

SERVICE CORP INTERNATIONAL

Form DEF 14A

March 30, 2017

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

CHECK THE APPROPRIATE BOX:

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):

No fee required.

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2) Form, Schedule or Registration Statement No.:

3) Filing Party:

4) Date Filed:

Service Corporation International
Proxy Statement and
2017 Annual Meeting Notice

2016:
Delivering
Shareholder
Value

Total
Shareholder
Return

As of December 31, 2016 and includes reinvestment of dividends.

Source: S&P Capital IQ

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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2017 Annual Meeting of Shareholders

Wednesday,
 May 10,
 Date and Time: 2017 at 9:00
 a.m. Central
 Time
 Conference
 Place: Center,
 Heritage I
 and II
 Service
 Corporation
 International
 1929
 Allen
 Parkway
 Houston,
 Texas
 77019
 Record Date: March 13,
 2017

Voting Matters

| Proposal | Board Recommendation | Page Number |
|--|----------------------------|-------------|
| 1. Election of three Directors | üFOR each Director nominee | <u>14</u> |
| Approval of appointment of PricewaterhouseCoopers LLP, our independent registered public accounting firm | üFOR | <u>27</u> |
| 2. "Say-on-Pay" advisory vote to approve executive compensation | üFOR | <u>29</u> |
| 3. Frequency on "Say-on-Pay" vote | üFOR ANNUAL VOTE | <u>55</u> |
| 4. Approval of the Amended and Restated 2016 Equity Incentive Plan | üFOR | <u>56</u> |
| 5. Shareholder proposal to require an Independent Board Chairman | ûAGAINST | <u>66</u> |
| 6. Shareholder proposal to adopt simple majority voting | ûAGAINST | <u>69</u> |

How to Vote
By Internet

Vote your shares at www.proxyvote.com.

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

For 2017, we created an annual meeting website to make it even easier to access our annual meeting materials. At the annual meeting, you will find an overview of the items for voting, our proxy statement and annual report to read online or to download, and a link to vote.

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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
2016.

What are Service Corporation International's strategies for growth?

We have a three-pronged strategy for long-term growth that is centered on the consumer and our competitive advantages: Grow Revenue, Leverage Scale, and Capital Deployment.

Grow Revenue. I believe the biggest challenge we face today in growing revenue is remaining relevant in the eyes of our consumers. The industry is continuing to change, as it's influenced by the Baby Boomer generation. It's shifting to an experience and a focus on service rather than product offerings. Cremation continues to grow, so we are developing products and services that align with those preferences and continue to expand our footprint that serves the direct cremation consumer through our non-funeral home channel, SCI Direct. In our cemeteries, we continue to have a tiered inventory strategy that meets the needs of all our consumers, including ethnic and religious preferences. Additionally, time management--people are in a hurry. We've got to find a way to help our consumers make decisions that they're comfortable with in a timely manner.

Lastly, driving preneed sales fuels our future growth. This is where I think we have a game changing opportunity to get a differential share of the market because of our size and scale. In 2016, we sold more than \$1.6 billion in preneed funeral and cemetery sales bolstering this position.

Leverage Scale. Our second strategy is leveraging scale, or as I like to say "why be big?" We continue to leverage our unparalleled scale by optimizing our network and driving down costs through supply chain management. We are investing in our preneed sales program, including accessing the premier financial partners in our industry to manage our \$10 billion backlog of future funeral and cemetery revenue. We are also investing in best-in-class technology for our sales organization to enhance productivity.

Capital Deployment. Our third core strategy for long-term growth is maximization of capital deployment opportunities. Due to the stability of our cash flow generated from operations and our substantial amount of liquidity, we were able to deploy a significant amount of capital to grow the business and to return value to our shareholders in 2016. For the year, we invested \$73 million in acquisitions (including Section 1031 exchange funds), \$228 million in share repurchases, and \$98 million in dividends. We will continue this disciplined capital deployment approach to target the best total return for our shareholders and deploy capital towards the highest relative return opportunity.

Q&A WITH OUR CHAIRMAN AND CEO

What differentiates Service Corporation International from other companies?

As the predominant player in a highly fragmented industry, our estimated 16% revenue market share in North America is about ten times greater than any other consolidator in our industry. Approximately 80% of the industry consists of independently-owned operators.

Our funeral service and cemetery operations consist of funeral service locations, cemeteries, funeral/cemetery combination locations, crematoria, and other related businesses. Within our operating segments, we have a diverse set of revenue streams including retail merchandise sales, consumer services, and real estate operations. We have differentiated our operations by diversifying across a wide range of consumer preferences. We place a high emphasis on the consumer who is focused on ethnic traditions and cultural preferences, which are represented through our various Dignity Memorial® providers. We also continue to invest and expand in SCI Direct, which is predominately focused on the cremation consumer.

Unlike many retailers and service providers, who provide merchandise and services in a short time frame, we have \$1.6 billion annually in preneed sales that are substantially deferred to our growing backlog, which ended the year at \$10 billion. Preneed sales allow consumers to express their wishes about their funeral and cemetery arrangements at a convenient time, relieving their loved ones of these emotional and financial decisions at the time of need. These preneed sales help to increase our future market share by creating a relationship with the customer, who will use our services at the time of need, which is also when the revenue will be recognized.

We have sometimes been compared to retailers and service providers that are asset light. However, we are asset rich due to:

The trust assets, which are not available for use in our business until we provide services or merchandise to our customers. Accounting rules require us to put these assets on our balance sheet, supporting our backlog of preneed contracts and perpetual care obligations.

Our cemetery operations, which by their nature require us to maintain significant land available for future sales.

Our funeral operations (83% of the real estate is owned by us) reflect significant investments in buildings and land.

Annually, the Compensation Committee selects our peer group by employing compensation experts to help with the process, looking at not only revenue size but also enterprise value and business characteristics. Due to the unique nature of our industry, and our differentially large size in comparison to other publicly-traded companies in the industry, our peer group encompasses diverse industries.

How has the business performed over the last 12 months?

In 2016, adjusted earnings per share grew 9%, in line with our earnings growth framework.

Our performance in 2016 reflected continued momentum in preneed cemetery sales, which grew by almost 5% for the year. We continued to execute on our preneed sales strategy by

investing in our sales teams and the tools we utilize to improve our productivity and enhance the customer-facing experience. We also invested in developing our cemetery properties with a broad array of tiered product options.

As anticipated, our core funeral revenue was challenging to grow, with tough year-over-year comparisons to 2015 in the first three quarters of 2016. However, a bright spot to temper this challenge has been impressive growth in our recognized preneed revenue. Additionally, throughout the year, our operating teams have done a great job of improving efficiency and managing costs. We also continued to grow our funeral preneed backlog, posting a 4% growth in preneed funeral sales for the year, as we utilize technology to remain more relevant to our employees as well as our consumer audience.

Excluding cash tax payments, our adjusted operating cash flow increased 2%, primarily as a result of higher earnings particularly associated with increased cemetery profits, lower

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Q&A WITH OUR CHAIRMAN AND CEO

cash interest, and higher installment cash receipts from prior preneed cemetery sales.

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.

Can you talk about the Company's emphasis on return on equity?

Return on capital deployed is an important concept for us. While we have evaluated both return on assets and return on invested capital, we ultimately concluded that return on equity is a more appropriate measure for us due to the unique nature of our balance sheet.

Specifically, we include \$4.3 billion of preneed trust assets and related trust receivables on our balance sheet where the associated revenue is deferred and does not benefit earnings for an average of 10-12 years. These assets are not available for use in our business until we provide services or merchandise to our customers. Our balance sheet also contains \$1.4 billion of perpetual care trust assets, which are created with the purpose

of generating income to mitigate the costs of maintaining cemetery grounds and property into perpetuity. SCI has very restricted access to the corpus of these funds. We use a normalized return on equity target as a component of senior management's annual incentive compensation, along with targets for normalized earnings per share, normalized free cash flow per share, and preneed sales production growth.

We believe it is important to align annual performance with a focus on driving superior shareholder return. For further information about our incentive compensation programs, please go to page 32.

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Q&A WITH OUR CHAIRMAN AND CEO

How is the Company utilizing technology to grow revenue or improve efficiencies?

We have a number of initiatives designed to help our Company grow revenue and help our associates perform more efficiently.

HMIS+. HMIS+ is an in-house designed application that modernizes the atneed arrangement process. The platform utilizes high resolution images and embedded video, allowing the customer to better envision the offerings we provide. It also enables our arrangers to follow an efficient process flow in a streamlined and simplified manner. When HMIS+ is utilized, the results indicate a higher sales average and, even more importantly, higher customer satisfaction ratings. The rollout of HMIS+ was largely completed in 2016.

Salesforce.com. Since our adoption and implementation of Salesforce as our customer relationship management system, we have experienced meaningful improvement in counselor effectiveness and efficiency. Using Salesforce data and analytics, we are able to drive key activities and selling behaviors, which lead to more successful outcomes.

Preneed Sales Enablement Platform. We piloted during 2016 and anticipate the launch of our new sales

enablement platform for preneed sales by mid to late 2017. Utilizing contemporary tablet technology, this tool will provide our counselors the ability to present, select, and finalize preneed arrangements and deliver an electronic contract in the comfort and privacy of the consumer's home.

Cemetery Flower Placement Program. In 2017, we are launching our cemetery flower placement service utilizing a direct-to-customer portal. This will be a customer-focused service that sets us apart from other cemetery operators.

Websites. In 2017, we will launch newly redesigned, contemporary websites for our approximately 1,800 Dignity Memorial locations. The newly designed websites will provide a mobile-enabled interface, a modern underlying architecture, a more engaging obituary experience, and will be designed to improve ranking in web search results.

What accomplishment are you most proud of in 2016?

What I am most proud of in 2016 is the recognition by J.D. Power of our commitment to service excellence. We know our success is dependent on building a culture of consistent, high quality, customer satisfaction and enduring customer relationships. In 2016, we were honored to receive the J.D. Power President's Award in recognition of our dedication to service excellence. SCI and its family of brands including Dignity Memorial® join an exclusive group of only twelve other companies to receive this esteemed award in J.D. Power's 47-year history. I am immensely proud of the great service our associates provide every day, and I am honored to be part of such a warm and caring organization.

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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 2016.

2016 Company Performance

We are fully committed to helping SCI deliver excellent operating results and create attractive shareholder returns. The Company's performance in 2016 resulted in increased adjusted earnings per share and long-term growth in return on equity. We delivered total shareholder return of 11%, which is in line with

the S&P 500 return of 12%. Over the medium to long term (3 to 10 years), we continue to significantly outperform the major indices. As we look ahead to 2017, our focus continues to be on enhancing shareholder value.

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MESSAGE FROM OUR BOARD OF DIRECTORS

2016 Company Performance and Compensation Alignment

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 80% of the votes cast, an increase from 75% in the prior year. In this 2017 Proxy, we have provided further disclosure and graphics to support and clarify the alignment of pay and performance (beginning on page 29 in our Compensation Discussion and Analysis). We believe that over 70% of our executive officer compensation is performance based when including long-term incentive compensation and the annual performance-based incentive compensation.

During 2016, the Company and Meridian, our compensation consultant, proactively engaged with proxy advisors who represent the interests of our shareholders. Meridian held a telephonic meeting with Institutional Shareholder Services, Inc. (ISS) and SCI senior management met with Glass Lewis in person. Topics discussed in those meetings included incentive compensation plans, peer group selection, and the calculation of return on assets for our Company. The Compensation Committee is confident that the metrics chosen and the peer group selected are the most appropriate for the Company.

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

Board Leadership Structure

In 2016, Tom Ryan was appointed Chairman of the Board following in the footsteps of founder, Robert L. "Bob" Waltrip. With this structural change, we appointed a Lead Independent Director to strengthen and optimize the independence of the Board. Effective January 1, 2016, Tony Coelho assumed the position of this newly created role. Mr. Coelho is very well respected by his fellow Directors and has all the necessary skills, expertise, and experience to be an effective independent leader. We believe this arrangement of having a strong Lead Independent Director combined with the leadership of our Chairman and CEO is in the best interests of SCI and its shareholders at this time. This structure is further enhanced by the fact that our Audit, Compensation, and Nominating and Corporate Governance Committees are comprised entirely of independent Directors.

We believe that 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. We believe 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 death care industry. We believe that Tom Ryan, as an experienced leader with extensive knowledge of the Company, serves as a highly effective bridge between the Board and management and provides the vision and leadership to execute on the Company's strategies and to create shareholder value.

Board Recruitment

Board recruitment and diversity are priorities for us. In 2015, we added a new member, Dr. Ellen Ochoa. We continue to focus on creating a balanced Board with diverse viewpoints,

backgrounds, and expertise. Our Board will continue to positively evolve as we maintain a long-term approach to board refreshment.

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MESSAGE FROM OUR BOARD OF DIRECTORS

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 stockholders

Consult with committee chairpersons

Communicating Your Viewpoints with the Board

We welcome your feedback. Shareholders and other interested parties may communicate with our 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,

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 Board appointed Tom Ryan as Chairman of the Board.

• The Board appointed Tony Coelho to the newly created role of Lead Independent Director to strengthen and optimize the independence of the Board.

• Marcus Watts succeeded Tony Coelho as Chair of the Nominating and Corporate Governance Committee.

• We reduced the number of companies in our peer group used for benchmark studies and the long-term performance units plan based on total shareholder return (TSR Performance Units) for 2016.

• During 2016, SCI and Meridian engaged with Institutional Shareholder Services (ISS) to discuss the metrics used in their report. We also had a face-to-face meeting with Glass Lewis to discuss concerns with their peer group selection (previously a majority of restaurants) as well as suggested adjustments to their

calculation of Return on Assets to remove our trust assets. Those assets are not available for use in our business until we provide services or merchandise and are unique to our industry (we have \$5.7 billion of trust assets and related trust receivables on the balance sheet as discussed on page 4).

• The Board approved an adjustment to the Board of Director's compensation program to address the changing regulatory environment, the enhanced role for Board committee leadership, and respond to feedback from our compensation consultant. The compensation changes will be effective August 1, 2017, with the change in total stock grants effective May 2018. See page 26 for details for the Director compensation changes.

• We continue to make enhancements to the format and content of our proxy statement to provide a clear and detailed overview of topics important to our shareholders.

| Feature | Detail | Further Information (page) |
|--------------------------------|---|----------------------------|
| | 11 directors, 8 independent directors | <u>19</u> |
| Board independence | Strong Lead Independent Director, newly created role in 2016 | <u>6, 19</u> |
| | Independent Audit, Compensation, and Nominating and Corporate Governance Committees | <u>21</u> |
| | Regular meetings of Independent Directors | <u>21</u> |
| Board effectiveness | Board evolution | <u>11</u> |
| | Annual Board and Committee evaluation process | <u>20</u> |
| | Board orientation and education program | <u>20</u> |
| Shareholder rights | Shareholder questions and concerns are communicated to and considered by the Board | <u>10</u> |
| | Annual "Say-on-Pay" vote | <u>31</u> |
| | No shareholder rights plan or "poison pill" | <u>19</u> |
| | Shareholder ability to call special meetings | <u>20</u> |
| Corporate governance practices | Majority voting standard in Director elections | <u>14</u> |
| | Anti-hedging and anti-pledging policies applicable to all officers and Directors | <u>31, 39</u> |
| | Claw-back policy applicable to all officers | <u>31, 39</u> |
| | Stock ownership and retention guidelines for Directors and officers | <u>18, 39</u> |

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PROXY STATEMENT SUMMARY

Shareholder & Proxy Advisor Outreach

We regularly communicate with a large portion of shareholders throughout the year to solicit feedback on key business and corporate governance topics. Additionally, beginning in 2015, we began a process of conducting formal interviews prior to our annual meeting with our top shareholders to assess our corporate governance practices, including executive compensation programs. In 2016, we engaged with shareholders representing approximately 44% of the Company's common stock. We specifically discussed executive compensation, key corporate governance topics, and other issues important to our shareholders. The feedback received was reviewed by the Board and used to enhance our compensation programs. Furthermore, we received positive feedback for the enhancements made to our proxy statement last year. We continue to make improvements to the format and content in this year's proxy statement to provide a clear and detailed overview of topics that we believe are important to our shareholders.

During 2016, we also proactively engaged with proxy advisors who represent the interests of certain of our shareholders. SCI and our compensation consultant contacted Institutional Shareholder Services, Inc. (ISS) regarding various elements of their initial report, which resulted in a revised report and a favorable recommendation of our Equity Incentive Plan. Additionally, we had a face-to-face meeting with Glass Lewis to discuss concerns with their peer group selection as well as their calculation of Return on Assets (ROA) for our Company. We recognize

identifying a peer group for SCI is difficult due to the unique nature of our business and no "true" industry peers. We do not believe the peer group used last year by Glass Lewis consisting of 67% restaurants was an appropriate comparison. These companies generally do not have a sales-centric focus like our preneed programs and several of the business models are asset light, while we are asset rich. We requested that consideration be given to a larger peer group of diversified companies of similar size in revenue, market capitalization, and enterprise value. In terms of a ROA metric, we have consistently argued that adjustments should be made for the unique nature of trust assets on our balance sheet. We have \$5.7 billion of trust assets that are not available to use in our business until we provide services or merchandise as discussed on page 4. Therefore, when calculating ROA for our Company, we believe it is appropriate to adjust for these very unique assets that are easily identifiable on our balance sheet for ease of calculation.

We believe it is important to proactively ENGAGE our shareholders, using a COLLABORATIVE approach, and then COMMUNICATE the feedback to our Board to enhance our corporate governance practices.

| Key Highlights | Reference |
|------------------------|--|
| Executive Compensation | <p>We have reduced the number of companies and provided more insight into the peer group we use for our long-term performance unit plan that is linked to a total shareholder return. <u>41</u></p> <p>We have clarified our disclosures around performance metrics. <u>2, 29</u></p> <p>We have further illustrated our alignment of pay and performance. <u>32</u></p> |
| Board-Related | <p>Board composition and refreshment remains a priority for us. In 2015, we added a new member, Dr. Ellen Ochoa, to our board. <u>11</u></p> <p>We have made changes to the Director's compensation. <u>25</u></p> <p>We have highlighted the evolution of our Board. <u>11</u></p> |
| Accounting White Paper | <p>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. You can view the white paper at http://Investors.sci-corp.com under Featured Documents</p> |

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.

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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 reviews and makes recommendations to the Board's leadership structure as evidenced by the nomination of Dr. Ellen Ochoa for election to the Board in 2015.

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).

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.

Director Age

The average age of our Board is 69. We believe this gives our Board a unique perspective and understanding 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.

96% Meeting Attendance in 2016

Personal Qualities

Importantly, 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.

Board Evolution since 2012

ü Appointed new Chairman

ü Reallocation of committee composition

ü Appointed Lead Independent Director

ü Enhanced qualifications and diversity represented on the Board

ü Added two new Directors

PROXY STATEMENT SUMMARY

Director Nominees

| Name Occupation | Independent | Age | Director Since | Other Public Boards* | Board Committee Composition | | | | |
|---|-------------|-----|-------------------|----------------------------|-----------------------------------|---|---|----------|---|
| | | | | | A | C | E | N& CG | I |
| Thomas L. Ryan Chairman and CEO, Service Corporation International | NO | 51 | 2004 | 2 | | | | C | |
| Clifton H. Morris, Jr. Chairman and CEO of JBC Funding, a corporate lending and investment firm | YES | 81 | 1990 | None | | | | | |
| W. Blair Waltrip Independent consultant, family and trust investments, and former senior executive of the Company | NO | 62 | 1986 | None | | | | | |

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 | 70 | 2003 | None | | | | C | |
| Anthony L. Coelho Former Majority Whip of the U. S. House of Representatives Independent business and political consultant | YES | 74 | 1991 | 2 | | | | | |
| Victor L. Lund President and CEO, Teradata | YES | 69 | 2000 | 1 | | | | C | |
| John W. Mecom Independent businessman who bought, developed, managed, and sold a variety of real estate and other business interests | YES | 77 | 1983 | None | | | | | |
| Ellen Ochoa Director, NASA Johnson Space Center | YES | 58 | 2015 | None | | | | | |
| R. L. Waltrip Founder and Chairman Emeritus, Service Corporation International | NO | 86 | 1962 | None | | | | | |
| Marcus A. Watts President, The Friedkin Group, an umbrella company overseeing various business interests that are principally automotive related | YES | 58 | 2012 | None | | | | | C |
| Edward E. Williams Professor Emeritus of Entrepreneurship, Rice University, Doctorate in Finance and Accounting | YES | 71 | 1991 | None | | | | | C |

A: Audit Committee
C: Compensation Committee
E: Executive Committee
N&CG: Nominating & Corporate Governance Committee

I: Investment Committee

* See Director Bios on pages 14 to 17, which details other public Boards for each Director.

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PROXY STATEMENT SUMMARY

Overview of Director Skill 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. Directors who have served as CEO or in a senior leadership position are important to us, as they have the experience and perspective to analyze, shape, and oversee the execution of key operational and strategic initiatives.

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. We use a broad set of financial metrics to measure our operating and strategic performance. Directors who have financial experience can assist us in evaluating our performance, and can provide guidance on financial reporting and internal controls, as well as capital structure and financing activities.

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 | Lund | Mecom | Morris | Ochoa | Ryan | R.L. Waltrip | W.B. Waltrip | Watts | Williams |
|----------------------------------|------------|--------|------|-------|--------|-------|------|--------------|--------------|-------|----------|
| CEO Experience/Senior Leadership | | | ü | | ü | ü | ü | ü | | | |
| Industry | | | | | ü | | | ü | ü | | ü |
| Financial | ü | ü | ü | | ü | | | | | | ü |
| Marketing/Brand Management | | | | ü | | | | | | ü | |
| Investments/Financial Services | ü | ü | | | | | | | ü | | ü |
| Real Estate | | | | ü | | | ü | | | | |
| Technology or e-Commerce | | | ü | | | ü | | | | | |
| Business Development/M&A | ü | | | ü | | | ü | ü | ü | ü | |
| Government/Legal | | ü | | | | | ü | | | ü | |

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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 consist of eleven members and will be divided into three classes, each with a staggered term of three years. At this year's Annual Meeting, shareholders will be asked to elect three Directors to the Board with three-year terms expiring in 2020.

Set forth below are profiles for each of the three candidates nominated by the Nominating and Corporate Governance Committee of the Board of Directors for election by shareholders at this year's Annual Meeting. Directors are elected by a majority of votes cast.

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

| | | | |
|-------------------------------|--|---|--|
| <p>Thomas L. Ryan</p> | <p>Non-Independent Director Since: 2004</p> <p>Occupation Chairman (since 2016) and CEO (since 2005) of SCI</p> <p>Prior Business Experience President, SCI (2002-2015) CEO European Operations, SCI (2000-2002) Variety of financial management roles, SCI (1996-2000)</p> | <p>Age: 51</p> <p>If Elected Term Expires: 2020</p> <p>Current Public Company Boards Weingarten Realty Investors Chesapeake Energy</p> <p>Other Positions 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>Primary Qualifications: Past Public Company Boards Texas Industries Education University of Texas at Austin</p> |
| <p>Clifton H. Morris, Jr.</p> | <p>Independent Director Since: 1990</p> <p>Occupation Chairman and CEO of JBC Funding, a corporate lending and investment firm</p> <p>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)</p> | <p>Age: 81</p> <p>If Elected Term Expires: 2020</p> <p>VP of Treasury and other financial positions at SCI (1966-1971)</p> <p>Other Positions CPA, 55 years Lifetime member of the Texas Society of Certified Public Accountants Honorary member of the American Institute of Certified Public Accountants of Texas</p> | <p>Primary Qualifications: Past Public Company Boards AmeriCredit Corp. Cash America International Education University of Texas at Austin</p> |

CORPORATE GOVERNANCE AT SERVICE CORPORATION INTERNATIONAL

| | | | |
|---|--|--|--|
| <p>W. Blair Waltrip</p> | <p>Non-Independent Director Since: 1986 Age: 62</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>If Elected Term Expires: 2020</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:</p> <p>Education Sam Houston State University</p> |
| <p>Continuing Directors Alan R. Buckwalter</p> | <p>Independent Director Since: 2003 Age: 70</p> <p>Occupation Former Chairman and CEO, Chase Bank of Texas</p> <p>Prior Business Experience Chairman, J.P. Morgan Chase Bank, South Region (1995-2003) President of Texas Commerce Bank (1990-1995) Held various positions in Chemical Bank in corporate division (1970-1990)</p> | <p>Term Expires: 2019</p> <p>Other Positions Board member, Texas Medical Center Chairman Emeritus and Board member, Central Houston, Inc.</p> | <p>Primary Qualifications: Past Public Company Boards Freeport-McMoRan, Inc. (2013-2015) Plains Exploration and Production (2003-2013); subsequently acquired by Freeport-McMoRan, Inc.</p> <p>Other Prior Positions Board of Directors, Federal Reserve Bank of Dallas (Houston Branch)</p> <p>Education Fairleigh Dickinson University</p> |
| <p>Anthony L. Coelho</p> <p>Lead Independent Director</p> | <p>Independent Director Since: 1991 Age: 74</p> <p>Occupation Former Majority Whip of the U.S. House of Representatives Independent business and political consultant</p> <p>Prior Political Experience Chairman of the President's Committee on Employment of People with Disabilities (1994-2001)</p> | <p>Term Expires: 2018</p> <p>Majority Whip (1987-1989) Member of U.S. House of Representatives (1978-1989); original sponsor/author of the Americans With Disabilities Act</p> <p>Prior Business Experience President/CEO of Wertheim Schroder</p> | <p>Primary Qualifications: Select Past Public Company Boards Chairman, Cyberonics Chairman, Circus Enterprises (now MGM Mirage) Chairman, ICF Kaiser International, Inc.</p> <p>Other Positions</p> |

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| | | |
|---|---|---|
| General Chairman of Al Gore Presidential campaign (1999-2000) | Financial Services, grew \$800 million firm to \$4.5 billion in 6 years (1990-1995) | Board member, Esquire Bank |
| | Current Public Company Boards | Former Chairman and current Board member of the Epilepsy Foundation |
| | Warren Resources, Inc. | Education |
| | AudioEye, Inc. | Loyola University Los Angeles |

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CORPORATE GOVERNANCE AT SERVICE CORPORATION INTERNATIONAL

| | | |
|---|--|---|
| Victor L. Lund | Independent Director Since: 2000 Age: 69 Term Expires: 2019 | Primary Qualifications: |
| Occupation President and CEO (May 2016) Teradata Corporation | 22-year career with American Stores Company in various positions including Chairman, CEO, CFO and Corporate Controller 1977-1999 Audit CPA, Ernst & Ernst 1972-1977 Current Public Company Teradata Corporation, an information technology company | Past Public Company Boards DemandTec Delta Airlines Del Monte Foods, Inc. Mariner Healthcare, Inc. Albertsons, Inc. American Stores Company NCR Corporation Education The University of Utah MBA The University of Utah |
| Prior Business Experience Chairman, DemandTec, a software company (2006-2012) Chairman, Mariner Healthcare, Inc. (1999-2002) Vice Chairman, Albertsons, Inc. (1999-2002) | | |
| John W. Mecom, Jr. | Independent Director Since: 1983 Age: 77 Term Expires: 2019 | Primary Qualifications: |
| Occupation Independent businessman who bought, developed, managed and sold a variety of real estate and other business interests | Chairman, John W. Mecom Company, primarily an oil and gas company (1976-2003) Owner of New Orleans Saints NFL team (1967-1985) Owner of Mecom Racing Team, which managed several Formula One racing teams - Indianapolis and Cam Am Series (1960-1967) Hotel management, Houston International Hotels and Preferred Hotels Organization (1964-1985) | Education University of Oklahoma |
| Prior Business Experience Principal owner, John Gardiner's Tennis Ranch (2000-2011) Owner, Rhino Pak, a contract blender and packer for the petroleum industry (2003-2007) | | |
| Ellen Ochoa | Independent Director Since: 2015 Age: 58 Term Expires: 2019 | Primary Qualifications: |
| Occupation Director of NASA Johnson Space Center (since 2013) | Researcher, Sandia National Laboratories (1985-1988), investigated optical systems for performing information processing Other Positions | Fellow, American Association for the Advancement of Science Director Emerita, former Vice Chair, Manned Space Flight Education Foundation |
| Prior Business Experience Government Executive, Astronaut at NASA Johnson Space Center (1990-2012); first Hispanic female astronaut with | | |

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|---------------------------------|----------------------------|------------------------|
| nearly 1,000 hours in space | Member, Board of | Former Board of |
| Branch Chief and research | Directors, Federal Reserve | Trustees, Stanford |
| engineer, NASA Ames Research | Bank of Dallas | University |
| Center (1988-1990), led a group | Member, National Science | |
| working primarily on optical | Board | Education |
| systems for automated space | Chair, Nomination | San Diego State |
| exploration | Committee, National Medal | University |
| | of Technology & Innovation | MS, PhD (Electrical |
| | Fellow, American Institute | Engineering), Stanford |
| | of Aeronautics and | University |
| | Astronautics | |

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CORPORATE GOVERNANCE AT SERVICE CORPORATION INTERNATIONAL

| | | |
|---|--|--|
| <p>R.L. Waltrip</p> | <p>Non-Independent Director Since: 1962 Age: 86 Term Expires: 2018</p> | <p>Primary Qualifications:</p> |
| <p>Occupation Founder and Chairman Emeritus, SCI (since 2016)</p> | <p>Introduced M&A to the industry which changed the industry forever. As a result, he is the best known and highest regarded leader in the industry.</p> | <p>Other Positions Chairman, Board of Trustees,</p> |
| <p>Prior Business Experience Chairman of SCI (1962-2015) CEO of SCI (1969-2005) Founded SCI in 1962, took the company public in 1969</p> | <p>The network he began has now grown to more than 2,000 funeral service locations and cemeteries</p> | <p>National Museum of Funeral History</p> |
| <p>Started with family funeral business in the 1950's; acquired additional funeral homes in the 1960's; pioneered the clustering concept/efficiencies of scale in the funeral industry</p> | <p>Select Past Public Company Boards Cash America International Tankology Environmental, Inc.</p> | <p>Education University of Houston</p> |
| <p>Marcus A. Watts</p> | <p>Independent Director Since: 2012 Age: 58 Term Expires: 2018</p> | <p>Primary Qualifications:</p> |
| <p>Occupation President, The Friedkin Group (since 2011), an umbrella company overseeing various business interests that are principally automotive related</p> | <p>Current Board Positions Board Chair, Federal Reserve Bank of Dallas (Houston Branch) Board member, Highland Resources, Inc. (private real estate company)</p> | <p>Other Positions Chairman, Board of Trustees, United Way of Greater Houston Vice Chairman, Greater Houston Partnership</p> |
| <p>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</p> | <p>Past Public Company Boards Complete Production Services, Inc. (2007-2012) acquired by Superior Energy Services Cornell Companies (2001-2005)</p> | <p>Board member, Houston Ballet</p> |
| <p>Education Texas A&M University Harvard Law School</p> | | |
| <p>Edward E. Williams</p> | <p>Independent Director Since: 1991 Age: 71 Term Expires: 2018</p> | <p>Primary Qualifications:</p> |
| <p>Occupation Professor Emeritus of Entrepreneurship (since 2014),</p> | <p>Prior Business Experience Founder and CEO, First Texas Venture Capital</p> | <p>Author or co-author of 12 books and over 50</p> |

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| | | |
|------------------------------------|-----------------------------|---------------------|
| Rice University, Houston, TX | Corporation (1983-1992) | scholarly articles |
| | Texas Capital Investment in | |
| Prior Academic Experience | Advisors, Inc. (1980-1995) | Entrepreneurship, |
| Henry Gardiner Symonds | Trust Corporation | Finance, |
| Professor, Professor of Statistics | International (1979-1986) | Economics, and |
| and Administrative Science | | Accounting |
| (1978-2014) | Other Academic Experience | including seminal |
| Founded Rice University's | 2016 Entrepreneurship | critical analyses |
| Entrepreneurship program in | Educator of the Year Award, | of the Efficient |
| 1978, now one of the top such | lifetime award presented by | Market |
| programs in the world | the U.S. Association for | Hypothesis |
| Associate Professor of Finance | Small Business and | (initiated 45 years |
| McGill University (1970-1973) | Entrepreneurship | ago) |
| Assistant Professor of | | |
| Economics, Rutgers | | Education |
| University | | Wharton |
| (1968-1970) | | School, |
| | | University of |
| | | Pennsylvania |
| | | PhD, (Finance |
| | | and Accounting) |
| | | University of |
| | | Texas at Austin |

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 30,000 shares of SCI common stock within five years of the Director's initial election to the Board. Dr. Ellen Ochoa recently became a member of

the Board in 2015. All other members of the Board are well above the minimum guideline. The following graphic presents the current holdings, excluding stock options, for our Directors as of March 13, 2017. (Further details are provided in the footnotes to 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 date of the Company's Proxy Statement for the prior year's 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 a recommendation to the full Board as to the persons who should be nominated by the Board, and 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 Committee considers diversity of experience, education, skills, background, and other factors in the evaluation of prospective nominees. The Guidelines 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

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 an executive officer, R.L. Waltrip.

Change in Leadership Structure

Effective January 1, 2016, we implemented a new leadership structure. After 53 years, R.L. Waltrip stepped aside as Chairman and the Board appointed current CEO,

Tom Ryan, as Chairman. Simultaneously, the Board appointed Tony Coelho as Lead Independent Director in a newly created role.

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 death care 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. The Nominating and Corporate Governance Committee compiles risk assessments of the other committees and of management and annually provides enterprise risk management reports to the Board.

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 let the shareholder rights plan expire in July 2008 and has not implemented another shareholder rights plan.

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, by the Chief Executive Officer, or by the President.

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 95% attendance and each individual committee meeting in 2016 had 94% and higher attendance by the relevant Directors.

% = percentage of meetings attended by SCI Directors

* = There were no material issues or circumstances in 2016 that required an Executive Committee meeting.

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 and attendance at meetings of committees of which the newly elected Director is not a member, so as 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

concerns that 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.

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 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 2016: Seven

"The engagement of our Audit Committee is critical to managing the evolving risk profile and regulatory environment in which we operate."

Victor L. Lund

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

Financial reporting activities and disclosure matters

Audit Committee in 2016

The Audit Committee met seven times in 2016, 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 reviews the documents in depth as well as reviews 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 and also meets regularly with individual members of management to discuss relevant matters. The Committee also 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 27.

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 2016: Five

“Through our ongoing shareholder engagement, we received feedback that our shareholders favor incentive compensation tied to specific performance measures that are aimed at driving long-term performance and value creation. We believe the long-term incentives for our executive officers align with this philosophy.”

Alan R. Buckwalter

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 2016

The Compensation Committee met five times in 2016, and each member of the Committee attended all of its meetings. The Committee devoted substantial time in its oversight of SCI's compensation programs, particularly setting compensation for our newly appointed Chairman and our Founder and Chairman Emeritus, and narrowing the benchmark peer group used for SCI's long-term performance units plan. As part of this process, the Committee spent considerable time reviewing feedback received from shareholders about SCI's compensation programs. The Committee's review of executive compensation matters and its decisions, including changes made in response to input from our shareholders, is discussed in the Compensation Discussion and Analysis beginning on page 29.

CORPORATE GOVERNANCE AT SERVICE CORPORATION INTERNATIONAL

NOMINATING AND CORPORATE GOVERNANCE COMMITTEE

Chair: Marcus A. Watts

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

Meetings in 2016: Four

"An important role for the Nominating and Corporate Governance Committee in 2016 was the implementation of a new leadership structure that included the appointment of a new chairman and a Lead Independent Director.

Marcus A. Watts

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

Succession planning for CEO and other SCI executives

Performance evaluation of the CEO, Board, and committees

Continuing education sessions for SCI Directors

Nominating and Corporate Governance Committee in 2016

The Nominating and Corporate Governance Committee met four times in 2016, 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 appointment of a new Chairman, as well as creating a Lead Independent Director role. With the appointment of Tony Coelho to the role of Lead Independent Director, Marcus Watts assumed the position of Committee Chair.

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 2016: Four

“In addition to providing continued guidance in 2016 helping to monitor and improve the structure of SCI’s \$4.5 billion preneed and perpetual care trust portfolio, the Investment Committee oversaw the management of the Company’s corporate cash and retirement plans. Additionally, we monitored the capital surplus and investments of SCI’s largest preneed insurance provider to ensure proper oversight of the company’s preneed backlog.”

Edward E. Williams

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

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 2016: None

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

CORPORATE GOVERNANCE AT SERVICE CORPORATION INTERNATIONAL

Director Compensation

The following table sets forth Director compensation for 2016. The table and following discussion apply to Directors who are not employees.

Employees who are Directors do not receive Director fees or participate in Director compensation.

2016 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 | \$ 270,750 | \$ — | —\$382,250 |
| Anthony L. Coelho | 124,042 | 270,750 | 6,358 | 401,150 |
| Victor L. Lund | 115,500 | 270,750 | — | 386,250 |
| John W. Mecom, Jr. | 100,000 | 270,750 | 820 | 371,570 |
| Clifton H. Morris, Jr. | 95,000 | 270,750 | 411 | 366,161 |
| Ellen Ochoa | 100,000 | 270,750 | — | 370,750 |
| W. Blair Waltrip | 91,500 | 270,750 | — | 362,250 |
| Marcus A. Watts | 107,000 | 270,750 | — | 377,750 |
| Edward E. Williams | 110,500 | 270,750 | 5,869 | 387,119 |

(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.

Cash Fees

All outside Directors receive a \$75,000 annual cash retainer and the Committee Chairs receive a further annual cash retainer as follows: Audit Committee Chair \$15,000, Compensation Committee Chair \$10,000, Investment Committee Chair \$10,000 and Nominating and Corporate Governance Committee Chair \$10,000. The Lead Independent Director receives an additional annual cash retainer of \$20,000. In addition to the retainers which are paid quarterly, each outside Director receives a \$2,000 attendance fee for each Board or Committee meeting attended. Fees for telephonic attendance of any Board or Committee meeting are 25% of the regular fee. The total cash fees for each Director

are set forth in the column “Fees Earned or Paid in Cash” in the table above.

Directors may elect to defer all or any of their cash fees by participating in the Executive Deferred Compensation Plan, which is described hereinafter under “Certain Information with Respect to Officers and Directors - Executive Deferred Compensation Plan.” There are no Company contributions made for a Director’s account in the plan. The Director may have deferred fees invested in the funds available under the plan. Any earnings or losses on such deferred fees are not reported in the table above. Changes for 2017 Director compensation are detailed below.

Stock Award

Under the Amended and Restated Director Fee Plan, all outside Directors receive an annual retainer of 10,000 shares of Common Stock of SCI or, at each Director’s option, Deferred Common Stock Equivalents. The award is made once a year on the date of the Annual Meeting of Shareholders and is 100% vested on the date of grant. Accordingly, each outside Director received 10,000 shares of Common Stock or deferred Common Stock equivalents on May 11, 2016. The fair market value of

the award is set forth in the column “Stock Awards” in the table above. For dividends pertaining to a Director’s Deferred Common Stock Equivalents, the dividends are reinvested in additional deferred Common Stock equivalents based on the fair market value of Common Stock on the dividend record date. Changes for 2017 Director compensation are detailed below.

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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 \$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. Changes for 2017 Director compensation are detailed below.

2017 Director Compensation Changes

We have adjusted the Board of Director compensation levels and program design to address the changing regulatory environment, the enhanced role for Board committee leadership, and feedback from our compensation consultant and shareholders. Director compensation should be reasonably structured to reward the efforts of Directors without compromising the independence necessary to protect shareholders' long-term interests.

With effective and appropriate compensation in mind, the following Board compensation components will be effective August 1, 2017:

• The cash retainer, which is paid quarterly, will increase from \$75,000 to \$90,000.

• Meeting attendance fees will be eliminated.

Individual retainers for committee chairs will increase in recognition of their more significant and time-consuming roles. We are changing the fees to more properly align their compensation with the increased responsibility as a committee chair.

Changes in the total stock grants, which are paid at the annual meeting in May, will be effective in May of 2018.

Stock grants with a value of \$180,000 per Director will replace the previous plan, which granted 10,000 shares per Director. This change allows stabilization of the value annually, eliminating uncertainty both for the Directors and for the shareholders who may be approving the compensation plans in advance.

Director Compensation Changes

| | Prior to 8/1/2017 | After 8/1/2017 |
|--|----------------------|---------------------------------|
| Cash retainer, paid quarterly | \$ 75,000 | \$ 90,000 |
| Stock grants, payable at annual meeting date | 10,000 shares | \$180,000 value in shares |
| Individual retainers, payable quarterly: | | |
| Lead Director | \$ 20,000 | \$ 30,000 |
| Audit Committee Chair | \$ 15,000 | \$ 25,000 |
| Compensation Committee Chair | \$ 10,000 | \$ 20,000 |
| Investment Committee Chair | \$ 10,000 | \$ 15,000 |
| Nominating and Corporate Governance Chair | \$ 10,000 | \$ 15,000 |
| Attendance fee per meeting | \$ 2,000 | — |

AUDIT COMMITTEE MATTERS

Proposal 2: Proposal to Approve the Selection of 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, 2017. 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

The primary purpose of the Audit Committee is to assist the Board of Directors in fulfilling its oversight responsibilities to ensure the integrity of the Company’s financial statements, the Company’s compliance with legal and regulatory requirements, the independent registered public accounting firm’s qualifications, independence and the performance of the Company’s internal audit function. The Audit Committee’s functions are detailed 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, and is also available in print to any shareholder who requests it.

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 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 Standard 16 (Communication with Audit Committees). The Audit Committee has also received the written disclosures in the 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.

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, 2016, 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 ¹ | Audit-related fees ² | Tax ³ | All other fees ⁴ | Total |
|------|-------------------------|---------------------------------|------------------|-----------------------------|-------------|
| 2016 | \$6,156,398 | \$ 775,000 | \$23,250 | \$3,838 | \$6,958,486 |
| 2015 | \$5,225,693 | \$ — | \$15,000 | \$3,600 | \$5,244,293 |

Fees associated with the annual audit of the Company's consolidated financial statements 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.

² All other fees in 2016 were primarily related to the review of our new general ledger system, Oracle, implemented in 2016.

³ Fees for tax services for 2016 were related to LLC tax preparation and for 2015 were related to compliance with the Foreign Account Tax Compliance Act.

⁴ All other fees in both years were for research database licensing.