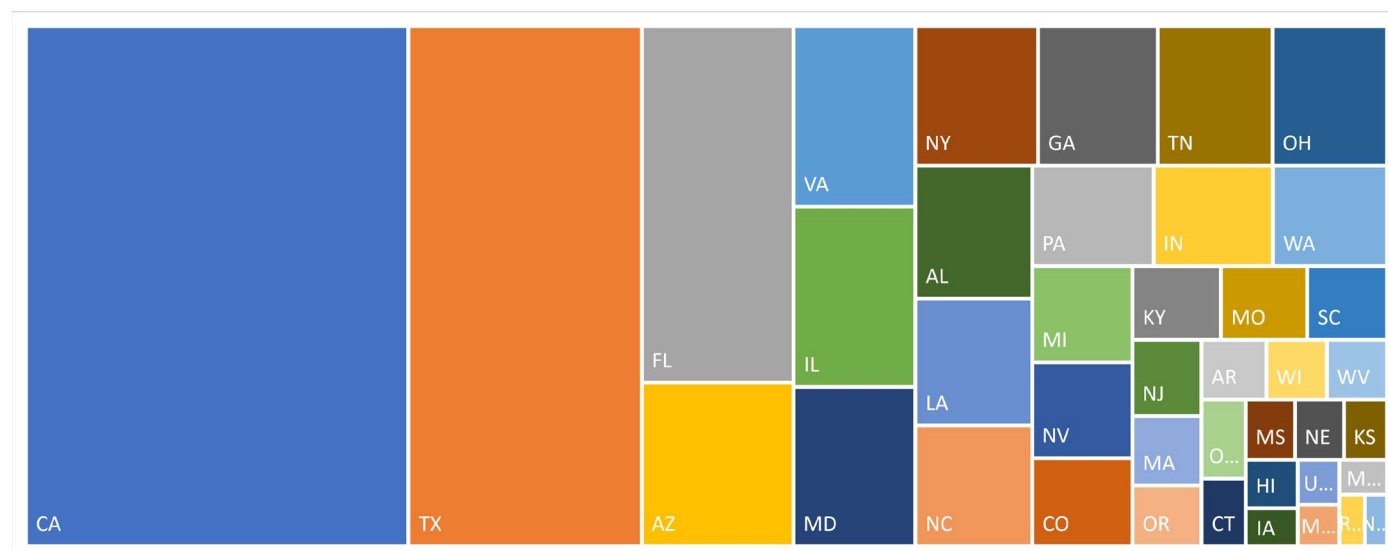
**California accounts for over 1/4 of all visits**

In our data set, CA accounts for 28% of the total number of visits at SCI locations given it is the largest state for SCI (10% of the company's locations) with bigger than average cemeteries.



**Exhibit 14: SCI locations in CA account for about 1/4 of foot traffic in our dataset, followed by TX, FL, and AZ**

% of SCI foot traffic by state, December 2023



Source: Placer.ai

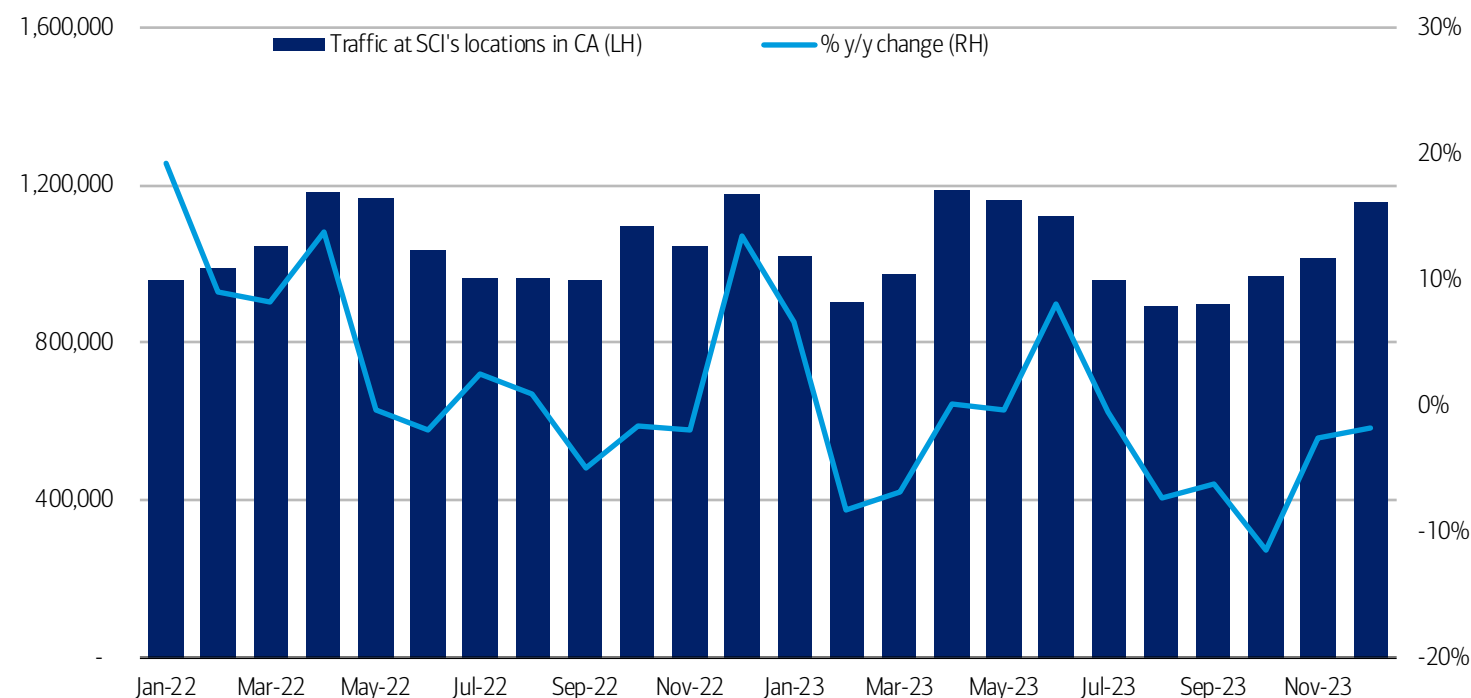
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**Visits in Dec grew nicely m/m**

The visitations in CA increased 14% m/m in December. This is down 2% y/y, an improvement from -3% y/y in Nov 2023. This is worse than the trends observed in April-July 2023 when the visitations were flat to above 2022 levels.

**Exhibit 15: Foot traffic in CA grew nicely m/m in December 2023. It was down 2% y/y**

Foot traffic at SCI locations in CA, monthly, absolute number vs % y/y change; 2022-2023



Source: Placer.ai

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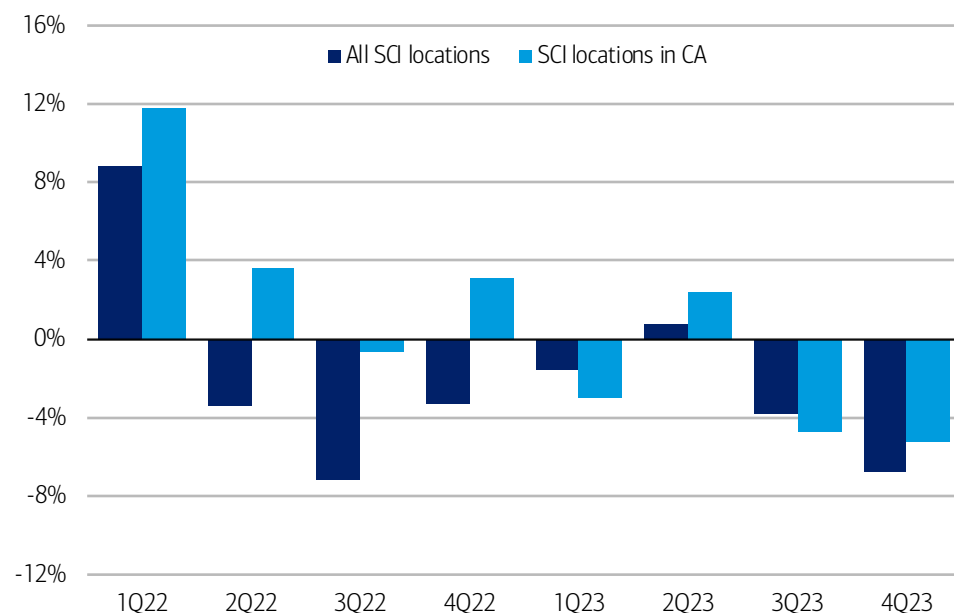
**The Q4 y/y decline in CA is better than the decline for SCI overall**

In 4Q23, visitations at CA locations were better than the trends for all SCI's locations. In 4Q23, visits declined 5% y/y in CA, better than the -7% decline for all SCI's locations. In 3Q23, CA underperformed the portfolio average.



**Exhibit 16: Visitations in CA declined less y/y than visits across all SCI's locations**

Foot traffic at All SCI's locations vs CA locations, % y/y change, 1Q22-4Q23



Source: Placer.ai

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**CA visitations were 15% above 2019 levels in 4Q23**

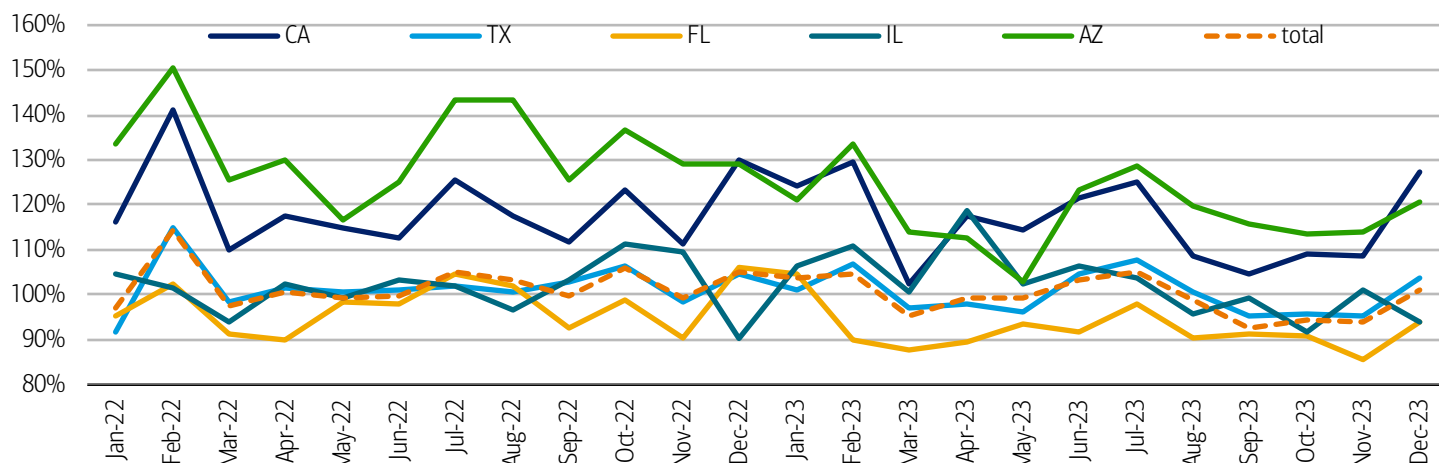
Given the tough y/y comps, we looked at the visitations compared to the 2019 levels. The CA locations stand out as being well above the 2019 levels compared to the trends for all SCI's states. Texas (the second largest state for SCI) has been tracking close to the overall company total. Meanwhile, Florida (the third largest state) has been worse than the total portfolio. Of note, the trends in Arizona (4<sup>th</sup> largest state for SCI visitations) have been much better than the company overall.

CA visitations dipped at 103% of the 2019 levels in March 2023, rebounded to 118% in April 2023 and continued to improve reaching 126% of the 2019 levels in July. In December 2023, CA visits were 138% of December 2019. The CA's strength largely offset the weaker FL trends.

In Q4, trends in CA improved from Q3: 4Q23 was 15% above 2019, better than 13% above 2019 in 3Q23.

**Exhibit 17: CA visitations as % of 2019 levels tracking better than the total for all SCI locations**

SCI locations: Foot traffic as % of 2019 levels, Jan 2022-December 2023



Source: Placer.ai

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**Trends at Rose Hills much better than average**

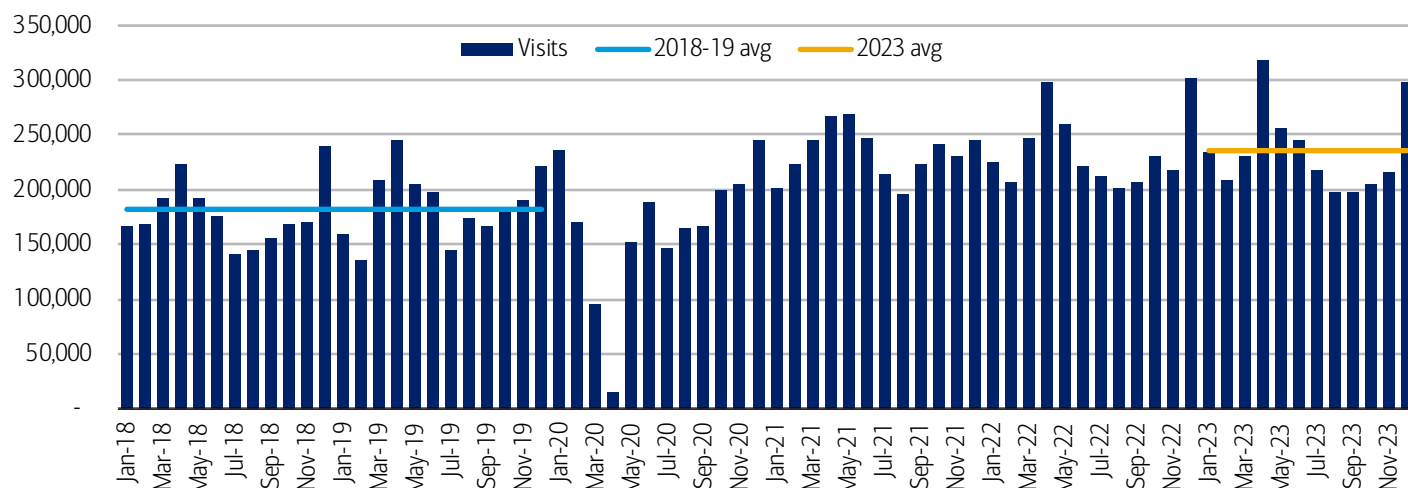
Rose Hills Memorial Park & Mortuary is the biggest SCI's location and the biggest cemetery in North America. At 1,400 acres, the cemetery is 19x the size of an average SCI cemetery (73 acres) and accounts for 4% of all cemetery land owned by the company. It is located outside of Los Angeles, California, and includes a funeral home, crematory, service venues, as well as several chapels. The Rose Hills location accounted for 5% all foot traffic in our data base.

SCI said that the unusually heavy rains in CA impacted development and visitations at Rose Hills, which explained about ¼ of the worse than expected cemetery pre-need sales production in 1Q23 (about 250bps of the -10% y/y shortfall vs expectations). The company saw a decline in velocity (units sold) as the number of people visiting the cemeteries was impacted by weather during the typically busy season ahead of the Ching Ming festival in early April. In addition, the flooding delayed development of some of the large projects that were expected to be shown to potential customers and then sold during Q1. The development of those projects was delayed until May.

Based on the latest Placer data, visitations in December increased 38% m/m from November 2023, an acceleration from the +4-5% m/m growth in Oct-Nov 2023. Visits were down 1% y/y but 64% above the 2018-19 average.

**Exhibit 18: Visitations at Rose Hills increased 38% m/m in December; tracking well above pre-COVID levels**

Foot traffic at Rose Hills, CA, location; monthly; 2018-2023



Source: Placer.ai

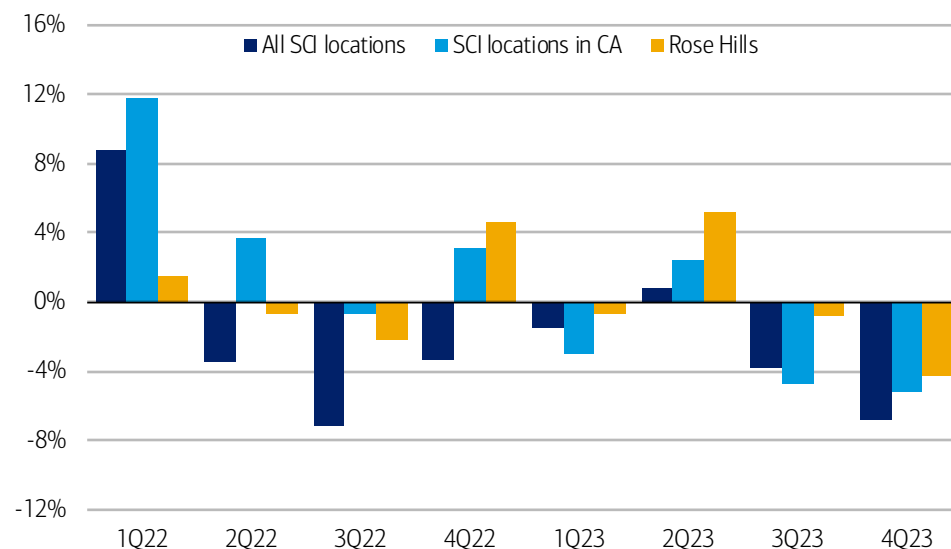
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**Rose Hill y/y trends better than CA and better than SCI's avg**

In Q4, the visitation trends at the Rose Hills location (-4% y/y) are better than the visitations in the entire state of California (down -5% y/y), and better than trends for all SCI's locations (-7% y/y). We view the activity at Rose Hills as an indication for trends among the high-end consumers as the entry level property at this location is in the \$15k range.

**Exhibit 19: Trends at Rose Hills are better than the avg for California and all SCI locations**

Foot traffic at Rose Hills vs CA and All locations; % y/y change, 1Q22-4Q23



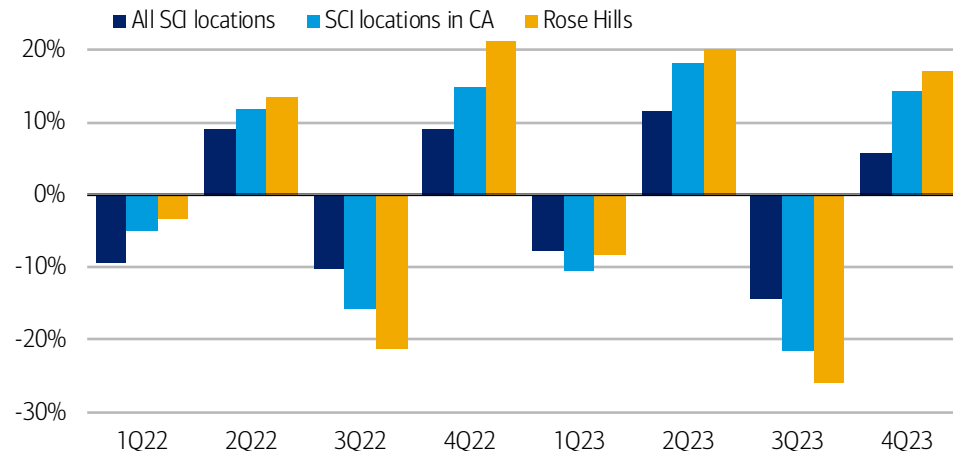
Source: Placer.ai

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The average visits per day at Rose Hills were 7.8k in Q4, up 17% compared to the 3Q23 average. This is much better than the +6% Q/Q growth in all SCI locations and better than the +14% Q/Q increase at SCI's California locations.

**Exhibit 20: Visits at Rose Hills grew +17% Q/Q in 4Q23, better than in California, and much better than +6% Q/Q for all SCI locations**

Visitations at Rose Hills vs CA and All SCI's locations; Days adjusted % Q/Q change, 1Q22-4Q23 (through Dec. 2023)



Source: Placer.ai

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## Placer.ai methodology, data limitations

Placer.ai foot traffic data is based on aggregated and anonymized mobile phone location data for people who visit a facility for at least 5-15 minutes, depending on the operating system and signals. The data is adjusted for visits from employees (based on visit patterns). The platform provides mobile location data that is aggregated and extrapolated to provide insights to a geofenced location.

The Placer platform tracks activity only in the US while about 9% of all SCI locations (5% of annual SCI revenues) are in Canada and 1% in Puerto Rico. The data set we analyzed includes 1,274 locations operated by SCI, which represent about 85% of SCI's locations in the US, and as such, it does not have a perfect coverage of the company's locations. The Placer team reviewed a total of 1,377 US locations but some of them were not included due to a limited panel size at the location, or the standard limitations to location data applied e.g. they were part of multistory buildings, dense areas (e.g. SCI's premier funeral home in NYC is located in Manhattan), or inside a larger facility.

We also note that about 300 of SCI's funeral homes are co-located with a cemetery, and as such it is hard to distinguish the visitation to the cemetery vs funeral home.

## Price objective basis & risk

### Service Corp. (SCI)

Our price objective (PO) of \$77 is based on 12.7x 2024E EBITDA, a premium to the median multiple we use for the stocks in our coverage (10x) due to the demographic tailwinds, a better payor mix and margins, and lower than average leverage with growing dividends being a differentiating factor. It is below the 5-year avg multiple for SCI of 12.4x due to the risks to the pre-need cemetery sales production (discretionary).

Risks to our PO are unexpected pressure to volumes, weaker pre-need sales and trust fund performance. In addition, there is risk around execution of acquisitions and share repurchases.

## Analyst Certification

I, Joanna Gajuk, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

### US - Facilities, Hospitals and Managed Healthcare Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
	Acadia Healthcare	ACHC	ACHC US	Kevin Fischbeck, CFA
	Addus HomeCare	ADUS	ADUS US	Joanna Gajuk
	Agilon Health	AGL	AGL US	Adam Ron
	Chemed Corporation	CHE	CHE US	Joanna Gajuk
	Elevance Health Inc	ELV	ELV US	Kevin Fischbeck, CFA
	Encompass Health	EHC	EHC US	Kevin Fischbeck, CFA
	HCA	HCA	HCA US	Kevin Fischbeck, CFA
	Humana Inc	HUM	HUM US	Kevin Fischbeck, CFA
	Option Care Health	OPCH	OPCH US	Joanna Gajuk
	Oscar Health	OSCR	OSCR US	Adam Ron
	Privia Health	PRVA	PRVA US	Adam Ron
	Select Medical Corp.	SEM	SEM US	Kevin Fischbeck, CFA
	Service Corp.	SCI	SCI US	Joanna Gajuk
	Surgery Partners, Inc	SGRY	SGRY US	Kevin Fischbeck, CFA
	Tenet Healthcare	THC	THC US	Kevin Fischbeck, CFA
	The Cigna Group	CI	CI US	Kevin Fischbeck, CFA
	UnitedHealth Group	UNH	UNH US	Kevin Fischbeck, CFA
	Universal Health Services	UHS	UHS US	Kevin Fischbeck, CFA
	US Physical Therapy	USPH	USPH US	Joanna Gajuk
<b>NEUTRAL</b>				
	Alignment Healthcare	ALHC	ALHC US	Adam Ron
	AMN Healthcare	AMN	AMN US	Kevin Fischbeck, CFA
	Apollo Medical	AMEH	AMEH US	Adam Ron
	Brookdale	BKD	BKD US	Joanna Gajuk
	Centene Corporation	CNC	CNC US	Kevin Fischbeck, CFA
	Molina Healthcare, Inc.	MOH	MOH US	Kevin Fischbeck, CFA
<b>UNDERPERFORM</b>				
	AdaptHealth Corp.	AHCO	AHCO US	Joanna Gajuk
	Agility Health Inc	AGTI	AGTI US	Kevin Fischbeck, CFA
	Cross Country Healthcare	CCRN	CCRN US	Kevin Fischbeck, CFA
	DaVita Inc	DVA	DVA US	Kevin Fischbeck, CFA
	Enhabit Home Health & Hospice	EHAB	EHAB US	Joanna Gajuk
	Pediatrix Medical Group, Inc.	MD	MD US	Kevin Fischbeck, CFA

## **IQmethod<sup>SM</sup> Measures Definitions**

### **Business Performance**

Return On Capital Employed

Return On Equity  
Operating Margin  
Earnings Growth  
Free Cash Flow

### **Quality of Earnings**

Cash Realization Ratio  
Asset Replacement Ratio  
Tax Rate  
Net Debt-To-Equity Ratio  
Interest Cover

### **Valuation Toolkit**

Price / Earnings Ratio  
Price / Book Value  
Dividend Yield  
Free Cash Flow Yield  
Enterprise Value / Sales

EV / EBITDA

### **Numerator**

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income  
Operating Profit  
Expected 5 Year CAGR From Latest Actual  
Cash Flow From Operations – Total Capex

### **Numerator**

Cash Flow From Operations  
Capex  
Tax Charge  
Net Debt = Total Debt – Cash & Equivalents  
EBIT

### **Numerator**

Current Share Price  
Current Share Price  
Annualised Declared Cash Dividend  
Cash Flow From Operations – Total Capex  
EV = Current Share Price × Current Shares + Minority Equity + Net Debt +  
Other LT Liabilities  
Enterprise Value

### **Denominator**

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill  
Amortization  
Shareholders' Equity  
Sales  
N/A  
N/A

### **Denominator**

Net Income  
Depreciation  
Pre-Tax Income  
Total Equity  
Interest Expense

### **Denominator**

Diluted Earnings Per Share (Basis As Specified)  
Shareholders' Equity / Current Basic Shares  
Current Share Price  
Market Cap = Current Share Price × Current Basic Shares  
Sales

Basic EBIT + Depreciation + Amortization

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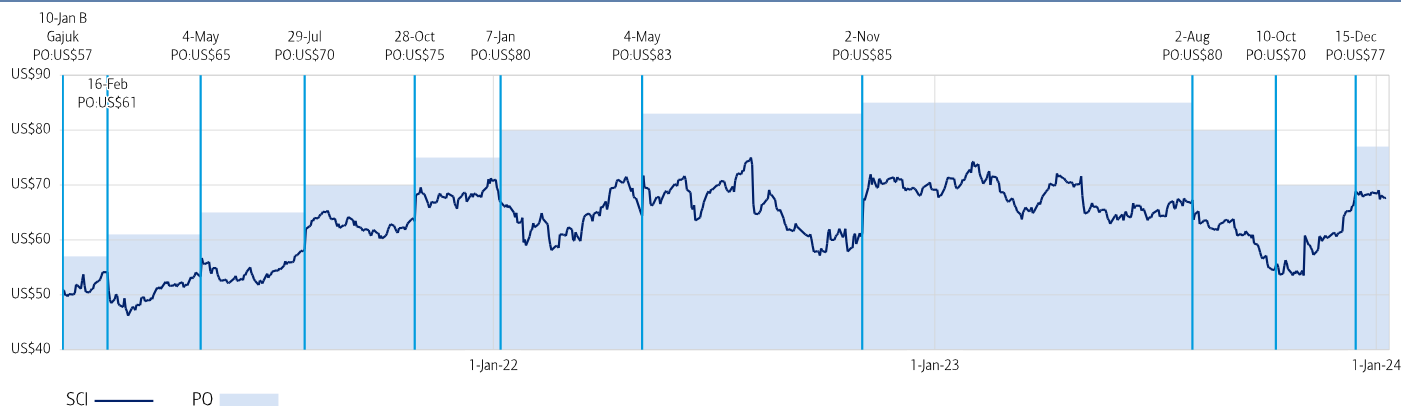
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## Important Disclosures

### Service Corp. (SCI) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

### Equity Investment Rating Distribution: Services Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	5	41.67%	Buy	3	60.00%
Hold	2	16.67%	Hold	1	50.00%
Sell	5	41.67%	Sell	2	40.00%

### Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

<sup>R1</sup> Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster <sup>R2</sup>
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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