

Death Care

Funeral spending has declined 1% y/y so far in Q1 but has growth 7% sequentially

Industry Overview

Funeral spending -1% y/y in Q1, better than our SCI model

According to BAC aggregated credit and debit card data, spending on funeral services declined 10% m/m in February after +14% growth in Jan. So far in 1Q24, spending is down 1% y/y, similar to -1% y/y in 4Q23. It grew 7% Q/Q, better than the historical avg. Of note, the +7% CAGR vs 2019 implies robust demand, likely for pre-need funeral contracts. See the [BofA on USA note](#) for an explanation of the methodology, disclaimers and limitations with BAC card data. Overall, while funeral spending is down y/y, it is tracking better than our 1Q24 SCI funeral rev est of -4% y/y. In addition, our analysis of data (see [our report](#)) shows visitations at SCI's locations have declined 4% y/y so far in 1Q24 from -7% Q/Q in 4Q23. We remain bullish on SCI and rate the stock Buy.

Funeral spending declined m/m in Feb after strong Jan.

Spending on funeral and cremation services declined 10% m/m in February after a strong January. This was worse than pre-COVID seasonality: -7% m/m in Feb 2019, -11% m/m in Feb 2018 (Exhibit 3). Feb spending was -1% y/y but 40% above 2019, see Exhibit 4.

Q1 is tracking down 1% Y/Y but +7% CAGR vs 2019

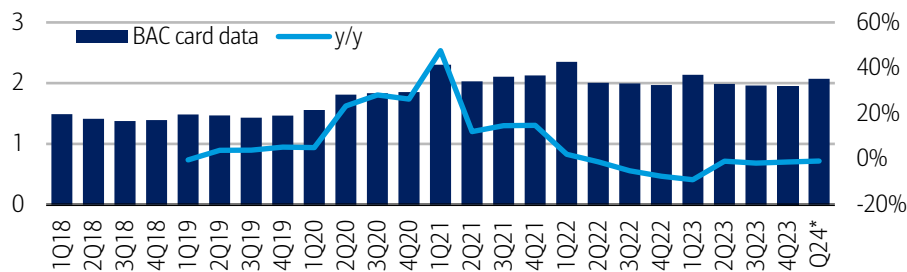
Based on the Jan-Feb data, 1Q24 spending declined -1% y/y, and it is up 7% vs Q4, better than pre-COVID seasonality (+6% Q/Q in Q1 from Q4 on avg). Demand appears robust, as Q1 funeral spending is up at an +7% CAGR vs 2019, above pre-COVID growth of +3%, likely due to demand for pre-need funeral contracts.

Total spending for high-income worse than low-income

To add more context to data points for funeral spending, we looked at total BAC card spending (not just funeral services) by income. In February 2024, the y/y growth for total spending by the lower-income cohort accelerated and was better than for higher-income consumers: +3.5% y/y for the lower-income cohort vs +2.9% for the higher-income cohort (Exhibit 11) – all aided by Leap Year.

Exhibit 1: Funeral spending trending -1% y/y so far in Q1. +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. * 1Q24 through February 2024

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[BofA on USA: Services inflation takes a toll on retail spending](#)

[Consumer Checkpoint: No underlying leaps in February](#)

SCI: Service Corp

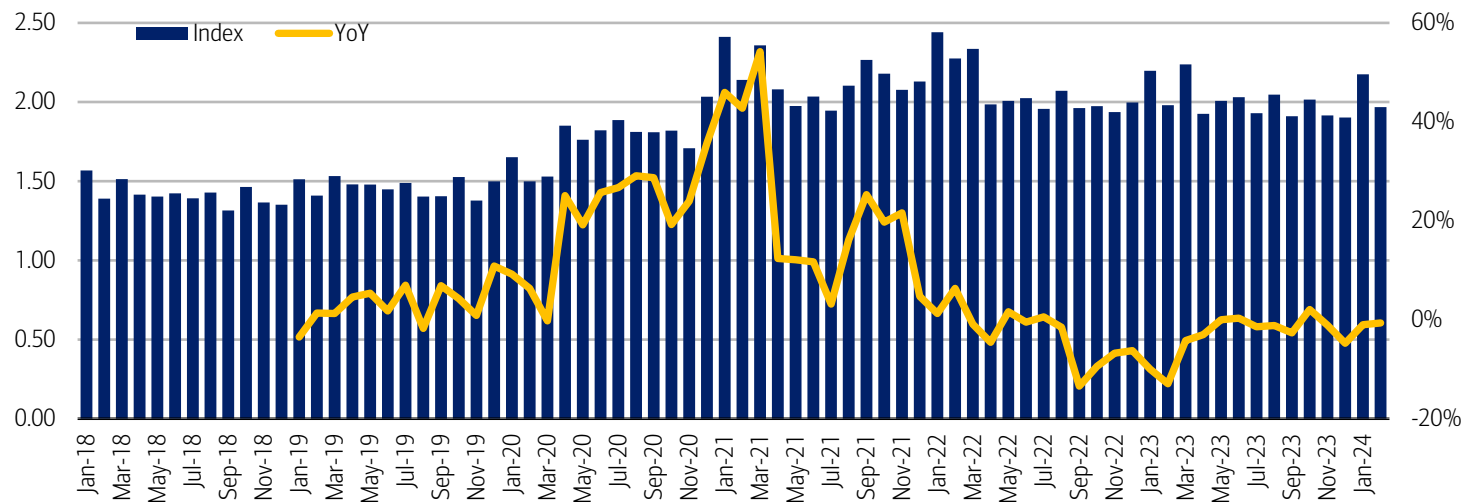
Monthly trends

Funeral spending decreased 10% m/m in February 2024; it was down 0.6% 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 decreased 10% m/m in February 2024 from the strong January 2024

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.

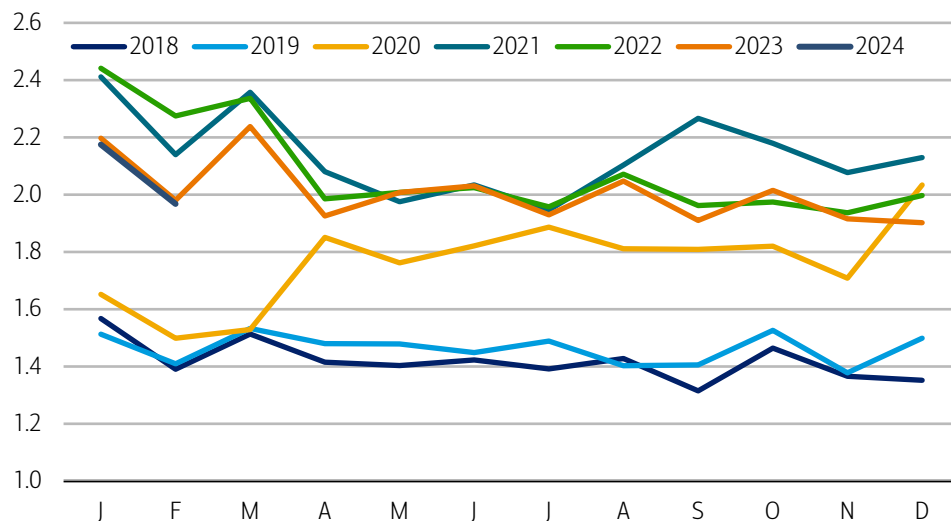


Source: BAC internal data

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Exhibit 3: Pre-COVID, funeral spending decreased m/m in February: -7% m/m in Feb 2019, -11% m/m in Feb 2018

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.

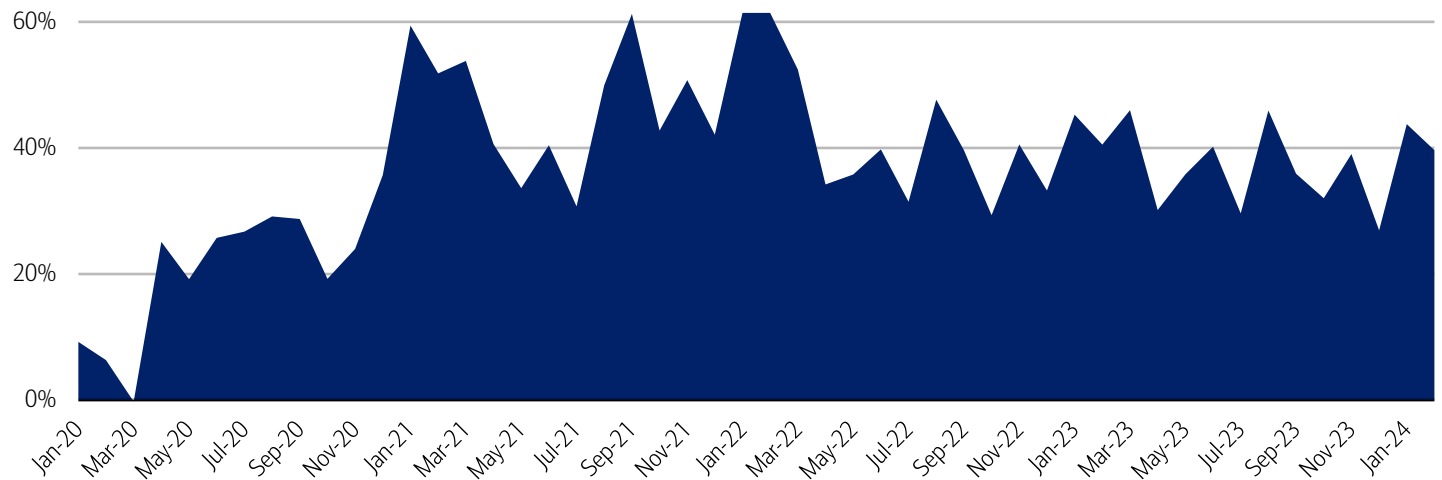


Source: BAC internal data

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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

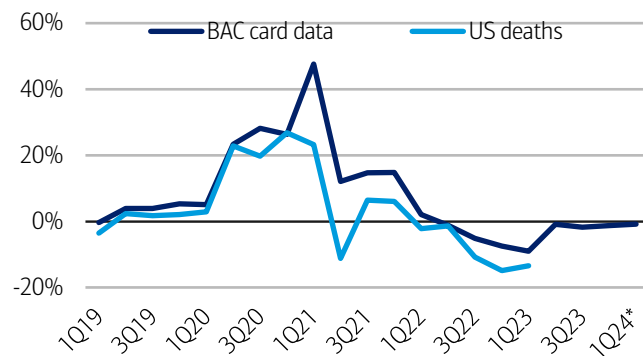
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Quarterly trends**Card data strongly correlated with deaths and SCI funeral vols/revs**

Based on the quarterly data 1Q18-3Q23, we found that the BAC aggregated credit and debit card 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 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

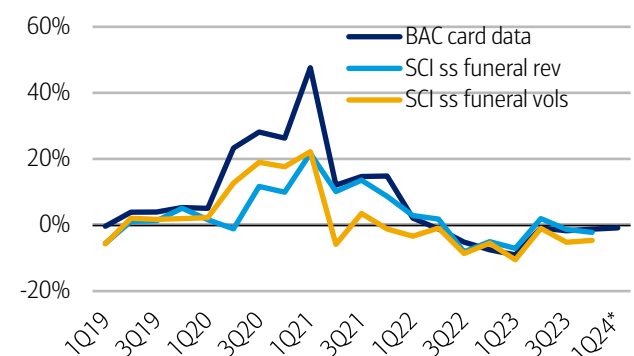


Source: BAC internal data; US deaths data from CDC

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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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So far in 1Q24, funeral spending tracking -1% y/y, +7% CAGR vs 2019

Based on the January and February 2024 data, funeral spending is down 1% y/y so far in 1Q24. It follows a -1% /y decline in 4Q23, -2% y/y in 3Q23, and -1% y/y in 2Q23.

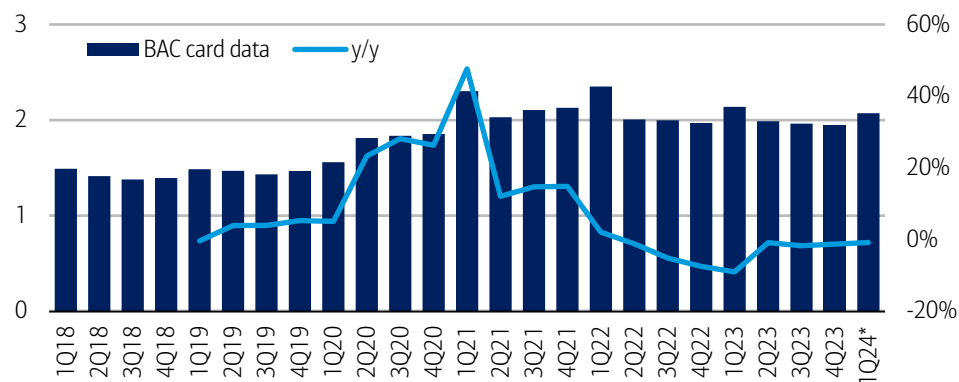
1Q24 QTD is up 7% Q/Q, better than the pre-COVID seasonality in the data (+6% Q/Q avg in 2019-2020).



Of note, the spending remains well above 2019 levels. 4Q23 spending grew at a 7% CAGR vs 2019, above the pre-COVID growth in the +3% range. 1Q24 tracking at +7% CAGR vs 2019.

Exhibit 7: So far in 1Q24, funeral spending tracking -1% y/y; +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.



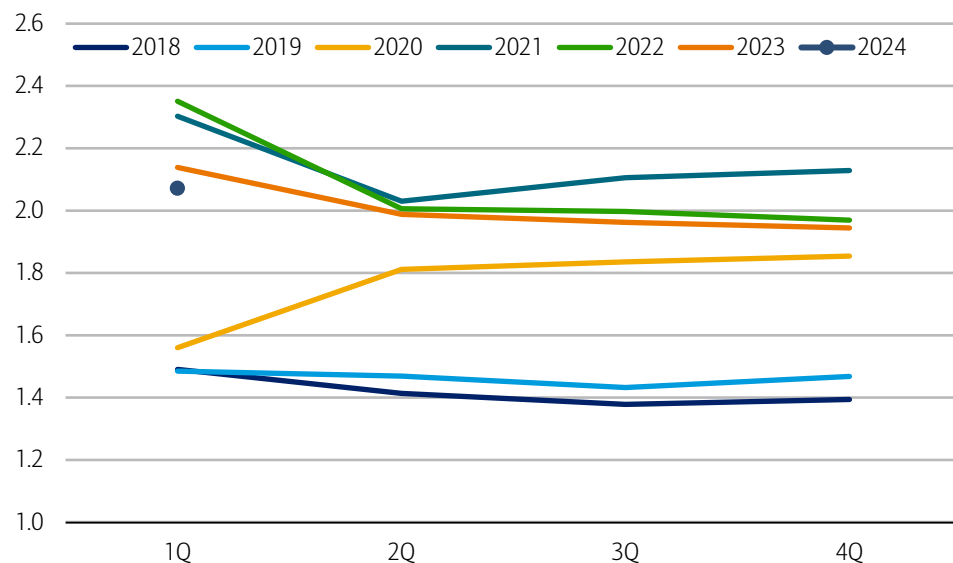
Source: BAC internal data. * 1Q24 through February 2024

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Based on the 2018-2019 data, we observed that the funeral spending typically increases in Q1 from Q4 (+6.4% Q/Q average increase in 1Q19 & 1Q20), then the spending 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 Q1 from Q4.

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 so far 1Q24 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.

Total spending for higher-income consumers worse vs lower-income consumers

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

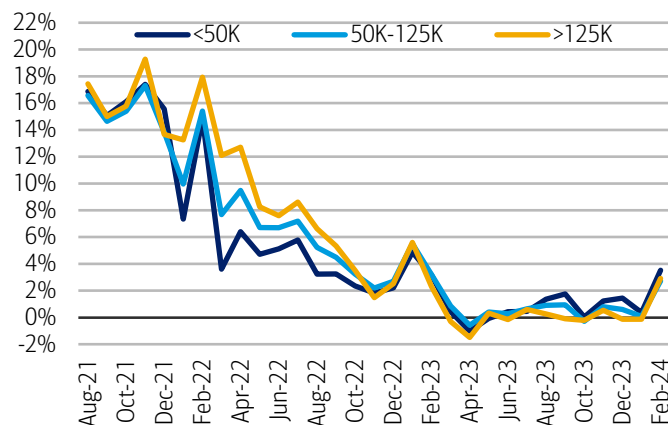
Note that the y/y changes in February benefited by one additional day (Leap Year). Nevertheless it is still useful to compare the income cohorts relative to each other. In February 2024, total spending increased y/y for the three income groups: +2.9% y/y for the higher-income group; +3.5% y/y for the lower-income group; and +2.7% for the middle group (\$50-125k). This is a bigger delta compared to the difference in January when the higher-income (-0.1% y/y) group underperformed the lower-income growth (+0.4%) by a 50bp margin. The delta in growth in Feb. 2024 is slightly better than the average underperformance of -0.6% for the full year 2023.

Of note, the Bank of America Institute found that the spending for the ultra-high income cohort (\$600k+) has been stronger than that for those with \$125k given the wealth accumulation.

On the quarterly basis, so far in 1Q24, total spending by the higher-income cohort (-1.7% y/y) declined less than the lower-income cohort (-2.0% y/y). This follows the underperformance in 4Q23 and 3Q23. Also, the y/y spending declines so far in Q1 were worse than the increases in 4Q23 (+0.1% y/y for high-income and +0.9% for the low-income cohort).

Exhibit 9: In Feb. 2024, the growth in spending for higher-income cohort was weaker than for the lower-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

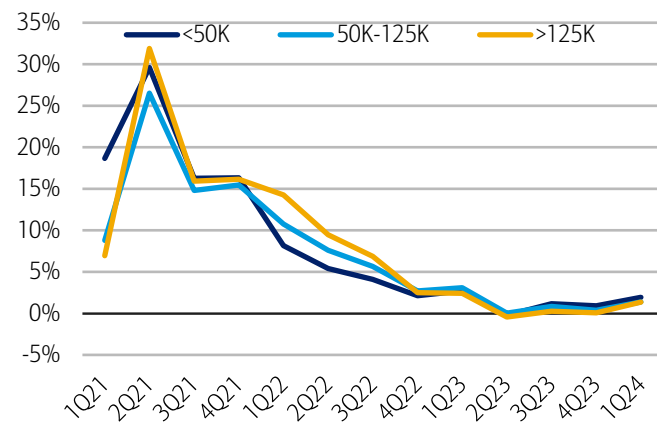


Source: BAC internal data

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Exhibit 10: So far in 1Q24, total spending by higher-income cohort declined less (-1.7% 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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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, \$75.36, B-17)

Our price objective (PO) of \$85 is based on 13.3x 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 a premium to the 5-year avg multiple for SCI of 12.4x as the headwind of the pull-forward effect diminishes going forward.

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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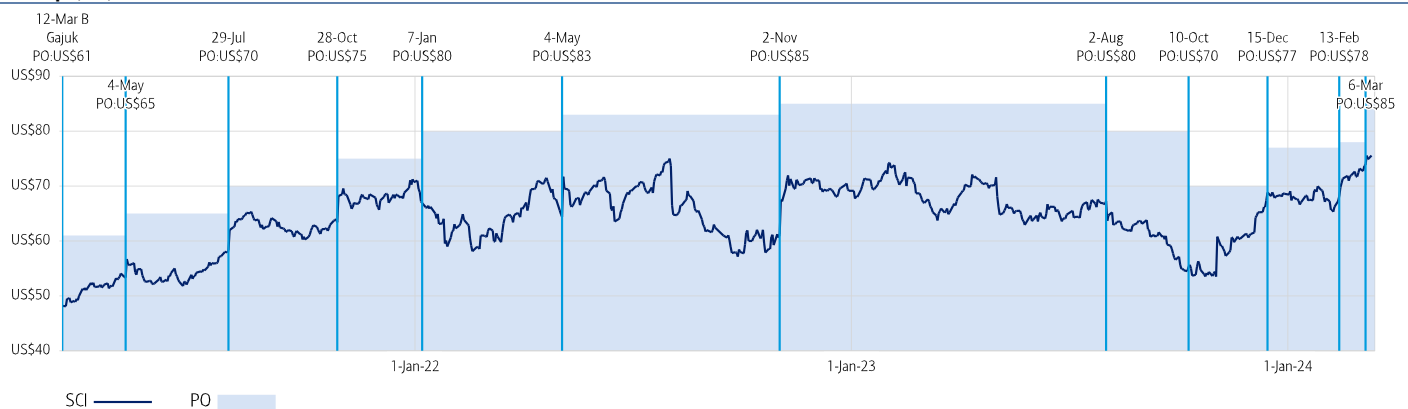
US - Facilities, Hospitals and Managed Healthcare Coverage Cluster

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BUY				
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	Addus HomeCare	ADUS	ADUS US	Joanna Gajuk
	Agilon Health	AGL	AGL US	Adam Ron
	Astrana Health Inc	ASTH	ASTH US	Adam Ron
	BrightSpring Health Services	BTSB	BTSB US	Joanna Gajuk
	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
	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
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	Universal Health Services	UHS	UHS US	Kevin Fischbeck, CFA
	US Physical Therapy	USPH	USPH US	Joanna Gajuk
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	Alignment Healthcare	ALHC	ALHC US	Adam Ron
	AMN Healthcare	AMN	AMN US	Kevin Fischbeck, CFA
	Brookdale	BKD	BKD US	Joanna Gajuk
	Centene Corporation	CNC	CNC US	Kevin Fischbeck, CFA
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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 ^{R1}	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 ^{R1}	Count	Percent
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Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} 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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Underperform	N/A	≥ 20%

^{R2} 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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