

## Death Care

# Funeral spending in Q4 down slightly y/y but still well above pre-COVID

Industry Overview

## BAC card data: funeral spending -1% y/y in Q4

According to BAC aggregated credit and debit card data, spending on funeral services in December declined 1% m/m and was -5% y/y. The 4Q23 spending was down 1% y/y and -1% Q/Q, worse than the historical Q/Q growth of +1-2% in Q4 vs Q3. However, the +7% CAGR vs 2019 implies a robust demand, likely for pre-need funeral contracts. The total card spending (not just funeral) by income shows that the y/y trends for the high-income consumers (+0.1% y/y in Q4) were worse than the low-income cohort (+0.9%), but sequentially, high-income spend grew faster. See the [BofA on USA note](#) for an explanation of the methodology, disclaimers and limitations with BAC card data.

## Funeral spending declined -1% m/m in December

Spending on funeral and cremation services declined 1% m/m in Dec. (after -5% m/m in Nov). This is worse than +9% m/m in Dec. 2019 but in line with -1% m/m in Dec 2018 (Exhibit 3). The Dec spending is down -5% y/y but 27% above Dec 2019 - Exhibit 4.

## Q4 down 1% Y/Y but +7% CAGR vs 2019

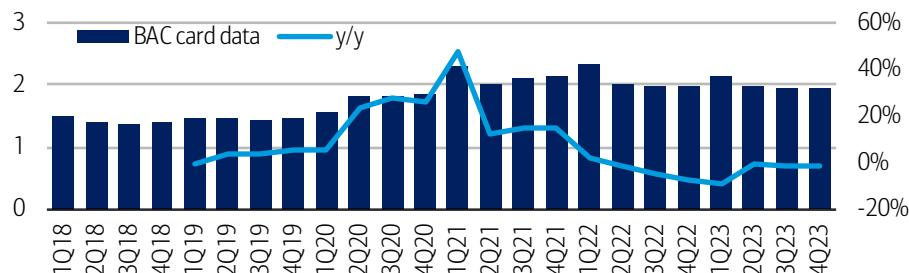
Spending in Q4 declined -1% y/y and was down 1% Q/Q, worse than the pre-COVID seasonality in the data set (spending grew +2% Q/Q in Q4 from Q3 on avg). However, the demand is robust as the Q4 funeral spending is up at a +7% CAGR vs 2019, above the pre-COVID growth in the +3% range, possibly because of high demand for pre-need funeral contracts.

## Total spending for high-income worse than low-income

To add more context to the data points for funeral spending, we looked at total card spend (not just funeral services) by income. In Dec, the y/y growth for total spend by low-income cohort accelerated and was better than high-income. In Q4, the total spending by the high-income cohort (+0.1% y/y) underperformed the low-income cohort (+0.9% y/y), similar to the underperformance in 3Q23 - Exhibit 11.

### Exhibit 1: Funeral spending trending -1 y/y in Q4, +7% CAGR vs 2019

Spending on funeral services according to BAC aggregated credit and debit card data, indexed to Jan 2010 (LHS) and y/y% change (RHS)). Jan 2010 = 1.



Source: BAC Internal Data

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11 January 2024

Equity  
United States  
Death Care

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SCI: Service Corp

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Refer to important disclosures on page 8 to 11. Analyst Certification on page 7. Price Objective Basis/Risk on page 7.

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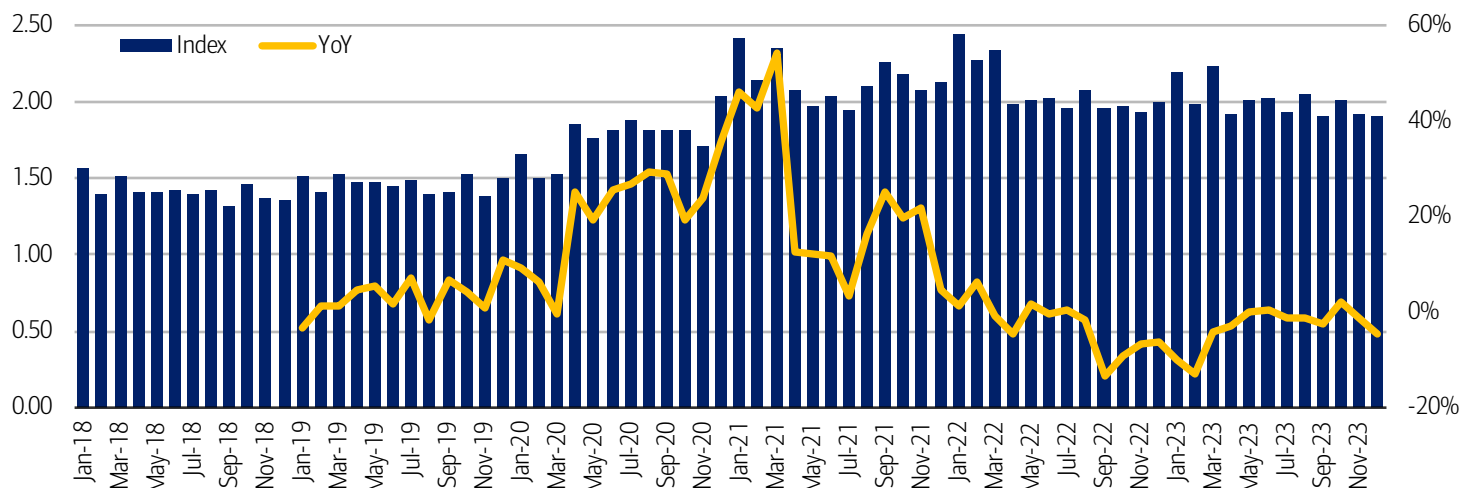
## Monthly trends

### Funeral spending in December declined 1% m/m; it was down 5% y/y

We track monthly spending for funeral services which represents transactions with merchants that provide burial preparation and cremation services and conduct funerals.

#### Exhibit 2: Spending on funeral services declined 1% m/m in December.

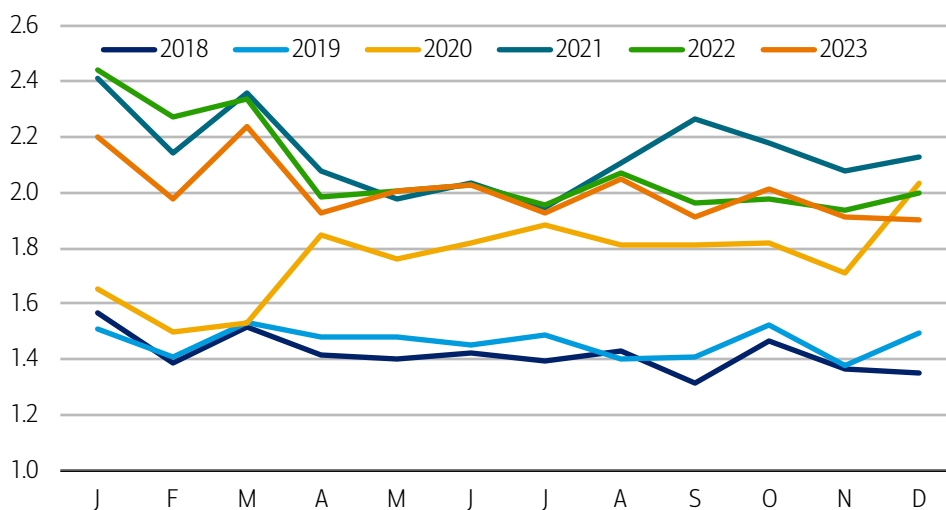
Monthly card spending on funeral and cremation services, according to BAC aggregated credit and debit card data, indexed to Jan 2010 (LHS) and y/y % change (RHS). Jan 2010 = 1.



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#### Exhibit 3: Pre-COVID, funeral spending m/m change in Dec varied: -1% m/m in '18, +9% m/m in '19

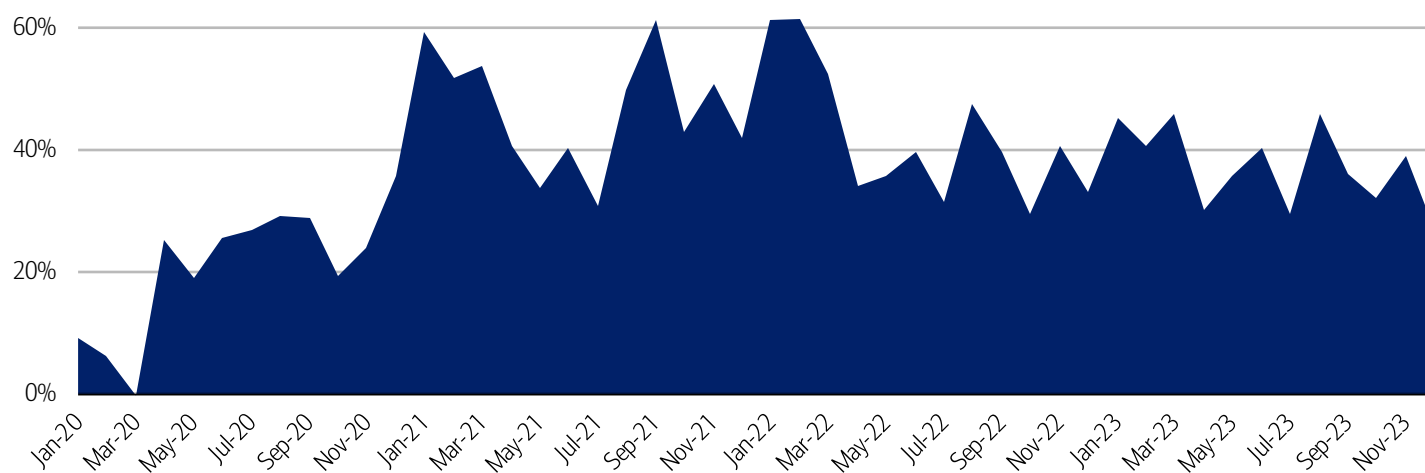
Monthly card spending on funeral and cremation services, according to BAC aggregated credit and debit card data (indexed to Jan 2010); 2018-2023. Jan 2010 = 1.



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**Exhibit 4: Spending remains well above 2019 levels**

Monthly card spending on funeral and cremation services, according to BAC aggregated credit and debit card data, as % of 2019 spending



Source: BAC Internal Data

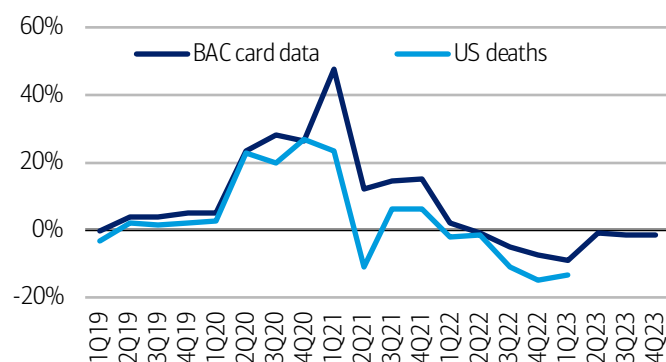
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**Quarterly trends****Card data strongly correlated with deaths and SCI funeral vols/revs**

Based on the quarterly data 1Q18-3Q23, we found that the BAC aggregated credit and debit card data on spending on funeral and cremation services has a strong correlation with the y/y change in the number of deaths in the US (87% correlation) as well as SCI's same store (ss) funeral services volumes (91%) and SCI ss funeral revenue y/y growth (85% correlation). The funeral spending data likely reflects at-need and pre-need transactions. According to SCI, 40% of transactions are done by checks and thus are not captured in the BAC card data.

**Exhibit 5: Spending data is highly correlated with US deaths**

Quarterly spending on funeral and cremation services, according to BAC aggregated credit and debit card data vs US deaths; y/y % change

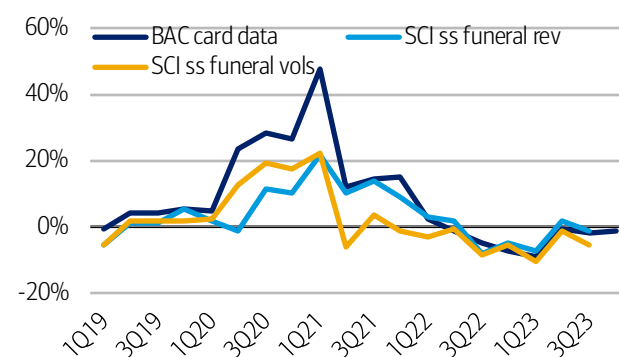


Source: BAC Internal Data; US deaths data from CDC

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**Exhibit 6: Spending data is highly correlated with SCI funeral revenues**

Quarterly spending on funeral and cremation services, according to BAC aggregated credit and debit card data vs SCI same store (ss) funeral volumes and revs; y/y % change



Source: BAC Internal Data, SCI company filings

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**Funeral spending declined 1% y/y in Q4, +7% CAGR vs 2019**

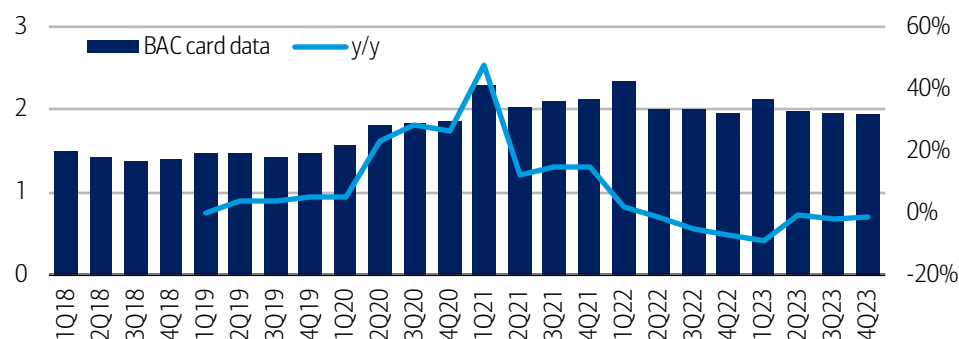
Funeral spending declined 1% y/y in 4Q23. It follows a -2% y/y decline in 3Q23 and -1% y/y in 2Q23. The 4Q23 spending was down -1% Q/Q, worse than the pre-COVID seasonality in the data (+1.8% Q/Q in Q4 from Q3, reflecting the seasonality in deaths).

Of note, the spending remains well above the 2019 levels, and 4Q23 was 33% above 4Q19 levels (similar to +34% above 2019 in 3Q23). The 4Q23 spending grew at a 7% CAGR vs 2019, above the pre-COVID growth in the +3% range.



**Exhibit 7: In Q4, funeral spending declined 1% y/y but grew at a +7% CAGR vs 2019**

Quarterly spending on funeral and cremation services, according to BAC aggregated credit and debit card data, indexed to Jan 2010 (LHS) and y/y% change (RHS). Jan 2010 = 1.



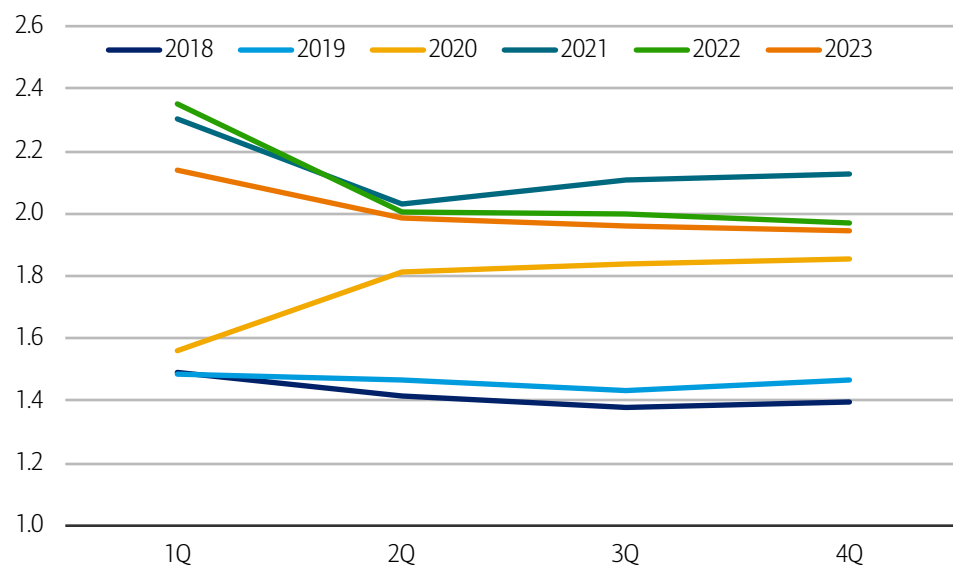
Source: BAC Internal Data

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Based on the 2018-2019 data, we observed that the funeral spending typically declines in Q2 from Q1 (-3.1% Q/Q average decline in 2018 and 2019), further declines in Q3 from Q2 (-2.5% Q/Q on average) and typically increases in Q4 (up +1.8% Q/Q on average), reflecting the seasonality in the number of deaths.

**Exhibit 8: Spending typically increases in Q4 from Q3.**

Quarterly spending on funeral and cremation services, according to BAC aggregated credit and debit card data indexed to Jan 2010; 1Q18-2Q23. Jan 2010 = 1.



Source: BAC Internal Data

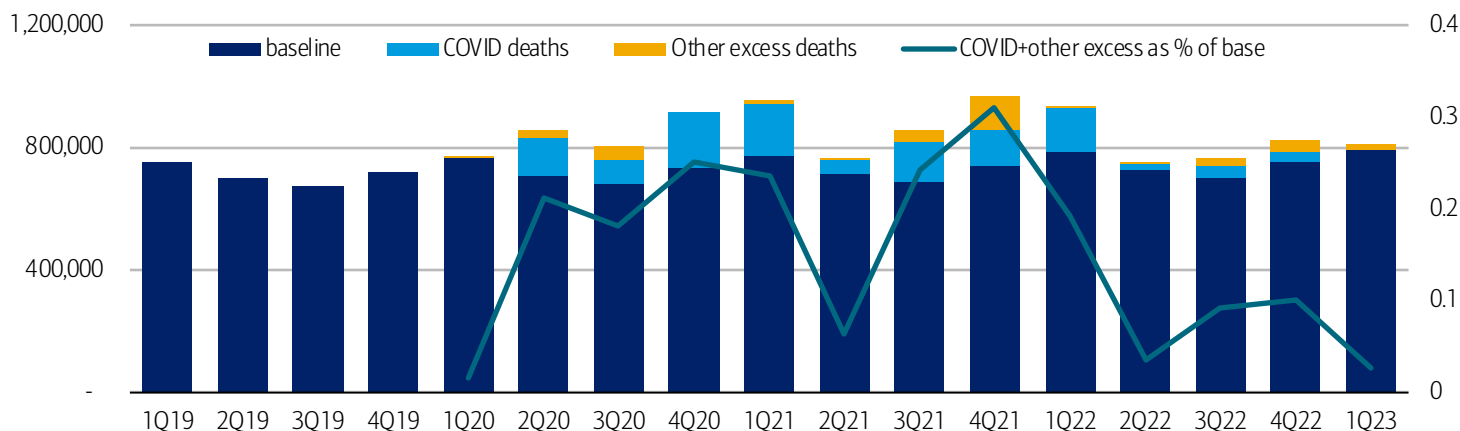
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The funeral services spending in 4Q23 grew at a CAGR of +7% vs 2019, above the historical spending growth of +3% in 2018-2019, pre-COVID. This is possibly due to above average demand for pre-need funeral services.

In addition, this could be a reflection of excess deaths - see more details in [our deep dive into excess mortality](#) report. Our estimates imply that the excess deaths were about 3% of the base in 1Q23. In the exhibit below, we had estimated excess deaths: First we estimated the normalized death count based on the average growth of +1.3% between 2014 and 2019. We then estimated excess deaths above that normalized level.

**Exhibit 9: Excess deaths were about 3% of the base in 1Q23**

Estimated base-case deaths (assuming +1.3% growth per year) vs the actual deaths reported, quarterly data 1Q19-1Q23



Source: Death count as per CDC data; BofA Global Research estimates for base case vs excess deaths

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**Total spending for high-income consumers worse vs low-income**

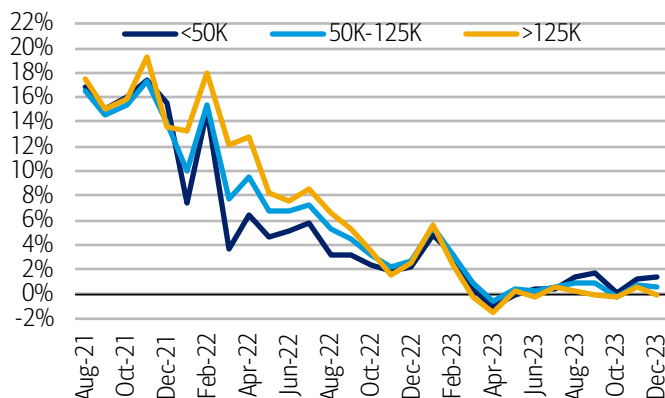
To add more context to the quarterly data points for funeral spending, we also look at total card spend (not just funeral services) to get a broader sense of macroeconomic factors that may impact funeral spend. We specifically look at total spend by income level which we break into total spend across consumers that earn less than \$50K annually (a proxy for low-income consumers), those that earn \$50-125K annually, and those that earn more than \$125k (high-income proxy).

In December, total spending declined y/y for the higher income group (-0.1% y/y) while it grew for the other two income groups: +1.4% y/y for the low-income group and +0.6% for the middle group (\$50-125k). This is a bigger delta compared to the difference observed in November when the high-income (+0.5% y/y) underperformed the low-income growth (+1.2%) by a smaller margin. The delta in growth in Dec. is worse than the average underperformance of -0.5% in the Jan-Nov 2023 period. Some of this narrowing reflects falling gasoline prices, which tend to benefit lower-income cohorts relatively more as they have a higher weight of gasoline in their overall spending.

On the quarterly basis, in 4Q23, the total spending by the high-income cohort (+0.1% y/y) underperformed the low-income cohort (+0.9% y/y). This follows the underperformance in 2Q23 and 3Q23. Also, the y/y spending growth in Q4 was worse than the increases in 3Q23 (+0.3% y/y for high-income and +1.2% for the low-income cohort).

**Exhibit 10: In Dec. 2023, the growth in spending for high-income cohort was weaker than for the low-income income bracket.**

Monthly Total spending ex grocery and gas per household by income group, based on aggregate BAC card data indexed to Jan 2010; y/y % change

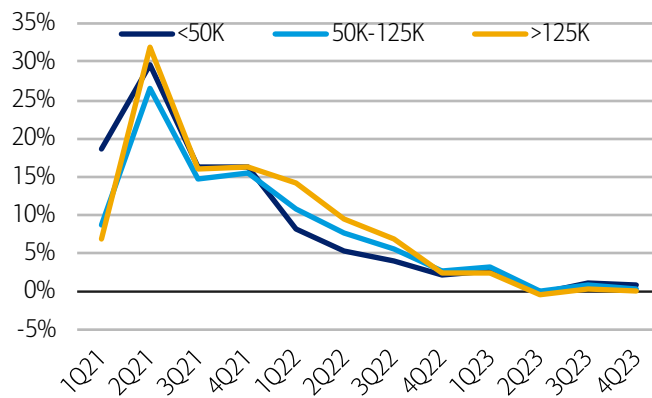


Source: BAC Internal Data

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**Exhibit 11: In 4Q23, Total spending by High income cohort grew slower (+0.1% y/y) than for the other cohorts.**

Quarterly Total spending ex grocery and gas per household by income group, based on aggregate BAC card data indexed to Jan 2010; y/y % change



Source: BAC Internal Data

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**Disclaimer and Methodology regarding BAC internal data**

Selected Bank of America ("BAC") transaction data are used to inform the macroeconomic views expressed in this report and should be considered in the context of other economic indicators and publicly available information. In certain instances, the data may provide directional and/or predictive value. The data used are not comprehensive; they are based on aggregated and anonymized selections of BAC data and may reflect a degree of selection bias and limitations on the data available.

**Methodology explained**

Readers should be aware that although the BAC datasets utilized in our analysis represent a significant number of data points, they nevertheless present a degree of selection bias, including but not limited to income levels and geographies. In addition, the data is limited to debit and credit cards and does not include other payment methods such as cash or checks.

Data regarding merchants who receive payments are identified and classified by the Merchant Categorization Code (MCC) defined by financial services companies. The data are mapped using proprietary methods from the MCCs to the North American Industry Classification System (NAICS), which is also used by the Census Bureau, in order to classify spending data by subsector. Spending data may also be classified by other proprietary methods not using MCCs.

BAC data used in this report include spending from active US households only. Spending from corporate cards are excluded.

According to our discussions with the funeral and cemetery industry participants, about 40% of transactions (pre-need and at-need) are done by checks and thus are not captured in the BAC card data.

Additional information about the methodology used to aggregate the data is available upon request.

## Price objective basis & risk

### Service Corp. (SCI;B-1-7;\$66.63)

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.

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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.



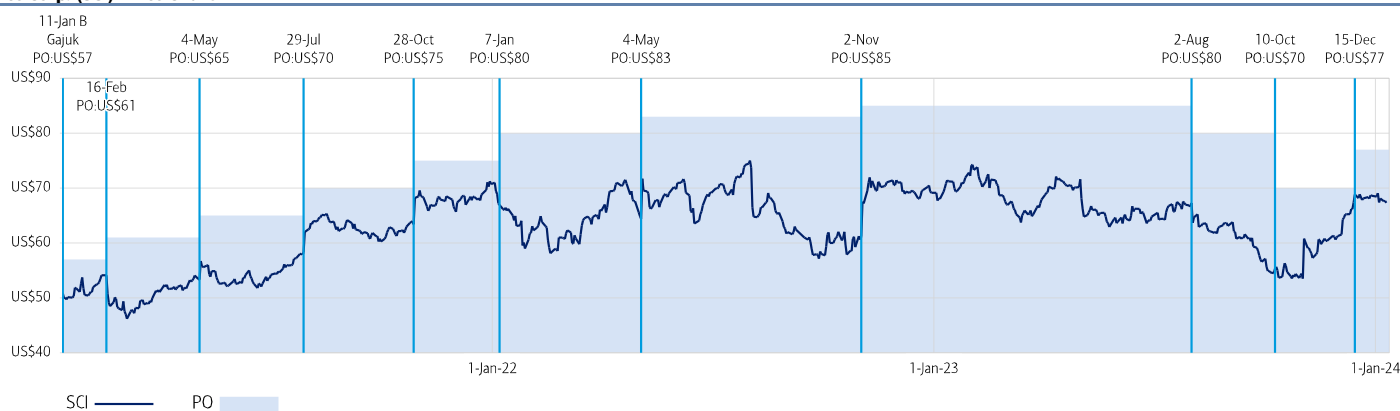
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| Investment rating   | Company                       | BofA Ticker | Bloomberg symbol | Analyst              |
|---------------------|-------------------------------|-------------|------------------|----------------------|
| <b>BUY</b>          |                               |             |                  |                      |
|                     | 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         |
|                     | Pediatric Medical Group, Inc. | MD          | MD US            | Kevin Fischbeck, CFA |

## Disclosures

## 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.



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| 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 |
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| Buy               | 1895  | 53.62%  | Buy                                      | 1083  | 57.15%  |
| Hold              | 832   | 23.54%  | Hold                                     | 454   | 54.57%  |
| Sell              | 807   | 22.84%  | Sell                                     | 383   | 47.46%  |

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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%  |

<sup>R2</sup> Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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