

NEW RISK ALERT: (SCI)

## Service Corp.'s Funeral Revenue At Risk If Pandemic Deaths Fall

Latest 10-K reveals funeral services revenue spiked 12.4% due to Covid-19 which is now in decline.

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*This alert compares the language used in the company's latest filing with the period before. [Research](#) suggests changes in language, particularly in the risk factor section, is a powerful indicator of future performance. Companies that change filing language, according to research, underperform those that don't by 30-50 basis points per month for the following year.*

### Funeral Revenue at Risk as Covid-19 Declines

With Covid-19 cases [declining 77%](#) in six weeks and doctors predicting the U.S. will have herd immunity by April, Service International Corporation, the largest provider of deathcare products in the U.S., is facing a stiff headwind. Though SCI notes the pandemic reduced revenue for certain services, the company's 2020 10-K reveals a significant uptick in funeral revenue due to Covid-19:

***"This \$104.2 million increase was primarily attributable to a 12.7% increase in funeral services performed compared to 2019 primarily due to COVID-19 pandemic-related deaths. The increase in funeral services performed comprised a 12.4% increase in funeral services performed by our funeral service locations and a 15.0% increase in cremations performed by our non-funeral home channel."***

Even with average revenue per funeral service declining 3.8% due to fewer and smaller memorial services as a result of social distancing, SCI has been a Covid-19 winner in 2020. If the death rate follows the infection rate down, expect SCI's funeral services revenue growth rate to decelerate as well as difficult year-over-year comparisons.

### SCI Signals Willingness to Settle Legal Proceedings

The company is a party to multiple legal and regulatory proceedings. In its 2019 10-K, SCI laid out its legal strategy for investors:

*“We intend to vigorously defend ourselves in the matters described herein; however, if we determine that an unfavorable outcome is probable and can be reasonably estimated, we establish the necessary accruals.”*

In its 2020 10-K, SCI disclosed a new intention, signaling it may be on the verge of settling:

*“We intend to vigorously defend ourselves in the matters described herein; however, if we determine that an unfavorable outcome is probable and can be reasonably estimated **or if we determine an amount for which we would be willing to settle the matter to avoid further costs and risk**, we establish the necessary accruals.”*

The latest annual includes a new legal action brought against SCI by the state of California alleging the company deceived customers and engaged in false advertising with regard to its cremation services and merchandise. The state is seeking civil penalties, customer refunds, and the reimbursement of legal costs. SCI says only that is in compliance with the law.