

SERVICE CORP INTERNATIONAL

Form DEF 14A

April 10, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

(Rule 14a-101)

Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934 (Amendment No. )

Filed by the Registrant Filed by a Party other than the Registrant

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Preliminary Proxy Statement

Confidential, For Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Under Rule 14a-12

Service Corporation International

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if Other Than the Registrant)

PAYMENT OF FILING FEE (CHECK THE APPROPRIATE BOX):

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3) Filing Party:

4) Date Filed:

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Service Corporation International  
Proxy Statement and  
2018 Annual Meeting Notice

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2017:  
Delivering  
Shareholder  
Value

Total  
Shareholder  
Return

GAAP  
Performance  
Measures  
GAAP - Generally Accepted Accounting Principles  
Adjusted  
Performance  
Measures\*

\*Please see Annex A for disclosures and reconciliations to the appropriate GAAP measure.

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TABLE OF CONTENTS	
<u>2018 Annual Meeting of Shareholders</u>	<u>1</u>
Voting Matters	<u>1</u>
How To Vote	<u>1</u>
<u>Q&amp;A WITH OUR CHAIRMAN AND CEO</u>	<u>2</u>
<u>MESSAGE FROM OUR BOARD OF DIRECTORS</u>	<u>6</u>
PROXY STATEMENT SUMMARY	<u>8</u>
Corporate Governance Highlights and Changes	<u>8</u>
Shareholder and Proxy Advisor Outreach	<u>8</u>
Board Snapshot	<u>10</u>
Director Nominees	<u>11</u>
Continuing Directors	<u>11</u>
Overview of Director Skills and Experience	<u>12</u>
CORPORATE GOVERNANCE AT SERVICE CORPORATION INTERNATIONAL	<u>13</u>
Proposal 1: Election of Directors	<u>13</u>
Director Ownership of SCI Stock	<u>17</u>
Consideration of Director Nominees	<u>17</u>
Director Independence	<u>18</u>
Change in Leadership Structure	<u>18</u>
Risk Oversight	<u>18</u>
No Shareholders Rights Plan	<u>19</u>
Lead Independent Director	<u>19</u>
Special Meeting of Shareholders	<u>20</u>
Board Composition and Meetings	<u>20</u>
Annual Board and Committee Evaluations	<u>20</u>
Board Orientation and Education Program	<u>20</u>
Executive Sessions	<u>21</u>
Board Committees	<u>21</u>
Director Compensation	<u>24</u>
AUDIT COMMITTEE MATTERS	<u>26</u>
Proposal 2: Proposal to Approve the Selection of the Independent Registered Public Accounting Firm	<u>26</u>
Report of the Audit Committee	<u>26</u>
Audit Fees and All Other Fees	<u>28</u>
COMPENSATION DISCUSSION AND ANALYSIS	<u>29</u>
Proposal 3: Advisory Vote to Approve Named Executive Officer Compensation	<u>29</u>
Introduction	<u>29</u>
Executive Summary	<u>30</u>
Key Features of Our Compensation Programs	<u>31</u>
Consideration of 2017 "Say-on-Pay" Vote	<u>31</u>
Compensation Philosophy and Process	<u>32</u>
Annual Base Salaries	<u>34</u>
Annual Performance-Based Incentives Paid in Cash	<u>34</u>
Long-Term Incentive Compensation	<u>36</u>
Other Compensation	<u>37</u>

Further Executive Compensation Practices and Policies	<u>38</u>
How We Make Compensation Decisions	<u>40</u>
Compensation Committee Report	<u>42</u>
EXECUTIVE COMPENSATION TABLES	<u>43</u>
Summary Compensation Table	<u>43</u>
Grants of Plan-Based Awards	<u>45</u>
Outstanding Equity Awards at Fiscal Year End	<u>46</u>
Option Exercises and Stock Vested	<u>47</u>
Executive Deferred Compensation Plan	<u>47</u>
Pension Plans	<u>50</u>
Executive Employment Agreements	<u>50</u>
Potential Payments Upon Termination	<u>52</u>
CERTAIN TRANSACTIONS	<u>53</u>
VOTING SECURITIES AND PRINCIPAL HOLDERS	<u>54</u>
INTRODUCTION TO PROPOSALS 4, 5, AND 6	<u>55</u>
Proposal 4: Proposal to Declassify the Board of Directors	<u>56</u>
Proposal 5: Proposal to Eliminate Certain Supermajority Vote Requirements in our Restated Articles of Incorporation and Bylaws	<u>57</u>
Proposal 6: Proposal to Reduce the Supermajority Vote Requirement to Approve Business Combinations with Interested Shareholders	<u>59</u>
Proposal 7: Shareholder Proposal to Require an Independent Board Chairman	<u>60</u>
OTHER INFORMATION	<u>63</u>
Information About the Meeting and Voting	<u>63</u>
Proxy Solicitation	<u>65</u>
Submission of Shareholder Proposals	<u>65</u>
Other Business	<u>65</u>
Section 16(a) Beneficial Ownership Reporting Compliance	<u>65</u>
ANNEXES	<u>66</u>
Annex A: Non-GAAP Financial Measures	<u>66</u>
Annex B: 2017 Peer Group	<u>68</u>
Annexes C-G: Amendments to Restated Articles of Incorporation and Bylaws	<u>69</u>

2018 Annual Meeting of Shareholders

Wednesday,  
 May 23,  
 Date and Time: 2018 at 9:00  
 a.m. Central  
 Time  
 Conference  
 Center,  
 Place: Heritage 1  
 and II  
 Service  
 Corporation  
 International  
 1929  
 Allen  
 Parkway  
 Houston,  
 Texas  
 77019  
 Record Date: March 26,  
 2018

Voting Matters

Proposal	Board Recommendation	Page Number
1. Election of Five Directors	üFOR each Director nominee	<u>13</u>
2. Approval of Appointment of PricewaterhouseCoopers LLP, our Independent Registered Public Accounting Firm "Say-on-Pay" Advisory	üFOR	<u>26</u>
3. Vote to Approve Executive Compensation	üFOR	<u>29</u>
4. Approval of the Declassification of the Board of Directors	üFOR	<u>56</u>
5. Approval of the Elimination of Certain Supermajority Vote Requirements in our Restated Articles of Incorporation and Bylaws	üFOR	<u>57</u>
6.	üFOR	<u>59</u>

Approval of the  
Reduction of the  
Supermajority Vote  
Requirement to Approve  
Business Combinations  
with Interested  
Shareholders

Approval of the  
Shareholder Proposal to  
7. Require an Independent <sup>û</sup> AGAINST 60  
Board Chairman

How to Vote  
By Internet

Vote your shares at [www.proxyvote.com](http://www.proxyvote.com).

your Notice of Internet Availability or proxy card in hand for the 16-digit control number.

For 2018, there is an annual meeting website to make it even easier to access our annual meeting materials. At the annual meeting, you will receive an overview of the items for voting, our Proxy Statement and annual report to read online or to download, and a link to vote your shares.

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Q&A WITH OUR CHAIRMAN AND CEO

Q&A WITH OUR CHAIRMAN AND CEO

Tom  
Ryan  
answers  
questions  
received  
from  
shareholders  
over  
the  
course  
of  
2017.

How has the business performed over the last 12 months?

For the full year 2017, we reported over 20% growth in adjusted earnings per share and approximately 11% growth in adjusted operating cash flows excluding recurring cash taxes, while we expanded comparable funeral and cemetery segment profit margin by 70 and 140 basis points, respectively. The resulting cash flows allowed us to deploy capital of \$402 million to acquisition and new build opportunities, dividends, and share repurchases.

During 2017, we generated an impressive \$1.55 of adjusted earnings per share, which exceeded the top end of our adjusted guidance range. This amount included a little more than \$0.09 of excess tax benefits from a new accounting standard for share-based compensation that was not reflected in the prior

year and had the effect of lowering our tax rate in 2017. We also enjoyed further tax benefits in 2017, primarily as a result of additional tax planning by our tax team, which improved earnings per share by an additional \$0.05.

We generated \$554 million in adjusted operating cash flows for 2017, which is \$46 million over the prior year and surpassed the high end of our guidance range of \$515 million. Cash flow results during 2017 benefited by \$20 million of non-earnings and nonrecurring cash flow from our endowment care trust funds offset by about \$20 million of higher anticipated cash tax payments.

Adjusted Earnings Per Share and Adjusted Operating Cash Flow are non-GAAP financial measures. Please see Annex A for disclosures and reconciliations to the appropriate GAAP measure.

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## Q&A WITH OUR CHAIRMAN AND CEO

What are Service Corporation International's strategies for growth?

Our three core strategies are centered around our customer and competitive advantages. The first core strategy is revenue growth, which we plan to achieve by remaining relevant to our customers and driving preneed sales. Second, is leveraging our scale through the development of our sales force, optimum management of our \$10.7 billion backlog, and the utilization of technology during customer interactions. Our third core strategy is capital deployment, which is a blended approach of deploying capital to the highest relative return opportunity.

### 1. Revenue Growth

Remaining relevant to our customers is key to generating revenue growth in a changing consumer environment. When we say remaining relevant, we mean staying ahead of trends in our business. These include an increasing preference for cremation, serving a growing ethnic population, particularly Hispanic and Asian, and a shift away from traditional mourning to contemporary celebrations of life.

These changing trends require us to be much more flexible, providing products and services that meet the modern needs of our customer. In the funeral segment, we deploy capital strategically to meet the needs of the customer by changing or updating our physical locations for event rooms or through customer-facing technology. We are focusing on unique celebration services, counseling, estate planning, and adherence to religious and ethnic traditions. We provide quality, simplicity, various location preferences, and specific cultural preferences. We are embracing cremation opportunities within both the funeral home and non-funeral home channels.

In the cemetery business, we provide property and merchandise options that meet the baby-boomer generation desires for exclusivity, privacy, elevation, or scenic views. We also strive to meet the specific needs of our growing custom-conscious consumers.

Driving preneed sales provides several benefits. Offering preneed merchandise and services provides our customers peace of mind, allowing them to express their wishes about funeral and cemetery arrangements, which relieves their loved ones of the emotional and financial burden at the time of need. We believe preneed sales increase our future market share and create brand awareness, while allowing us to address varying customer needs and preferences.

We are growing our business while embracing technology that our customers have come to expect in their daily lives, with a focus on visualization and simplification of the selection process.

### 2. Leverage Scale

Our second core strategy is leveraging scale. Our scale gives us tremendous competitive advantages helping to drive future revenue and cost efficiencies.

#### Network Optimization

We have invested in the development of our sales organization through the use of new tools and capabilities. We are continuously improving our customer-facing technology to ensure our customers have meaningful experiences that are efficient and seamless, whether in an atneed arrangement or during a preneed presentation or even online.

Additionally, we leverage a world-class customer relationship management system, which helps drive improvements in productivity and sales production through enhanced analytics.

SCI recently completed a redesign of almost 2,000 Dignity Memorial® location websites. Featuring a modern, user-friendly design, the Company's websites have been optimized for mobile use and updated with enhanced search engine optimization capability. In addition to the contemporary and sophisticated design, client families now experience new features like a streamlined obituary process, social media sharing capabilities, and the ability to create and share personalized content in memory of their loved one.

We are also continuously driving down costs through the maximization of purchasing power and utilizing economies of scale through our supply chain team.

#### Preneed Backlog

Our preneed backlog, which includes both insurance and trust-funded products, allows us the opportunity to grow future revenue in a more stable and efficient manner than selling at the time of need. Our insurance-funded products benefit from favorable terms with our insurance partner allowing for enhanced immediate as well as long-term

earnings and cash flow benefits. The scale of our trust portfolios allows us to leverage access to preeminent money managers with favorable fee structures that generate superior returns.

Our blended funding approach between insurance and trust funded products allows us to combine the positive cash flow and predictability of the insurance product with the upside of future returns from our trusted products. This results in cash flow neutral preneed funeral funding and favorable contracts coming out of the backlog today to be serviced with growth rates that are superior to inflationary at-need pricing.

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## Q&A WITH OUR CHAIRMAN AND CEO

### 3. Capital Deployment

Our third core strategy of deploying capital reflects our disciplined approach to target capital deployment opportunities with the best return for our shareholders. The foundation of our strategy is our strong liquidity and favorable debt maturity profile.

We believe the opportunities with the highest current returns are in acquisition and growth capital. We expect to spend \$50 to \$100 million a year on acquisitions that generally have internal rates of return (IRR) in the mid to high teens. We anticipate investing another \$20 to \$25 million on new builds, which have returns in the low to mid teens, but have nice long-term growth trajectories. Finally, as it relates to growth capital, we expect to invest another \$80 million on cemetery property development, which takes existing undeveloped cemetery property and creates tiered property options - everything from roads, drainage, and irrigation to mausoleums or private estates. These incremental investments generate some of our strongest internal rates of return.

We feel strongly that as the Company grows we will distribute an incremental amount to our shareholders in the form of a dividend. We currently target a payout ratio of 30% to 40% of adjusted net income. Additionally, any excess cash flow is then available for share repurchases, which have been an important aspect to our capital deployment strategy. We utilize a value-weighted share repurchase approach that is based on our view of the discount our shares are trading at compared to our intrinsic value. Lastly, we actively manage our near-term liquidity profile and leverage targets as a foundation to our deployment strategy. We target a favorable debt maturity profile and a 3.5x to 4.0x leverage ratio.

We believe the execution of these strategies should enable SCI to consistently grow adjusted earnings per share in the 8% to 12% range.

What is Service Corporation International doing to engage shareholders?

We believe communicating regularly to solicit feedback on key business and corporate governance topics with our shareholders is important to our long-term success. We strive for a collaborative approach to shareholder outreach and value the variety of investors' perspectives received, which helps deepen our understanding of their areas of focus and motivations. Items discussed typically cover a wide range of topics, including executive compensation, Board composition including tenure and diversity, and simple versus supermajority voting, among other topics. We share investor feedback directly with our Corporate Governance Committee and full Board. Investors may communicate their comments to the Lead Independent Director by e-mail or letter. Our engagement activities take place throughout the year. Although shareholder outreach is primarily a function of management, members of our Board will also participate when appropriate. In addition to speaking with our institutional investors, we also are responsive to our retail investors and other stakeholders when the opportunity arises.

In February 2018, we held an Investor Day to take a deeper dive into our strategy and to discuss key topics with investors. From January through March 2018, we also engaged directly with shareholders owning 62% of our stock to discuss the three proposals included in this Proxy to understand their positions on each.

The proposals are listed below:

Proposal 4: Proposal to declassify the board

Proposal 5: Proposal to eliminate certain supermajority vote requirements

Proposal 6: Proposal to reduce the supermajority vote requirements to approve business combinations with interested shareholders

These shareholder friendly proposals were the result of prior year discussions and feedback received from shareholders, including Amalgamated Bank, who previously proposed the Simple Majority Voting Requirement advisory vote in our 2017 proxy. As a result of these discussions with our shareholders, we also updated our Corporate

Governance Guidelines to enhance our focus on diversity of our Board of Directors and strengthen our Lead Independent Director role.

For 2018, you will notice a change in our performance unit and performance based incentive compensation plans. This change removes return on equity from the short term incentive plan, reducing these metrics from four to three, and includes it as a modifying metric along with total shareholder return in our long term performance unit plan. The performance unit plan will be denominated in Company shares starting in 2018 to further link share performance of the Company with the participants of the plan. These changes were made based on shareholder feedback received during our outreach discussions.

Can you talk about the emphasis on tenure and diversity for the Board of Directors?

We are committed to selecting highly qualified nominees from diverse backgrounds as candidates for the Board of Directors. Our Board plays a critical role in creating an organization that prioritizes, supports, and invests in diversity, inclusion, and equity.

We believe that the Company benefits from a Board that blends a mix of directors that have a deep understanding of the industry and those who bring fresh business or consumer perspectives.

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## Q&A WITH OUR CHAIRMAN AND CEO

While we believe we have assembled a highly effective Board, we are committed to continuous succession planning and assembling a diverse group of individuals to serve on our Board of Directors. This diversity results in a broader perspective as a whole and provides a healthy environment for innovation and risk mitigation. Diversity has multiple dimensions, including personal factors such as gender, ethnicity, and age, as well as professional characteristics in education, areas of expertise, and professional experience. I believe we are developing a Board with the right composition to bring an impressive blend of experience and perspectives for the Company and its investors with a secondary focus on reducing the average tenure of our Board members.

We updated our Corporate Governance Guidelines to reflect our commitment to diversity. The Corporate Governance Guidelines outline the standards and qualifications we consider for our members of our Board of Directors and are located on our corporate website under About SCI - Corporate Governance. Now included in the Director Qualification Standards as part of the guidelines, we discuss our commitment to diversity and added diverse experiences and backgrounds as a core competency for our Directors.

I am pleased to present our two new Board nominees for consideration, Ms. Jakki Haussler and Ms. Sara Martinez Tucker. I believe that they bring broad and diverse experience and expertise which will best represent the long-term interests of our shareholders.

How is the Company planning to spend tax savings from the 2017 Tax Cuts and Job Act ("Tax Act")?

Our adjusted effective tax rate is expected to be reduced to a range of 24% to 26% in 2018 from 29% in 2017 as a result of the Tax Act. From a cash flow perspective, we anticipate almost \$20 million of cash tax savings over 2017 related to the Tax Act. We have announced our plan to invest approximately \$7 million into nearly 10,000 critical field customer-facing

positions at both our funeral and cemetery operating locations. This is a permanent increase to the pay of these individuals rather than a one time bonus and reflects the commitment we have to our valuable associates. We plan to deploy any excess future tax savings toward opportunities with the best return for our shareholders.

What accomplishment are you most proud of in 2017?

While it was an exceptional year from a financial perspective, from a SCI family perspective, it was an incredibly challenging one. Without a doubt, I am most proud of the incredible family culture SCI associates displayed during one of the most challenging times in our Company's history. Despite multiple hurricanes, extensive wildfires, and the tragic shootings in Las Vegas, our team proved how much can be accomplished when we all come together. I was so proud to watch how our team responded by supporting each other and our local communities. Vendors, members of our Board, and employees all across Canada and the U.S. showed unwavering support through hard work, monetary donations, and the gifting of personal items to help our impacted SCI family members get back on their feet.

Our employees spent countless hours of their own personal time working side by side with their fellow teammates as they cleaned up homes, delivered and sorted personal supplies, and drove thousands of miles to provide a helping hand. We raised approximately \$1 million for our employees and affected communities. While hundreds of employees experienced personal loss of homes, cars, and personal effects, we never lost sight of serving our client families. Our SCI family is made up of tremendous caregivers, fabulous leaders, and real professionals, and I am so proud to be part of our extraordinary team.



## MESSAGE FROM OUR BOARD OF DIRECTORS

### MESSAGE FROM OUR BOARD OF DIRECTORS

Dear Shareholders,

We take seriously the trust you place in us by your purchase of Service Corporation International shares, and we are honored to be stewards of your Company. Below we share with you a few key highlights for 2017.

#### 2017 Company Performance and Compensation Alignment

We are fully committed to helping SCI deliver excellent operating results and create attractive shareholder returns. The Company's performance in 2017 resulted in increased adjusted earnings per share, cash flows, and continued growth in return on equity. During 2017, we delivered total shareholder return of 34%, which exceeded the S&P 500 return of 22%. Over the medium to long term (3 to 10 years), we continue to significantly outperform the major indices. As we look ahead to 2018, our focus continues to be on enhancing shareholder value.

The Compensation Committee understands the focus on aligning executive pay with performance and strongly believes the Company currently aligns pay and performance. At last

year's annual meeting, our advisory "say-on-pay" proposal received the support of over 90% of the votes cast.

Effective in 2018, we made changes to the performance unit plan to add return on equity as a modifier to the total shareholder return metric in response to shareholder feedback. Additionally, we changed the performance units to be denominated in SCI shares rather than units, which we believe will further link share performance of the Company with the payouts from of the plan.

We believe these changes are responsive to your feedback and reinforce the link between our executive team and our shareholders.

#### Board Refreshment

#### Self-Assessment Process

As part of the regular self-assessment process, we consider the current composition and the unique contributions of each current or prospective Director. We attempt to recruit Directors with specialized experience, such as in technology or financial services, as well as Directors whose experience is not represented or is underrepresented on the Board. Mixing new and longer-tenured Directors with different skill sets adds valuable perspectives and knowledge to the Board.

#### Succession Planning

Succession planning is a vitally important concern. We strategically focus on Board composition and make the most of the opportunities to refresh the Board with desired experience and diversity.

#### Shareholder Engagement

The Company maintains dialogue with large institutional investors and proxy advisory firms. Key shareholders have a vested interest and valuable insight into the competency and contribution of the Board members.

As a part of the succession planning process, we considered shareholder feedback and our commitment to tenure and diversity. We strengthened our Lead Director's responsibilities by making revisions to the Company's Bylaws to permit the Lead Director to call a special meeting of the Board and preside over Board meetings in the absence of the Board Chair. We have enhanced our policies, specifically our Corporate Governance Guidelines, to clearly outline our policies and expectations for diversity and inclusion.

#### Board Tenure, Diversity, and Corporate Governance Guidelines

Board recruitment and diversity are priorities for us. The Nominating and Corporate Governance Committee strives to maintain an engaged, independent Board with broad and diverse experience and judgment that is committed to representing the long-term interests of our shareholders. The Nominating and Corporate Governance Committee is

charged with reviewing the composition of the Board and refreshing the members as appropriate. With this in mind, the Committee continuously reviews potential candidates and recommends nominees to the Board for approval.

The majority of the Board of Directors of SCI will be

comprised of independent Directors, meaning Directors who have no material relationship with SCI (either directly or as a partner, shareholder, or officer of an organization that has a material relationship with SCI). In addition, the Audit, Compensation, and Nominating and Corporate Governance Committees of SCI will be composed entirely of independent Directors.

As part of our succession planning efforts, we have considered shareholder feedback on the tenure and diversity of Directors. In response, we have two new Director nominees; Ms. Jakki Haussler and Ms. Sara Martinez Tucker. After 56 years of meaningful contributions, in order to recruit the next generation of leaders for our Board, Mr. R.L. Waltrip has decided not to

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MESSAGE FROM OUR BOARD OF DIRECTORS

seek another term as an elected member of our Board of Directors. As Mr. Waltrip is an icon and pioneer in our industry he will continue to serve in his capacity as Founder and Chairman Emeritus for the Company. Citing the same reasons as Mr. Waltrip, and after over 35 years of service, Mr. John W. Mecom, Jr. has also informed the Board of his intention not to seek reelection once his term ends in May 2019. Therefore, the Board will temporarily increase its size to twelve members for

one year.

Service Corporation International believes in a strong corporate culture that invests in diversity and inclusion, creating one of the greatest competitive advantages a company can maintain. In no area of business is corporate leadership more essential to generating progress than in guiding our Company through the culture shift of embracing diversity and inspiring inclusiveness. We are creating a Board that is a direct reflection of our Company's values.

Lead Independent Director - Tony Coelho

Key Duties and Responsibilities of Lead Independent Director:

Preside over independent executive sessions held on a regular basis

Serve as liaison to the Chairperson

Engage in performance evaluation of directors and CEO

Interview Director candidates

Communicate with shareholders

Consult with committee chairpersons

Authorized to call a special meeting of the Directors\*

\*Enhanced Lead Director responsibilities effective in 2018.

Communicating Your Viewpoints with the Board

We value dialogue with our shareholders. We believe our ongoing shareholder outreach efforts have allowed us to better understand the viewpoints of our shareholders as well as providing an opportunity to communicate with transparency about what the Board is doing and why our decisions are aligned with business goals.

Shareholders and other interested parties may communicate with any of the independent Directors, including Committee

Chairs and the Lead Independent Director, by using the following address:

Service Corporation International

Lead Independent Director c/o Office of Corporate Secretary

1929 Allen Parkway

Houston, TX 77019

Email: leaddirector@sci-us.com

Thank you for the trust you place in us and for your continued investment in Service Corporation International.

Sincerely,

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Anthony L. Coelho  
Lead Independent Director

Thomas L. Ryan  
Chairman and CEO

Alan R. Buckwalter, III

Victor L. Lund

John W. Mecom, Jr.

Clifton H. Morris, Jr.

Ellen Ochoa

Robert L. Waltrip

W. Blair Waltrip

Marcus A. Watts

Edward E. Williams

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## PROXY STATEMENT SUMMARY

### PROXY STATEMENT SUMMARY

This summary highlights information contained in this Proxy Statement. This summary does not contain all of the information you should consider. Please read the entire Proxy Statement carefully before voting.

#### Corporate Governance Highlights and Changes

The Nominating and Corporate Governance Committee has presented two new nominees for the Board of Directors. The Committee has considered the background and experience of Ms. Sara Martinez Tucker and Ms. Jakki Haussler. We believe each individually will bring valuable experience and diverse skills to our Board.

After 56 years of meaningful contributions, in order to recruit the next generation of leaders for our Board, Mr. R.L. Waltrip has decided not to seek another term as an elected member of our Board of Directors. As Mr. Waltrip is an icon and pioneer in our industry he will continue to serve in his capacity as Founder and Chairman Emeritus for the Company. Citing the same reasons as Mr. Waltrip and after over 35 years of service, Mr. John W. Mecom, Jr. has also informed the Board of his intention not to seek reelection once his term ends in May 2019.

If Proposal 4 is approved by shareholders then directors will be elected to a one-year term of office starting at the 2019 Annual Meeting of Shareholders, except Ms.

Haussler who has a one year term and is nominated to join the class of directors whose term expires in 2019.

Currently, the Board is divided into three classes, with directors elected to staggered three-year terms. This proposal is in response to shareholder feedback.

The Board made changes to the Company's Bylaws to permit the Lead Director to call a special meeting of the Board and preside over Board meetings in the absence of the Board Chair.

The Board made changes to the Company's Bylaws to permit the Chair of the Nominating and Corporate Governance Committee of the Board to preside over the Board meetings in the absence of the Board Chair, Lead Director and the Chief Executive Officer.

The Board, in response to shareholder feedback, approved changes to the performance unit plan to add a return on equity modifier to the total shareholder return metric and changed the award denomination to share units rather than cash, which will be effective beginning January 1, 2018.

#### Shareholder and Proxy Advisor Outreach

We regularly communicate with a large portion of shareholders throughout the year and solicit feedback on key business and corporate governance topics. Additionally, beginning in 2015, we began a process of formal outreach to our top shareholders prior to our annual meeting to address our corporate governance practices, including executive compensation programs. The results of these conversations are discussed with both the SCI Board and our management. The Board then decides whether any action should be taken.

As part of our normal procedures, we also proactively engage with proxy advisors who represent the interests of certain of our shareholders. We continue to have an open dialogue with Glass Lewis and ISS and use their constructive feedback to continuously enhance our disclosures.

In April and May of 2017, we engaged with shareholders representing approximately 44% of the Company's common stock prior to our 2017 Annual Shareholder Meeting. We specifically discussed executive compensation programs and as a result of feedback received, we added a return on equity modifier to the performance unit plan beginning in 2018. We also changed the denomination of the award to share units rather than cash units.

We also discussed the shareholder proposal brought forth in the 2017 Proxy Statement to require an independent Board Chair. The strong majority favored our leadership structure of having Tom Ryan, current CEO, as Chairman

given the appointment of an effective Independent Lead Director and given the success of the Company. The minority that expressed concern of this structure pointed to Board tenure and diversity issues. As part of its ongoing efforts to enhance the composition of the Board, our Chairman and the Nominating and Corporate Governance Committee spent a considerable time reviewing candidates to serve on our Board of Directors. We are presenting two new nominees in this 2018 Proxy Statement. These two nominees, if elected, would significantly reduce the tenure and enhance the diversity of the Board.

#### Shareholder Proposal to Adopt Simple Majority

During the April and May 2017 conversations with top shareholders, we also discussed the shareholder proposal regarding the adoption of the simple majority voting. We received valuable feedback, which we used to prepare our planned response presented in this 2018 Proxy Statement. In early 2018, we then went back to our largest owners to discuss our response.

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## PROXY STATEMENT SUMMARY

In January through March of 2018, we proactively engaged with our top holders to discuss our planned response to the 2017 shareholder proposal regarding the adoption of the simple majority voting requirement. As part of this process, we spoke to shareholders representing approximately 62% of the Company's outstanding common stock.

Of the shareholders contacted, all agreed with declassifying the Board of Directors and adopting a simple majority voting requirement in our Bylaws and Articles of Incorporation except for business combinations. For business combinations, we are proposing the reduction of a supermajority voting

requirement to at least two-thirds. Of the shareholders contacted in early 2018, the strong majority felt that this was in line with their expectations, while the minority felt business combinations should also be at a simple majority level. However, the minority who held this view agreed that moving from a supermajority voting requirement of 80% to two-thirds reflected a positive movement for the Company.

We also consulted with Amalgamated Bank, who submitted the shareholder proposal for the adoption of simple majority voting at the last annual meeting and discussed our opinion and proposed solutions. Amalgamated Bank had no objection to our proposal.

Key Highlights	Detail	Reference Page
Executive Compensation	We moved the return on equity metric from the short term compensation plan to a modifier in the long-term performance unit plan, which was previously solely based on total shareholder return.	33
	We eliminated the Umbrella Plan starting in 2018 due to certain changes in the Tax Act.	<u>34</u>
	We illustrated our alignment of pay and performance.	<u>32</u>
Board-Related	Board composition and refreshment remains a priority for us. We present two new nominees in this Proxy Statement. Ms. Sara Martinez Tucker and Ms. Jakki Haussler will bring diverse perspectives and experience to our Board of Directors. Mr. John W. Mecom, Jr. has communicated to the Company that he will not seek reelection for his seat next year. And lastly, in 2018, Mr. R.L. Waltrip decided not to seek another term as an elected member of our Board of Directors, but will still actively participate as Founder and Chairman Emeritus.	<u>6</u>
	We continue our annual Board and Committee evaluation process.	<u>20</u>
	Strong Lead Independent Director. We created the role in 2016 with enhanced authority to call special Board meetings and to preside over Board meetings in the absence of the Chairman.	<u>6, 18</u>
	Independent Audit, Compensation, and Nominating and Corporate Governance Committees	<u>21</u>
Shareholder Rights	We made changes to the Director's compensation.	<u>24</u>
	Shareholder questions and concerns are communicated to and considered by the Board. Shareholders are allowed to call special meetings.	<u>9, 20</u>
	We conduct an annual "Say-on-Pay" vote	<u>31</u>

Accounting  
White Paper

In response to shareholders' questions regarding the complexities of the Company's accounting for preneed sales, management published a white paper on its website in the fall of 2015, which has now been updated for the recent revenue recognition accounting standard change.

You can view the white paper at <http://Investors.sci-corp.com> under Featured Documents

Communication with Directors

We value dialogue with our shareholders and believe our ongoing outreach efforts, which are in addition to other communication channels available to our stockholders and interested parties, help us to continue to evolve our corporate governance practices in a way that reflects the insights and perspectives of our many stakeholders. Shareholders and other interested parties may communicate with any of the independent Directors, including Committee

Chairs and the Lead Independent Director, by using the following address: Service Corporation International, Lead Independent Director c/o Office of Corporate Secretary, 1929 Allen Parkway, Houston, TX 77019 or by email to [leaddirector@sci-us.com](mailto:leaddirector@sci-us.com).

9 [www.sciannualmeeting.com](http://www.sciannualmeeting.com)

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PROXY STATEMENT SUMMARY

Board Snapshot

Experience

With extensive experience in leadership positions and a proven record of success, our Board is qualified to oversee the Company's strategy and management. The Nominating and Corporate Governance Committee continually reviews and recommends enhancements to the Board's leadership structure as evidenced by the nominations of Jakki Hausler and Sara Martinez Tucker this year and Ellen Ochoa in 2015.

Director Age

The average age of our Board is 70. Including our two proposed nominees, the average decreases to 67. We believe the average age of our Directors gives our Board understanding and insight into the unique perspective of SCI's consumer base. SCI's average age of preneed cemetery consumers is the early sixties. The average age of preneed funeral consumers is the early seventies.

Skills

Each Director brings a particular range of skills and expertise to the deliberations of the SCI Board, which facilitates constructive and challenging debate around the boardroom table (see page 13 for overview).

Meeting Attendance

During 2017, our Board had a 97% meeting attendance record. We also had two executive meetings to address specific items related to a litigation settlement and an acquisition. Please see page 20 for more information about our Board meetings and Director attendance.

Commitment

The calendar of Board and Committee meetings is established to support the Board's focus on strategic and long-term matters, while ensuring the discharge of its monitoring and oversight role effectively through high quality discussions and briefings.

Personal Qualities

Our Directors bring innate personal qualities to the SCI boardroom that enable our Board to function effectively. Personal qualities exhibited in the boardroom include self-awareness, respect, integrity, independence, and the capacity to function effectively in challenging situations.

10 [www.sciannualmeeting.com](http://www.sciannualmeeting.com)

## PROXY STATEMENT SUMMARY

## Director Nominees

Name Occupation	Independent	Age	Director Since	Other Public Boards*	Board Committee Composition				
					A	C	E	N& CG	I
Anthony L. Coelho, Lead Independent Director Former Majority Whip of the U. S. House of Representatives Independent business and political consultant	YES	75	1991	2					
Jakki L. Haussler ** Founder and CEO, Opus Capital Management	YES	60	-	2	-	-	-	-	-
Sara Martinez Tucker ** Former Chief Executive Officer, National Math + Science Initiative, a non-profit organization to improve student performance in STEM subjects	YES	62	-	3	-	-	-	-	-
Marcus A. Watts President, The Friedkin Group, an umbrella company overseeing various business interests that are principally automotive related	YES	59	2012	1					C
Edward E. Williams Professor Emeritus of Entrepreneurship, Rice University, Doctorate in Finance and Accounting	YES	72	1991	None					C

## Continuing Directors

Name Occupation	Independent	Age	Director Since	Other Public Boards*	Board Committee Composition				
					A	C	E	N& CG	I
Alan R. Buckwalter Former Chairman and CEO, Chase Bank of Texas	YES	71	2003	None					C
Victor L. Lund President and CEO, Teradata	YES	70	2000	1					C
John W. Mecom, Jr. *** Independent businessman who bought, developed, managed, and sold a variety of real estate and other business interests	YES	78	1983	None					
Clifton H. Morris, Jr. Chairman and CEO of JBC Funding, a corporate lending and investment firm	YES	82	1990	None					
Ellen Ochoa Director, NASA Johnson Space Center	YES	59	2015	None					
Thomas L. Ryan Chairman and CEO, Service Corporation International	NO	52	2004	2					C
W. Blair Waltrip Independent consultant, family and trust investments, and former senior executive of the Company	NO	63	1986	None					

A: Audit Committee

C: Compensation Committee

: Member

C: Chair



E: Executive Committee

N&CG: Nominating & Corporate Governance Committee

I: Investment Committee

\* See Director Bios on pages 13 to 16, which includes other public Boards for each Director.

\*\* New Director nominee - committee positions will be determined after the annual meeting.

\*\*\* John W. Mecom, Jr. has informed the Company he will not run for re-election when his term expires at the annual meeting in 2019.

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## PROXY STATEMENT SUMMARY

## Overview of Director Skills and Experience

We value the following skills and experiences within our Board of Directors to create a balance of diverse viewpoints and expertise:

**CEO Experience/Senior Leadership.** We believe Directors who have held significant leadership positions over an extended period, especially CEO positions, possess extraordinary leadership qualities and demonstrate a practical understanding of organizations, processes, strategy and risk management, and know how to drive change and growth. Industry. The funeral and cemetery industry is unique and Directors with prior experience can help to shape and develop all aspects of the Company's strategy.

**Financial.** Service Corporation International uses a broad set of financial metrics to measure its performance, and accurate financial reporting and robust auditing are critical to our success. We have added a number of Directors who qualify as Audit Committee financial experts, and we expect all of our Directors to have an understanding of finance, financial reporting processes, and internal controls.

**Marketing/Brand Management.** We employ a multi-brand strategy and also rely heavily on marketing our products and services on a preneed basis. Directors with marketing experience and/or brand management experience can provide expertise and guidance as we seek to expand brand awareness, enhance our reputation, and increase preneed sales.

**Investments/Financial Services.** Knowledge of financial markets, investment activities, and trust and insurance operations assists our Directors in understanding, advising on, and overseeing our investment strategies.

**Real Estate.** We own a significant amount of real estate. Directors with experience in real estate can provide insight into our tiered product/pricing strategy for our cemeteries as well as advice on best uses of our real estate.

**Technology or e-Commerce.** Directors with education or experience in relevant technology are useful for understanding our efforts to enhance the customer experience as well as improve our internal processes and operations.

**Business Development/Mergers and Acquisitions (M&A).** We seek to grow through acquisitions and development of new business operations. Directors with a background in business development and in M&A provide insight into developing and implementing strategies for growing our business.

**Government/Legal.** We operate in a heavily regulated industry. Directors who have a background in law or have served in government positions provide experience and insights that assist us in legal and regulatory compliance and help us work constructively with governmental and regulatory organizations in the areas we operate.

Although the members of our Board embody a broad range of backgrounds, experience and expertise, the table below is intended to highlight only the top three areas of expertise for each member:

## Overview of Director Skills and Experience

	Buckwalter	Coelho	(New) Haussler	Lund	Mecom	Morris	Ochoa	Ryan	(New) Tucker	W.B. Waltrip	Watts	Will
CEO												
Experience/Senior Leadership			ü	ü		ü	ü	ü	ü			
Industry						ü				ü		ü
Financial	ü	ü		ü		ü						ü
Marketing/Brand Management					ü						ü	
Investments/Financial Services	ü	ü	ü							ü		ü
Real Estate					ü			ü				
Technology or e-Commerce				ü			ü		ü			
Business Development/M&A	ü		ü		ü			ü		ü	ü	

Government/Legal

ü

ü

ü

ü

12 [www.sciannualmeeting.com](http://www.sciannualmeeting.com)

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CORPORATE GOVERNANCE AT SERVICE CORPORATION INTERNATIONAL

CORPORATE GOVERNANCE AT SERVICE CORPORATION INTERNATIONAL

Proposal 1 : Election of Directors

The Board of Directors will temporarily have 12 members. term for Ms. Haussler, who is nominated to join the John W. Mecom, Jr. has communicated to the Company that he class of Directors whose term expires in 2019. Set will not seek reelection for his seat next year. The Directors forth below are profiles for each of the five candidates will be divided into three classes, each with a staggered term of nominated by the Nominating and Corporate three years. At this year's Annual Meeting, shareholders will be Governance Committee of the Board of Directors for asked to elect five Directors to the Board; four with three-year election by shareholders at this year's Annual Meeting. terms expiring in 2021, and a one year Directors are elected by a majority of votes cast.

The Board of Directors recommends that Shareholders vote "FOR" the following five nominees.

Director nominees

<p>Anthony L. Coelho</p>	<p>Independent Director Since: 1991</p>	<p>Age: 75</p>	<p>If Elected Term Expires: 2021</p>	<p>Primary Qualifications:</p>
			<p>Majority Whip (1987-1989)</p>	<p>Select Past Public Board Positions</p>
	<p>Occupation</p>		<p>Member of U.S. House of Representatives (1978-1989); original sponsor/author of the Americans With Disabilities Act</p>	<p>Chairman, Cyberonics Chairman, Circus Enterprises (now MGM Mirage) Chairman, ICF Kaiser International, Inc.</p>
<p>Lead Independent Director</p>	<p>Prior Political Experience</p>		<p>Prior Business Experience</p>	<p>Warren Resources, Inc.</p>
	<p>Chairman of the President's Committee on Employment of People with Disabilities (1994-2001)</p>		<p>President/CEO of Wertheim Schroder Financial Services, grew \$800 million firm to \$4.5 billion over 6 years (1990-1995)</p>	<p>Other Positions</p>
	<p>General Chairman of Al Gore's Presidential campaign (1999-2000)</p>		<p>Current Public Board Positions</p>	<p>Former Chairman and current Board member of the Epilepsy Foundation</p>
			<p>Vice Chairman, Esquire Financial Holdings, Inc. AudioEye, Inc.</p>	<p>Education Loyola University Los Angeles</p>
<p>Jakki L. Haussler</p>	<p>Independent New Nominee</p>	<p>Age: 60</p>	<p>If Elected Term Expires: 2019</p>	<p>Primary Qualifications:</p>
	<p>Occupation</p>		<p>Current Public Board Positions</p>	<p>Education</p>
	<p>Founder and CEO, Opus Capital Management (since 1996), an independent registered investment</p>		<p>Cincinnati Bell Inc. Morgan Stanley Funds</p>	<p>University of Cincinnati Salmon P. Chase College of Law, Northern Kentucky</p>
			<p>Other Positions</p>	

adviser, providing investment solutions to institutions and high-net worth individuals	Member, Board of Directors, The Victory Funds Member, Board of Directors, Best Transportation, a transportation management software company	University
Prior Business Experience Managing Director, Capvest Venture Fund, LP (2000 - 2011) a private equity fund for growth and expansion stage companies Partner, Adena Ventures LP (1999 - 2010) a private equity fund targeting underserved markets	Member/Founder, Chase College of Law, Transaction Law Practice Center Board of Visitors, Chase College of Law Member, Northern Kentucky University Foundation Investment Committee	

## CORPORATE GOVERNANCE AT SERVICE CORPORATION INTERNATIONAL

Sara Martinez Tucker	Independent New Nominee	Age: 62	If Elected Term Expires: 2021	Primary Qualifications:
	Occupation Former Chief Executive Officer, National Math + Science Initiative, a non-profit organization to improve student performance in STEM (Science, Technology, Engineering, and Math) subjects		Current Public Board Positions Sprint Corporation Xerox Corporation American Electric Power  Other Positions Chairman, University of Texas System Board of Regents Member, University of Notre Dame's Board of Trustees Former Under Secretary of Education in the U.S. Department of Education	Education University of Texas at Austin McCombs School of Business (MBA) - University of Texas at Austin
	Prior Business Experience Vice President, AT&T (1997-2006)			
Marcus A. Watts	Independent Director Since: 2012	Age: 59	If Elected Term Expires: 2021	Primary Qualifications:
	Occupation President, The Friedkin Group (since 2011), an umbrella company overseeing various business interests that are principally automotive related		Current Public Board Positions Cabot Oil & Gas Corporation  Current Other Board Positions Board Chair, Federal Reserve Bank of Dallas (Houston Branch) Board member, Highland Resources, Inc. (private real estate company) Chairman, Greater Houston Partnership Chairman, Board of Trustees, United Way of Greater Houston	Past Public Company Boards Complete Production Services, Inc. (2007-2012) acquired by Superior Energy Services Cornell Companies (2001-2005)  Education Texas A&M University Harvard Law School
	Prior Business Experience Vice Chairman and Managing Partner-Houston, Locke Lord LLP (1984-2010) with a focus on corporate and securities law, governance, and related matters			
Edward E. Williams	Independent Director Since: 1991	Age: 72	If Elected Term Expires: 2021	Primary Qualifications:
	Occupation Professor Emeritus of Entrepreneurship (since 2014), Rice University, Houston, TX		Prior Business Experience Founder and CEO, First Texas Venture Capital Corporation (1983-1992)	Author or co-author of 13 books and over 50 scholarly articles

<p>Prior Academic Experience Henry Gardiner Symonds Professor, Professor of Statistics and Administrative Science (1978-2014) Founded Rice University's Entrepreneurship program in 1978, now one of the top such programs in the world Associate Professor of Finance McGill University (1970-1973) Assistant Professor of Economics, Rutgers University (1968-1970)</p>	<p>Texas Capital Investment in Advisors, Inc. (1980-1995) Trust Corporation International (1979-1986) Other Academic Experience 2016 Entrepreneurship Educator of the Year Award, lifetime award presented by the U.S. Association for Small Business and Entrepreneurship</p>	<p>Entrepreneurship, Finance, Economics, and Accounting including seminal critical analyses of the Efficient Market Hypothesis (initiated 45 years ago)</p> <p>Education Wharton School, University of Pennsylvania PhD, (Finance and Accounting) University of Texas at Austin</p>
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CORPORATE GOVERNANCE AT SERVICE CORPORATION INTERNATIONAL

Continuing Directors

<p>Alan R. Buckwalter</p>	<p>Independent Director Since: 2003</p>	<p>Age: 71 Term Expires: 2019</p>	<p>Primary Qualifications:</p>
	<p>Occupation</p> <p>Former Chairman and CEO, Chase Bank of Texas</p>		<p>Other Positions</p> <p>Board member, Texas Medical Center</p> <p>Chairman Emeritus and Board member, Central Houston, Inc.</p>
	<p>Prior Business Experience</p> <p>Chairman, J.P. Morgan Chase Bank, South Region (1995-2003)</p> <p>President of Texas Commerce Bank (1990-1995)</p> <p>Held various positions at Chemical Bank in corporate division (1970-1990)</p>		<p>Other Prior Positions</p> <p>Board of Directors, Federal Reserve Bank of Dallas (Houston Branch)</p> <p>Past Public Company Boards</p> <p>Freeport-McMoRan, Inc. (2013-2015)</p> <p>Plains Exploration and Production (2003-2013); subsequently acquired by Freeport-McMoRan, Inc.</p> <p>Education</p> <p>Fairleigh Dickinson University</p>

Victor L. Lund

<p>Independent Director Since: 2000</p>	<p>Age: 70 Term Expires: 2019</p>	<p>Primary Qualifications:</p>
<p>Occupation</p> <p>President and CEO (May 2016) Teradata Corporation</p>	<p>22-year career with American Stores Company in various positions including Chairman, CEO, CFO and Corporate Controller 1977-1999</p> <p>Audit CPA, Ernst &amp; Ernst 1972-1977</p>	<p>Past Public Company Boards</p> <p>DemandTec</p> <p>Delta Airlines</p> <p>Del Monte Foods, Inc.</p> <p>Mariner Healthcare, Inc.</p> <p>Albertsons, Inc.</p> <p>American Stores Company</p> <p>NCR Corporation</p>
<p>Prior Business Experience</p> <p>Chairman, DemandTec, a software company (2006-2012)</p> <p>Chairman, Mariner Healthcare, Inc. (2002-2004)</p> <p>Vice Chairman, Albertsons, Inc. (1999-2002)</p>	<p>Current Public Board Positions</p> <p>Teradata Corporation, an information technology company</p>	<p>Education</p> <p>The University of Utah</p> <p>MBA The University of Utah</p>

John W. Mecom, Jr.

<p>Independent Director Since: 1983</p>	<p>Age: 78 Term Expires: 2019*</p>	<p>Primary Qualifications:</p>
<p>Occupation</p> <p>Independent businessman who bought, developed, managed, and sold a variety of real estate and other business interests</p>	<p>Chairman, John W. Mecom Company, primarily an oil and gas company (1976-2003)</p> <p>Owner of New Orleans Saints NFL team (1967-1985)</p> <p>Owner of Mecom Racing Team, which managed several Formula One racing teams - Indianapolis and Cam Am</p>	<p>Education</p> <p>University of Oklahoma</p>
<p>Prior Business Experience</p> <p>Principal owner, John Gardiner Tennis Ranch (2000-2011)</p>		



Owner, Rhino Pak, a contract Series (1960-1967)  
blender and packer for the Hotel management, Houston  
petroleum industry (2003-2007) International Hotels and  
Preferred Hotels Organization  
(1964-1985)

\* John W. Mecom, Jr. has informed the Company he will not run for re-election when his term expires at the annual meeting in 2019.

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CORPORATE GOVERNANCE AT SERVICE CORPORATION INTERNATIONAL

Clifton H. Morris, Jr.	Independent Director Since: 1990 Age: 82 Term Expires: 2020 Occupation Chairman and CEO of JBC Funding, a corporate lending and investment firm Prior Business Experience Founder and Chairman, AmeriCredit Corp., financing of automotive vehicles (1988-2010); sold in 2010 and now GM Financial CFO, Cash America International (1984-1988)	VP of Treasury and other financial positions at SCI (1966-1971) Other Positions CPA, 56 years Lifetime member of the Texas Society of Certified Public Accountants Honorary member of the American Institute of Certified Public Accountants	Primary Qualifications: Past Public Company Boards AmeriCredit Corp. Cash America International Education University of Texas at Austin
Ellen Ochoa	Independent Director Since: 2015 Age: 59 Term Expires: 2019 Occupation Director of NASA Johnson Space Center (since 2013) Prior Business Experience Government Executive, Astronaut at NASA Johnson Space Center (1990-2012); first Hispanic female astronaut with nearly 1,000 hours in space Branch Chief and Research Engineer, NASA Ames Research Center (1988-1990), led a group working primarily on optical systems for automated space exploration	Researcher, Sandia National Laboratories (1985-1988), investigated optical systems for performing information processing Other Positions Member, Board of Directors, Federal Reserve Bank of Dallas Member, National Science Board Chair, Nomination Committee, National Medal of Technology & Innovation Fellow, American Institute of Aeronautics and Astronautics Member, Board of Directors, Mutual of America	Primary Qualifications: Fellow, American Association for the Advancement of Science Director Emerita, former Vice Chair, Manned Space Flight Education Foundation Former Board of Trustees, Stanford University Education San Diego State University MS, PhD (Electrical Engineering), Stanford University
Thomas L. Ryan	Non-Independent Director Since: 2004 Age: 52 Term Expires: 2020 Occupation Chairman (since 2016) and CEO (since 2005) of SCI Prior Business Experience President, SCI (2002-2015)	Current Public Board Positions Weingarten Realty Investors Chesapeake Energy Other Positions	Primary Qualifications: Past Public Company Boards Texas Industries Education University of Texas at Austin

<p>W. Blair Waltrip</p>	<p>CEO European Operations, SCI (2000-2002) Variety of financial management roles, SCI (1996-2000)</p> <p>Non-Independent Director Since: 1986 Age: 63 Term Expires: 2020</p> <p>Occupation Independent Consultant, Family and Trust Investments, and Former Senior Executive of SCI</p> <p>Prior Business Experience Various positions at SCI including VP of Corporate Development, SVP of Funeral Operations, EVP of SCI's real estate division, Chairman and CEO of SCI Canada, and EVP of SCI (1977-2000)</p>	<p>Board of Trustees, United Way of Greater Houston Board of Directors, Genesys Works Board member, University of Texas McCombs Business School Advisory Council</p> <p>Other Positions Treasurer, National Museum of Funeral History Active real estate broker</p> <p>Past Public Company Boards Sanders Morris Harris Group, Inc (Edelman Financial)</p>	<p>Primary Qualifications: Education Sam Houston State University</p>
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CORPORATE GOVERNANCE AT SERVICE CORPORATION INTERNATIONAL

Director Ownership of SCI Stock

Stock ownership has a critical role in aligning the interests of Directors with those of our shareholders. The Company's Corporate Governance Guidelines contain a policy to encourage the Directors to own SCI stock. Under the guidelines presently in effect, each Director's SCI stock ownership should be at least a value of \$500,000 within five years of the Director's initial election to the Board. Measurement of stock ownership against the guidelines will be calculated once a year based on valuation of the

shares held at year end utilizing the closing price of SCI common stock on the last trading day of the year (\$37.32 per share at December 29, 2017 or a minimum shareholding of 13,398 shares). All members of the Board are above the minimum guideline. The following graphic presents the current holdings, excluding stock options, for our Directors as of March 26, 2018. (Further details are provided in the tables of Director and officer shareholdings listed under "Voting Securities and Principal Holders").

Consideration of Director Nominees

The Nominating and Corporate Governance Committee considers candidates for Board membership suggested by its members and other Board members, as well as management and shareholders. In the past, the Committee has retained a third-party executive search firm to identify candidates. A shareholder who wishes to recommend a prospective nominee for the Board should notify the Company's Secretary in writing with whatever supporting material the shareholder considers appropriate. To be considered, the written recommendation from a shareholder must be received by the Company's Secretary at least 120 calendar days prior to the anniversary of the release date of the Company's prior year Proxy Statement for the Annual Meeting of Shareholders.

The Committee also considers such other relevant factors as it deems appropriate, including the current composition of the Board, the balance of management and independent Directors, the need for particular areas of expertise, and the evaluations of other prospective nominees. After completing this process, the Committee makes nomination recommendations to the full Board. The Board determines the nominees after considering the recommendation and report of the Committee.

Once the Nominating and Corporate Governance Committee has identified a prospective nominee, the

Committee will consider the available information concerning the nominee, including the Committee's own knowledge of the prospective nominee, and may seek additional information or an interview. If the Committee determines that further consideration is warranted, the Committee will then evaluate the prospective nominee against the standards and qualifications set out in the Company's Corporate Governance Guidelines. The Company's Corporate Governance Guidelines include personal characteristics and collective core competencies. The personal characteristics sought in prospective candidates include the following:

- ▲ Integrity, character, and accountability
- ▲ Ability to provide wise and thoughtful counsel on a broad range of issues
- ▲ Financial literacy and ability to read and understand financial statements and other indices of financial performance
- ▲ Ability to work effectively with mature confidence as part of a team
- ▲ Ability to provide counsel to management in developing creative solutions and in identifying innovative opportunities
- ▲ Commitment to prepare for and attend meetings and to be accessible to management and other Directors

## CORPORATE GOVERNANCE AT SERVICE CORPORATION INTERNATIONAL

The core competencies of the Board as a whole should be aligned with the corporate strategy of SCI and may change over time. Currently the collective competencies considered include:

- Accounting and finance
- Industry knowledge
- Strategic insight
- Understanding and fostering leadership
- Business judgment and management expertise
- Diverse experiences and backgrounds

### Director Independence

The Board conducted an annual review and affirmatively determined that 8 of the current 11 Directors are “independent” as defined by the standards of the NYSE and SCI’s Corporate Governance Guidelines. Two of the Directors, Tom Ryan and R.L. Waltrip, are considered non-

independent because of their employment as senior executives of the Company. Blair Waltrip is considered a non-independent Director because he is the son of the founder and Chairman Emeritus, R.L. Waltrip.

### Change in Leadership Structure

Effective January 1, 2016, we implemented a new leadership structure. After 53 years, Mr. R.L. Waltrip stepped aside as Chairman and the Board appointed current CEO, Mr. Tom Ryan, as Chairman. Simultaneously, the Board appointed Mr. Tony Coelho as Lead Independent Director in a newly created role. In 2018, we strengthened our Lead Director's responsibilities by making provisions to the Company's Bylaws to permit the Lead Director to call a special meeting of the Board and preside over Board meetings in the absence of the Board Chair.

The Board believes this structure, along with the fact that all committees are chaired by independent Directors, is effective by allowing one person to speak for and lead both the Company and the Board. Independent Board oversight is accomplished through a Lead Independent Director.

This structure allows the Chief Executive Officer to effectively and efficiently guide the Board utilizing the

insight and perspective he has gained by running the Company. In addition, our Chief Executive Officer has the necessary experience, commitment, and support of the other Board members to carry out the role of Chairman effectively. His in-depth knowledge of our Company, our growth and historical development, coupled with his extensive industry expertise and significant leadership experience, make him particularly qualified to lead discussions at the Board level on important matters affecting us.

Our Board believes shareholders have benefited from Mr. Ryan’s strategic and operational insights and strong leadership skills. Mr. Ryan's skills range from day-to-day operational execution to long-term strategic direction. Our performance under the current leadership structure has been strong, strengthening the position of our Company as the leader in the deathcare industry.

### Risk Oversight

The Board of Directors has assigned the Nominating and Corporate Governance Committee the quarterly oversight responsibility for the Company’s enterprise risk management function. Management has the primary responsibility to identify risks and risk mitigation strategies and provides periodic reports to the Nominating and Corporate Governance Committee. The Audit Committee is responsible for oversight of major financial risks relating to the Company’s accounting matters and financial reporting compliance. The Compensation Committee has oversight of the risk assessment of the Company’s compensation programs. The Investment Committee has oversight of risks relating to the investment of trust funds and insurance partner. The Nominating and Corporate Governance Committee oversees the risk assessments of the other committees and of management and annually provides enterprise risk management reports to the Board. The Board appreciates the threats presented by cybersecurity incidents and is

committed to the prevention, timely detection, and mitigation of the effects of any such

incidents on the Company. The Audit Committee oversees the Company's controls and the Nominating and Corporate Governance Committee oversees the risk assessment related to cybersecurity.

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CORPORATE GOVERNANCE AT SERVICE CORPORATION INTERNATIONAL

No Shareholder Rights Plan

Prior to 2008, SCI maintained in place a shareholder rights plan, sometimes called a “Poison Pill”, which could provide an opportunity for negotiation during a hostile takeover attempt. Our Board allowed the shareholder rights plan to expire in July 2008 and has not implemented another shareholder rights plan.

Lead Independent Director

The Lead Independent Director's role is critical to ensure the Board is able to carry out its responsibilities effectively and independently of both management and the Company's controlling shareholders. Based on shareholder feedback, we have recently strengthened the responsibilities of the Lead Independent Director through provisions to the Company's Bylaws to permit the Lead Director to call a special meeting of the Board and preside over Board meetings in the absence of the Board Chair.

The authority and responsibilities of the Lead Director include, but are not limited to, the following:

• Call Meetings of the Board. The Lead Director will have authority to call meetings of the Board, upon proper notice given to the members in accordance with the Bylaws.

• Preside over executive sessions. The Lead Director will preside at all meetings of the Board at which the Chair is not present, including all meetings and executive sessions of the independent Directors.

• Serve as liaison to the Chair. The Lead Director will serve as the principal liaison between the independent Directors and the Chair. The Lead Director will be available to discuss any concerns the other independent Directors may have and to relay those concerns, where appropriate, to the Chair.

• Board information, agendas, and meeting schedules. The Lead Director will consult with the Chair regarding the information sent to the Board, including the quality, quantity, appropriateness and timeliness of such information and will consult with the Chairman on the scheduling of and agendas for Board meetings.

• Engage in performance evaluation of Directors and CEO. The Lead Director will work with the Nominating and Corporate Governance Committee in the process of evaluating the performance of the CEO and the Directors, including conveying evaluation feedback to those persons.

• Interview Director candidates. The Lead Director will interview Director candidates along with the

Nominating and Corporate Governance Committee. The Lead Director will also provide guidance on the orientation process for new Directors.

• Communicate with stockholders. As requested and deemed appropriate by the Board, the Lead Director will be available for consultation and direct communication with stockholders and other stakeholders.

• Serve as the Board Chair on an interim basis. The Lead Director will serve as the Chair on an interim basis in the event of the death or disability of the Chair or if circumstances arise in which the Chair may have an actual or perceived conflict of interest.

• Perform other duties as requested. The Lead Director will perform such other duties as the Board may from time to time delegate to assist the Board in fulfilling its responsibilities.

• Consult with Committee Chairs. In performing the duties described above, the Lead Director is expected to consult with the Chairs of the appropriate Board committees as needed and solicit their participation to avoid diluting the

authority or responsibilities of such Committee Chairs.

Our Lead Independent Director, Mr. Coehlo, contributes to improved corporate performance by taking responsibility for improving Board performance, building a productive relationship with the Chief Executive Officer, and supporting effective communications with shareholders.

19 [www.sciannualmeeting.com](http://www.sciannualmeeting.com)

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CORPORATE GOVERNANCE AT SERVICE CORPORATION INTERNATIONAL

Special Meeting of Shareholders

A special meeting of shareholders may be called at any time by the holders of at least 10% of the outstanding stock entitled to be voted at such meeting, by the Board of

Directors, by the Chairman of the Board, or by the Chief Executive Officer.

Board Composition and Meetings

Independent Directors comprise a majority of the Board of SCI. The Audit, Compensation, and Nominating and Corporate Governance Committees of the Board are all composed entirely of Directors who are “independent” as defined by the standards of the NYSE and SCI’s Corporate Governance Guidelines. The full Board meetings had

100% attendance, and each individual committee meeting in 2017 had 92% or higher attendance by the relevant Directors. Although the Board does not have a policy on Director attendance at annual meetings, ten Board members attended the Company’s 2017 Annual Meeting of Shareholders.

% = percentage of meetings attended by SCI Directors

Annual Board and Committee Evaluations

The Nominating and Corporate Governance Committee oversees and facilitates a comprehensive self-evaluation of Board members and each of the Board committees on an annual basis to determine whether the Board and its committees are functioning effectively and to identify any areas to further enhance Board and committee operations.

The Nominating and Corporate Governance Committee also oversees a director peer review process as part of the annual renomination review process and for the ongoing professional development of Board members.

Board Orientation and Education Program

SCI has an orientation program for new Board members that includes formal and informal sessions with other Directors and senior SCI executives. This program also encourages attendance at meetings of committees of which the newly elected Director is not a member to gain familiarity with the work of the Board committees and the issues they are addressing.

The focus of continuing education for SCI Directors is on developing educational sessions that Directors find meaningful and useful. These may range from educational

sessions specific to issues confronting SCI and its industry to sessions covering corporate governance trends and issues. In addition, the Nominating and Corporate Governance Committee encourages Directors to attend continuing education programs that are offered by various universities, institutes, etc. Additionally, Board members generally perform a site visit to an SCI facility on an annual basis either individually or as a group.

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CORPORATE GOVERNANCE AT SERVICE CORPORATION INTERNATIONAL

Executive Sessions

At the end of every regularly scheduled Board meeting, the Board meets in an executive session attended only by the non-management Directors without management present. The Lead Independent Director chairs these executive sessions. Shareholders and other interested parties may communicate to the Lead Independent Director any

comments they wish to make known to the non-management Directors, by using the following address: Service Corporation International, Lead Independent Director c/o Office of Corporate Secretary, 1929 Allen Parkway, Houston, TX 77019, or by email to [leaddirector@sci-us.com](mailto:leaddirector@sci-us.com).

Board Committees

As part of its annual Board and committee evaluation process, the Board reviews its committee structure and committee responsibilities to ensure that matters important to SCI have the appropriate focus and to ensure the effectiveness of each committee's role. Currently, the Board has four standing committees. The Board has adopted a written charter for each of these committees. These charters are available on SCI's website at [www.sci-corp.com](http://www.sci-corp.com) in the "Corporate Governance" section. Information about each committee is provided below.

AUDIT COMMITTEE

Chair: Victor L. Lund

Other members: Alan R. Buckwalter, Clifton H. Morris, Jr., Edward E. Williams

Meetings in 2017: Seven

Each member of the Audit Committee meets the independence requirements of the NYSE guidelines.

Key Oversight Responsibilities

Integrity of the financial statements

Engagement, qualifications, independence, and performance of the independent registered public accounting firm

Scope and results of the independent registered public accounting firm's report

Performance and effectiveness of our internal audit function

Policies with respect to risk assessment and risk management

Quality and adequacy of our internal controls, including reviewing our cybersecurity controls

Financial reporting activities and disclosure matters

Audit Committee in 2017

The Audit Committee met seven times in 2017, and the Committee attendance record was 96%. Four of the meetings were focused primarily on our quarterly financial reports and our related earnings releases. At each of these meetings, the Committee reviewed the documents in depth as well as reviewed the independent registered public accounting firm's report. The Committee regularly meets with the independent registered public accounting firm representatives outside the presence of management. Additionally the Committee meets regularly with individual members of management to discuss relevant matters. The Committee meets with the Company's internal auditors outside the presence of management. The Committee also performs quarterly reviews of any legal matters that could have a significant impact on our financial statements and plays a vital role in assessing the management of financial risk. The report of the Audit Committee can be found on page 26.

21 [www.sciannualmeeting.com](http://www.sciannualmeeting.com)

CORPORATE GOVERNANCE AT SERVICE CORPORATION INTERNATIONAL

COMPENSATION COMMITTEE

Chair: Alan R. Buckwalter

Other members: Anthony L. Coelho, John W. Mecom, Jr., Ellen Ochoa, Marcus A. Watts

Meetings in 2017: Five

Each member of the Compensation Committee meets the independence requirements of the NYSE guidelines.

Key Oversight Responsibilities

Oversees our executive compensation and benefits policies and programs

Sets compensation for the Chairman and CEO

Reviews and approves compensation for all other executive officers

Determines appropriate individual and Company performance measures

Approves all executive employment contracts

Determines and ensures compliance with SCI stock ownership guidelines for officers

Assesses the risk of SCI's compensation programs

Compensation Committee in 2017

The Compensation Committee met five times in 2017 with a 96% attendance record. The Committee devoted substantial time in its oversight of SCI's compensation programs and its review of feedback received from shareholders. As a result of input received from shareholders, the Committee added a return on equity modifier to the total shareholder return metric in the performance unit plan. They also changed the denomination of the award to share units rather than cash units. The Committee's full review of executive compensation matters and its decisions are discussed in the Compensation Discussion and Analysis beginning on page 29.

NOMINATING AND CORPORATE GOVERNANCE COMMITTEE

Chair: Marcus A. Watts

Other members: Anthony L. Coelho, Victor L. Lund, Clifton H. Morris, Jr.,

Meetings in 2017: Four

Each member of the Nominating and Corporate Governance Committee meets the independence requirements of the NYSE guidelines.

Key Oversight Responsibilities

Composition of the Board and Board committees

Identification and recruitment of new candidates for the Board

Review process for renomination of current Board members and nominees recommended by shareholders

Development of corporate governance principles and practices

SCI's enterprise risk management function, including oversight of cybersecurity risks

Succession planning for CEO and other SCI executives

Performance evaluation of the CEO, Board, and Board committees

Continuing education sessions for SCI Directors

Nominating and Corporate Governance Committee in 2017

The Nominating and Corporate Governance Committee met four times in 2017, and the Committee attendance record was 94%. The Committee spent a considerable amount of time in reviewing and making recommendations on the Board's leadership structure, which resulted in the nomination of two new Directors. For more information regarding these two nominees, please see the nominees' profiles starting on page 13.

22 [www.sciannualmeeting.com](http://www.sciannualmeeting.com)

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CORPORATE GOVERNANCE AT SERVICE CORPORATION INTERNATIONAL

INVESTMENT COMMITTEE

Chair: Edward E. Williams

Other members: John W. Mecom, Jr., Ellen Ochoa, W. Blair Waltrip

Meetings in 2017: Four

Key Oversight Responsibilities

Coordinates management of SCI's preneed trust funds and perpetual care trust funds with independent trustees; SCI's employee Investment Operating Committee, headed by SCI executives; as well as its wholly-owned registered investment advisor and a third party consultant

Reviews the management of the trust funds, performance of the trustees, and investment manager changes made by the trustees

Recommends investment policies and guidelines in conjunction with the Investment Operating Committee and wholly-owned registered investment advisor and third party consultant

Reviews SCI's primary funeral preneed insurance provider

Monitors short-term cash investments of SCI and funds associated with SCI's retirement plans

Investment Committee in 2017

The Investment Committee met four times in 2017, and the Committee attendance record was 100%. The Committee spent time providing guidance to monitor and improve the structure of SCI's preneed and perpetual care trust portfolio. Additionally, the Committee provided oversight of the financial condition of the Company's primary prearranged funeral insurance provider.

EXECUTIVE COMMITTEE

Chair: Thomas L. Ryan

Other members: Alan R. Buckwalter, Anthony L. Coelho, Victor L. Lund, Robert L.

Waltrip, Marcus A. Watts

Meetings in 2017: Two

Key Oversight Responsibilities

Has authority to exercise many of the powers of the full Board between Board meetings

Is available to meet in circumstances when it is impractical to call a meeting of the full Board and there is urgency for Board discussion and decision making on a specific issue

Executive Committee in 2017

The Investment Committee met two times in 2017, and the Committee attendance record was 92%. The Committee spent time reviewing certain acquisitions and legal settlements.

## CORPORATE GOVERNANCE AT SERVICE CORPORATION INTERNATIONAL

## Director Compensation

Our Corporate Governance Guidelines provide for compensation for our non-employee Directors' services, in recognition of their time and skills. Directors who are also our employees do not receive additional compensation for serving on the Board. Annual compensation for our non-employee Directors is composed of cash and stock based equity compensation.

Maintaining a market based compensation program for our non-employee Directors enables the Company to attract qualified members to serve on the Board. With the assistance of Meridian Compensation Partners, LLC ("Meridian"), the Nominating and Corporate Governance Committee periodically reviews our non-employee Director compensation levels and practices and compares them to that of comparable companies to ensure they are aligned with market practices (the "Peer Group" - See Annex B). Specifically, comparisons are made to the companies included in the Comparator Group used for benchmarking the compensation of our executives, as well as to data presented in the annual NACD Director Compensation Report.

Following a competitive review prepared in 2016, the Nominating and Corporate Governance Committee recommended, and the Board approved, certain changes to the compensation program for non-employee Directors. These changes were made to address the changing regulatory environment, the enhanced role for Board committee leadership, and feedback from our shareholders.

Effective August 1, 2017:

• The annual Board retainer was increased from \$75,000 to \$90,000

• Meeting attendance fees were eliminated.

• Retainers for leadership positions on the Board were increased, as follows:

Lead Director increased from \$20,000 to \$30,000

Audit Committee Chair increased from \$15,000 to \$25,000

Compensation Committee Chair increased from \$10,000 to \$20,000

Investment Committee Chair increased from \$10,000 to \$15,000

Nominating and Corporate Governance Committee Chair increased from \$10,000 to \$15,000

Annual stock grants will be based on a target value of \$180,000 per Director, rather than the fixed 10,000 shares per Director. (Note that changes in the stock awards, which are granted at the annual shareholder meeting, will be effective May 2018.)

The Compensation Committee believes that our total Director compensation package is competitive with market practices, as well as fair and appropriate in light of the responsibilities and obligations of our non-employee Directors. Details of our non-employee Director compensation program are set forth below. The following table sets forth non-employee Director compensation for 2017.

2017 Director Compensation Table

Name	Fees Earned or Paid in Cash	Stock Awards(1)	Change in Pension Value and Nonqualified Deferred Compensation Earnings(2)	Total
Alan R. Buckwalter	\$ 111,500	\$ 321,200	\$	—\$432,700
Anthony L. Coelho	120,000	321,200	1,655	442,855

Victor L. Lund	116,000	321,200	—	437,200
John W. Mecom, Jr.	95,000	321,200	3,311	419,511
Clifton H. Morris, Jr.	95,500	321,200	1,655	418,355
Ellen Ochoa	95,000	321,200	—	416,200
W. Blair Waltrip	90,500	321,200	—	411,700
Marcus A. Watts	108,000	321,200	—	429,200
Edward E. Williams	108,000	321,200	7,788	436,988

(1) Amounts in the Stock Awards column represent the fair market value of each award on the date of grant.

Specifically, the value was calculated by multiplying (i) the average of the high and low market prices of a share of common stock of SCI on the date of the grant of the stock award, by (ii) 10,000 shares, which was the number of SCI shares per award.

(2) Amounts in this column include any increases in the actuarial present values of benefits as discussed under “Directors’ Retirement Plan” below.

24 [www.sciannualmeeting.com](http://www.sciannualmeeting.com)

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CORPORATE GOVERNANCE AT SERVICE CORPORATION INTERNATIONAL

Directors' Retirement Plan

Effective January 1, 2001, the Non-Employee Directors' Retirement Plan was amended such that only years of service prior to 2001 are considered for vesting purposes. Non-employee Directors who served on the Board prior to that time and were participants in the plan are entitled to receive annual retirement benefits of up to \$42,500 per year for ten years, subject to a vesting schedule, based on their years of Board service. Retirement benefits vested in 25% increments at the end of five, eight, eleven, and

fifteen years of credited service, except that the benefits vest completely in the event of death while the participant is still a member of the Board or in the event of a change of control of SCI (as defined in the plan). Any increases in the actuarial present values of benefits under the plan are reflected in the column "Change in Pension Value and Nonqualified Deferred Compensation Earnings" in the table above.

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## AUDIT COMMITTEE MATTERS

### Proposal 2: Proposal to Approve the Selection of the Independent Registered Public Accounting Firm

The Audit Committee of the Board of Directors of the Company has recommended PricewaterhouseCoopers LLP (“PricewaterhouseCoopers”) to serve as the independent registered public accounting firm for the Company for the fiscal year ending December 31, 2018. PricewaterhouseCoopers and its predecessors have audited the Company’s accounts since 1993. A representative of PricewaterhouseCoopers is expected to be present at the Annual Meeting, and such representative will have the opportunity to make a statement if he or she desires to do so and be available to respond to appropriate questions at such meeting. The Audit Committee wishes to submit the selection of PricewaterhouseCoopers for

shareholders’ approval at the Annual Meeting. If the shareholders do not give approval, the Audit Committee will reconsider its selection. The affirmative vote of the holders of a majority of shares represented at the Annual Meeting will be required for approval of this proposal.

The Board of Directors recommends that Shareholders vote “FOR” approval of the selection of PricewaterhouseCoopers LLP as the independent registered public accounting firm of the Company.

### Report of the Audit Committee

## PURPOSE

The primary purpose of the Audit Committee is to assist the Board of Directors in fulfilling its independent and objective oversight responsibilities by:

- ensuring the integrity of the Company’s accounting functions and proper internal control over financial reporting,
- ensuring the Company’s compliance with legal and regulatory risk and other compliance matters;
- reviewing the independent registered public accounting firm’s qualifications, and
- overseeing the performance of the Company’s internal audit function.

To conduct a proper review, the Audit Committee schedules its meetings with management and the independent public accountants (currently PricewaterhouseCoopers LLP) at least once each quarter. The Audit Committee meets separately with the independent public accountants, internal auditors, management of the Company, and legal counsel. Further details of the Audit Committee’s functions are located in the section entitled “Board of Directors - Board Committees - Audit Committee” above. The Audit Committee Charter is available for viewing on SCI’s website, [www.sci-corp.com](http://www.sci-corp.com), and available in print to any shareholder who requests it.

## COMMITTEE MEMBERSHIP AND APPOINTMENT

Each member of the Audit Committee is independent and financially literate, as defined by the New York Stock Exchange rules, and is limited to serving on no more than three audit committees of public companies. The Board of Directors has appointed, and the Audit Committee has

acknowledged, Mr. Victor L. Lund, Chairman of the Audit Committee, as the Audit Committee Financial Expert as defined by the rules of the Securities and Exchange Commission.

The Committee complies with all applicable provisions of the Sarbanes-Oxley Act of 2002 and the rules and regulations of the Securities and Exchange Commission (the “SEC”) and the securities exchange on which the Company’s securities are listed, including those related to independence, as applicable.

## AUDIT COMMITTEE RESPONSIBILITIES

The Committee relies on the work and assurance of the Company's management, which is responsible for establishing and maintaining adequate internal control over financial reporting, preparing the consolidated financial statements and other reports, and maintaining policies relating to legal and regulatory compliance, ethics, and conflicts of interest.

The independent registered public accounting firm is responsible for performing an independent audit of the annual consolidated financial statements and expressing an independent opinion on compliance of those financial statements under the United States Generally Accepted Accounting Principles, and expressing an opinion on the effectiveness of the internal controls of the Company.

The Committee reviews and discusses with management and the independent auditors the following:  
• quarterly financial statements and the annual audited financial statements of the Company, including the Company's specific disclosures

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included in Management's Discussion and Analysis of Financial Condition and Results of Operations; earnings releases and guidance provided to analysts and rating agencies; any major issues regarding accounting principles and financial statement presentations, including any significant changes in the Company's selection or application of accounting principles, and issues as to the adequacy of the Company's internal controls, including those related to cybersecurity, and any special steps adopted in light of material control deficiencies.

#### LIMITATION OF AUDIT COMMITTEE'S ROLE

While the Committee has the responsibilities and powers described above, it is not the duty of the Committee to plan or conduct audits or to determine that the Company's financial statements and disclosures are complete and accurate and are in accordance with generally accepted accounting principles and applicable rules and regulation. These are the responsibilities of management and the independent auditors.

#### MEETINGS STRUCTURE

The Committee may request that any Directors, officers, or employees of the Company, or other persons whose advice and counsel are sought by the Committee, attend any meeting of the Committee to provide such pertinent information as the Committee requests. Subject to any limitations set forth in the Corporate Governance Guidelines of the Company, the Committee may exclude from its meetings any persons it deems appropriate in order to carry out its responsibilities.

The Committee provides reports to the Board of Directors and keeps written minutes of its meetings. In connection therewith, the Committee reviews with the Board of Directors any issues that arise with respect to the quality or integrity of the Company's financial statements, the Company's compliance with legal or regulatory requirements, the performance and independence of the Company's independent auditors, or the performance of the internal audit function.

The Audit Committee has reviewed and discussed the audited financial statements with management of the Company and with the independent registered public accounting firm. Specifically, the Audit Committee has discussed with the independent registered public accounting firm the matters required to be discussed by the Public Company Accounting Oversight Board's Auditing AS 1301 (Communications With Audit Committees), as modified or supplemented. The discussions occurred with

management and the independent public accountants about the quality (and not merely the acceptability) of the Company's accounting principles, the reasonableness of significant estimates, judgments and the transparency of disclosures in the Company's consolidated financial statements.

The Audit Committee has also received written disclosures in a letter from the independent registered public accounting firm required by applicable requirements of the Public Company Accounting Oversight Board regarding the independent registered public accounting firm's independence, and has discussed with the independent registered public accounting firm their independence from the Company and its management. This review also includes discussions of audit and non-audit fees as well as evaluation of the Company's significant financial policies and accounting systems and controls.

The Audit Committee has also reviewed the independence of the independent registered public accounting firm considering the compatibility of non-audit services with maintaining their independence from the Company. Based on the preceding review and discussions contained in this paragraph, the Audit Committee recommended to the Board of Directors that the audited financial statements be included in the Company's Annual Report on Form 10-K for the year ended December 31, 2017, for filing with the Securities and Exchange Commission.

AUDIT COMMITTEE

Victor L. Lund, Chair

Alan R. Buckwalter

Clifton H. Morris, Jr.

Edward E. Williams

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## AUDIT COMMITTEE MATTERS

## Audit Fees and All Other Fees

The Audit Committee has adopted a policy that requires advance approval of all audit, tax services, and other services performed by the independent registered public accounting firm. The policy permits the Audit Committee to grant pre-approval for specifically defined audit and non-audit services. All of the fees set forth below were pre-approved by the Audit Committee.

	Audit fees <sup>1</sup>	Audit-related fees <sup>2</sup>	Tax <sup>3</sup>	All other fees <sup>4</sup>	Total
2017	\$5,720,298	\$ 332,000	\$63,000	\$4,000	\$6,119,298
2016	\$6,156,398	\$ 775,000	\$23,250	\$3,838	\$6,958,486

Fees associated with the annual audit of the Company's consolidated financial statements in Form 10-K and the effectiveness of the Company's internal control over financial reporting in accordance with Section 404 of the Sarbanes-Oxley Act, the reviews of the Company's quarterly reports on Form 10-Q, and fees related to statutory audits.

Audit-related fees in 2017 were primarily related to the review of the new revenue recognition accounting standard adopted by the Company on January 1, 2018 and the 2017 issuance of \$550.0 million 4.625% Senior Notes due December 2027. The 2016 fees were related to the Oracle implementation.

<sup>3</sup>Fees for tax services for 2017 and 2016 were related to LLC tax preparation.

<sup>4</sup>All other fees in both years were for research database licensing.

## COMPENSATION DISCUSSION AND ANALYSIS

### Proposal 3: Advisory Vote to Approve Named Executive Officer Compensation

Pursuant to SEC rules, we are asking shareholders to approve the compensation of our Named Executive Officers as disclosed in the Compensation Discussion and Analysis, the compensation tables, and any related material contained in this Proxy Statement. This proposal, commonly known as a “say-on-pay” proposal, gives shareholders the opportunity to endorse or not endorse our executive pay program and policies through the following resolution: “Resolved, that the shareholders approve the compensation of our Named Executive Officers, as disclosed pursuant to Item 402 of Regulation S-K, including the Compensation Discussion and Analysis, the compensation tables, and any related material contained in our Proxy Statement.”

The compensation of our executive officers is based on a program that ties a substantial percentage of an executive’s compensation to the attainment of financial and other performance measures that, the Board believes, promote the creation of long-term shareholder value and position the Company for long-term success. As described more fully in the Compensation Discussion and Analysis, the mix of fixed and performance-based compensation and the terms of annual and long-term incentive awards are all designed to enable the Company to attract and maintain top talent while, at the same time, creating a close relationship between performance and compensation. The Compensation Committee and the Board of Directors believe that the design of the program, and therefore the compensation awarded to Named Executive Officers under the current program, fulfills this objective.

Shareholders are urged to read this Compensation Discussion and Analysis section of this Proxy Statement, which discusses in detail how our compensation policies and procedures implement our compensation philosophy. Although the vote is non-binding, the Compensation Committee will review the voting results in connection with their ongoing evaluation of the Company’s compensation program. The Committee in recent years has considered the feedback from shareholders in making specific compensation plan changes. Our compensation plan was well received by our shareholders as reflected in our annual say-on-pay vote last year when over 90% of the shares voted were in favor of the Named Executive Officer compensation. Approval of this proposal is subject to the approval of a majority of the holders of shares of the Company’s common stock present in person or represented by proxy and entitled to vote at the Annual Meeting. Each holder of our common stock is entitled to one vote for each share held. Abstentions will have the same effect as a vote AGAINST this proposal. Broker non-votes are not counted.

The Board of Directors recommends a vote “FOR” advisory approval of the resolution set forth above.

#### Introduction

This Compensation Discussion and Analysis has been prepared by our management and reviewed by the Compensation Committee of our Board of Directors. This discussion provides information and context regarding the compensation paid to our Chief Executive Officer, Chief Financial Officer, and the other three most highly-compensated executive officers in 2017, all of whom are collectively referred to as the “Named Executive Officers”.

Our Named Executive Officers (NEOs) for 2017 were:

Thomas L. Ryan	Chairman of the Board and Chief Executive Officer
Michael R. Webb	President and Chief Operating Officer
Eric D. Tanzberger	Senior Vice President, Chief Financial Officer
Sumner J. Waring, III	Senior Vice President, Operations
Gregory T. Sangalis	Senior Vice President, General Counsel and Secretary

The Company's executive compensation policies are designed to provide aggregate compensation opportunities for our executives that are competitive in the business marketplace and that are based upon Company and individual performance. Our foremost objectives are to:

- align executive pay and benefits with the performance of the Company and shareholder returns while fostering a culture of highly ethical standards and integrity; and
- attract, motivate, reward, and retain the broad-based management talent required to achieve our corporate objectives.

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COMPENSATION DISCUSSION & ANALYSIS

Executive Summary

Our management has a strong focus on delivering long-term profitable growth and returning value to our shareholders. This long-term focus has contributed significantly to the Company's total shareholder return as seen below. Also below is an adjusted earnings per share graph and an adjusted operating cash flow graph representing the Company's 2017 performance.

2017 Company Performance

Adjusted Earnings Per Share and Adjusted Operating Cash Flow are non-GAAP financial measures. Please see Annex A for disclosures and reconciliations to the appropriate GAAP measure.

As detailed in the Q&A with our Chairman and CEO earlier in this Proxy Statement, the Company delivered outstanding financial results in 2017, including the following:

• Maintained our position as the largest provider in the Company's industry, with 15%-16% market share and \$3.1 billion in revenue.

• Increased adjusted earnings per share by approximately 20% compared to 2016.

• Adjusted operating cash flow excluding recurring cash taxes was approximately \$687 million, which is an 11% increase over the prior year.

• We deployed capital of \$402 million to acquisitions, dividends, and share repurchases.

• Achieved a total shareholder return (TSR) of 194% over the last five fiscal years, outpacing the return of the S&P 500 of 108%.

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COMPENSATION DISCUSSION & ANALYSIS

Key Features of Our Compensation Programs

Over the course of the past several years, acting in the interests of the stockholders, the Compensation Committee in conjunction with management has adjusted compensation programs toward greater performance-based compensation. In addition, we have collectively modified or eliminated certain components of our programs to better align

with prevailing standards. The following are highlights of our compensation programs, including our emphasis on pay commensurate with performance and actions taken to align aspects of our programs with evolving standards.

WHAT WE DO:

- ü We pay for performance. A significant portion of the compensation of our Named Executive Officers is directly linked to the Company’s performance, as demonstrated in the historical payouts related to our annual and long-term incentive plans.
- ü We require stock ownership. We maintain stock ownership guidelines for officers and Directors. Under the guidelines, an officer should retain all SCI stock acquired from grants of restricted stock and stock options (net of acquisition and tax costs and expenses) until that officer has met the stock ownership guidelines.
- ü We have claw-backs. The Company maintains claw-back provisions that are triggered in certain circumstances. If triggered, the provisions provide for a claw-back of annual performance-based incentives paid in cash, stock options, restricted stock, and performance units.
- ü We seek independent advice. We engage independent consultants to review executive compensation and provide advice to the Compensation Committee.
- ü We have an ongoing shareholder outreach program. As part of our commitment to effective corporate governance practices, we regularly engage with shareholders. We specifically discussed executive compensation along with other important topics (see page 9).

WHAT WE DON’T DO:

- X We do not allow tax gross-ups. We do not provide tax gross-ups in our compensation programs, and we do not have provisions in our executive employment agreements that provide for tax gross-ups in the event of a change of control of the Company.
- X We do not allow hedging or pledging. We have policies that prohibit officers and Directors from hedging or pledging their SCI stock ownership.
- X We do not allow the repricing of stock options. We have policies that prohibit subsequent alterations of stock option pricing.

Consideration of 2017 "Say-on-Pay" Vote

At our Annual Meeting of shareholders held on May 10, 2017, over 90% of the shares voted were in favor of the proposal for an advisory vote to approve Named Executive Officer compensation (“say-on-pay” vote) versus over 80% in favor in 2016. These votes represented a majority of our outstanding shares. The Compensation Committee believes this result is an indication that a substantial majority of our shareholders are satisfied with our executive compensation policies and decisions, and that our executive compensation program effectively aligns the interests of our Named Executive Officers with the interests of our shareholders.

In April and May of 2017, we engaged with shareholders representing approximately 44% of the Company’s common stock. We specifically discussed executive compensation programs and as a result of feedback received, we added a return on equity modifier to the total shareholder return metric for the performance unit plan beginning in 2018. We also changed the denomination of

the award to share units rather than cash units, which closer aligns our compensation plan to stock performance.

During this process, shareholders communicated support for the philosophy and compensation program and agreed that they are aligned with the Company's performance. The Compensation Committee considered results of the "say-on-pay" vote, shareholder feedback, input from its independent compensation consultants, and compensation benchmarking tools, in the context of the Committee's fiduciary duty to act on behalf of the shareholders' interests. We will continue to consider the outcome of our "say-on-pay" vote results when determining future compensation policies and pay levels for our Named Executive Officers.

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## COMPENSATION DISCUSSION & ANALYSIS

### Compensation Philosophy and Process

The Company's compensation philosophy as implemented through the Compensation Committee is to align executive compensation with the performance of the Company and the individual by using several compensation components for our executives.

Our overall compensation philosophy is to target our direct compensation for executives within a competitive range of benchmark pay levels of general industry companies (the "Peer Group" (see Annex B)), with opportunities to exceed the target direct compensation levels through annual performance-based incentives paid in cash and through long-term performance-based incentives paid in cash and stock. However, if performance targets are not met, then the resulting performance-based award payouts will be below target levels. We believe these target levels of direct compensation are appropriate to motivate, reward, and retain our executives, each of whom has leadership talents and expertise that make them attractive to other companies. In making annual compensation decisions, the Compensation Committee reviews each Named Executive Officer's total compensation, as well as the compensation components, for reasonableness and comparability to market levels and the prior year's compensation.

The compensation components are designed to motivate our senior leadership to operate as a team to achieve Company-wide goals. This approach serves to align the compensation of our most senior leadership team with the performance of the Company.

In the first quarter of each year, our independent consultant presents to the Compensation Committee comparative market information, including benchmarking data discussed below. For the Chairman and CEO, the Compensation Committee is exclusively responsible for the final determination of all components of compensation, but requests input and recommendations from Meridian. For other Named Executive Officers, the Compensation Committee receives additional recommendations from our CEO for all components of compensation. In the first quarter of each year, the Compensation Committee reviews the market data and recommendations and sets the compensation components of annual base salary, annual performance-based incentives, and long-term incentives for that year. Below is a graph aligning CEO pay and performance, using the five year total shareholder return.

## COMPENSATION DISCUSSION &amp; ANALYSIS

Below is an overview of SCI's elements of compensation and a graph showing the percentage of the total for each element.

Approximately 3/4ths of our NEOs' compensation is performance-based.

Element	Description	Objective	Recent Changes
Annual Base Salary page <a href="#">34</a>	Fixed cash element of compensation established within a competitive range of benchmark pay levels.	Serves to attract and retain executive talent and may vary with individual or due to marketplace competition or economic conditions.	Reduced peer group for 2016 benchmark studies.
Annual Performance-Based Incentive Compensation page <a href="#">34</a>	Performance-based element of compensation tied to the attainment of performance measures. Paid in cash.	Rewards achievement of shorter term financial and operational objectives that we believe are primary drivers of our common stock price over time.	For 2018, we have transitioned return on equity to a modifier for the performance unit plan under Long-Term Incentive Compensation.
Long-Term Incentive Compensation page <a href="#">36</a>	Stock Options – granted at an exercise price equal to 100% of the fair market value of SCI common stock on the grant date and vest at a rate of 1/3rd per year. Restricted Stock – awards are made in February each year at the same time as the stock option grants and vest at a rate of 1/3rd per year.	Rewards for the Company's stock price appreciation.  Supports retention and furthers stock ownership.	
	Performance Units – The performance unit plan measures the three-year total shareholder return ("TSR") relative to a comparator group of public companies (see Annex B).	Rewards for effective management of Company business over a multi-year period and delivering superior TSR.	>Reduced peer group for 2016 comparator group. >Added a return on equity modifier for 2018 awards. >Changed denomination to award in share units for 2018 awards.
Other Compensation page <a href="#">37</a>	Retirement Plans – Executive Deferred Compensation Plan and 401(k) Plan.  Perquisites and Personal Benefits – reasonable benefits as described on page 38.	Provide financial security for retirement.  To enhance executive performance by facilitating effective management of personal matters.	

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## COMPENSATION DISCUSSION &amp; ANALYSIS

## Annual Base Salaries

We target the base salary levels of our Named Executive Officers within a competitive range of benchmark pay levels defined in the competitive benchmarking study described on page 41. We believe these levels are appropriate to motivate and retain our Named Executive Officers, who each have leadership talents and business expertise that make them attractive to other companies. In addition, when adjusting salaries, we may also consider the

individual performance of the executive. The Compensation Committee made the adjustments reflected below based on consideration of benchmark pay levels for each executive and in recognition of the officers' strong performance during 2016. In the first quarter of 2017, the Compensation Committee made the following salary adjustments:

	2017	2016	Change	%	
	Salary	Salary		Change	
Thomas L. Ryan	\$1,200,000	\$1,200,000	\$	—	%
Michael R. Webb	750,000	750,000	—	—	%
Eric D. Tanzberger	600,000	550,000	50,000	9.1	%
Sumner J. Waring, III	570,000	550,000	20,000	3.6	%
Gregory T. Sangalis	480,000	480,000	—	—	%

## Annual Performance-Based Incentives Paid in Cash

We use annual performance-based incentives paid in cash to focus our executive officers on financial and operational objectives that the Compensation Committee believes are primary drivers of our common stock price over time. In the first quarter of 2017, the Compensation Committee established the performance measures as the basis for annual performance-based incentive awards for our Named Executive Officers. In addition, the Compensation Committee established an Umbrella Program as a gateway performance metric for certain incentives.

The Umbrella Program is designed to generate a performance-based bonus pool to fund award payouts based on the performance measures discussed below and to maximize the benefit of tax deductibility of the bonuses paid to our Named Executive Officers. The Compensation Committee set the funding for the bonus pool for 2017 as 3.0% of the Company's adjusted reported earnings before interest, taxes, depreciation and amortization calculated from the Company's financial statements, but only if the Company achieved adjusted reported earnings before interest, taxes, depreciation and amortization in excess of \$750 million for 2017. The Compensation Committee also established individual shares of the bonus pool for each

executive covered under the Umbrella Program, including each Named Executive Officer. Award amounts that may be paid under the Umbrella Program are subject to the Compensation Committee's authority to reduce, but not increase, the amount of the actual cash amount earned and payable to each designated participant. With regard to award amounts calculated under the performance measures discussed above, the Compensation Committee may elect to increase or decrease the award amount in its sole discretion; provided, however, that the amount determined under such performance measures shall not exceed the amount determined under the Umbrella Program. Further, in the event the amount calculated under such performance measures is lower than the amount calculated under the Umbrella Program, the Compensation Committee intends to reduce the amount payable under the Umbrella Program to not exceed the award amount calculated under such performance measures.

As a result of the Tax Act passed on December 22, 2017, we terminated the Umbrella Program for 2018. The target award opportunities for the Named Executive Officers for 2017 were as follows:

	Target Award Opportunity (% of Base Salary)	
Thomas L. Ryan	120	%
Michael R. Webb	100	%
Eric D. Tanzberger	80	%
Sumner J. Waring, III	80	%
Gregory T. Sangalis	70	%

We believe normalized earnings per share, free cash flow per share and return on equity drive the current

performance of the Company and enhances shareholder value. Comparable preneed cemetery property production

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COMPENSATION DISCUSSION & ANALYSIS

is a key driver of current performance, as we are generally able to recognize this revenue at the time of sale when the property is ready and available for use. While all other comparable preneed funeral and cemetery production is generally deferred and does not have an immediate impact on earnings, we believe such production is driving future market share growth, adding stability to our revenue stream, and creating value for our shareholders over the long-term. The 2017 performance measures discussed below are similar to the performance measures utilized in 2016:

Normalized Earnings per Share, which we calculate by applying a 36.6% effective tax rate to the Company's calculation of its reported diluted earnings per share and further adjusting to exclude the items listed below.

Normalized Free Cash Flow per Share, which we calculate by (1) adjusting reported cash flows from operating activities to exclude the cash impact of the items listed below, (2) deducting forecasted capital improvements at existing facilities and capital expenditures to develop cemetery property, (3) utilizing the forecasted amounts of cash taxes paid in 2017 that relate to normal operating activities, and (4) dividing the result by the reported diluted number of shares outstanding in 2017.