



# H&R Block Inc. (HRB)

Updated September 7<sup>th</sup>, 2018 by Bob Ciura

## Key Metrics

<b>Current Price:</b> \$26	<b>5 Year CAGR Estimate:</b> 10.0%	<b>Volatility Percentile:</b> 86.1%
<b>Fair Value Price:</b> \$31	<b>5 Year Growth Estimate:</b> 3.0%	<b>Momentum Percentile:</b> 37.8%
<b>% Fair Value:</b> 84%	<b>5 Year Valuation Multiple Estimate:</b> 3.2%	<b>Valuation Percentile:</b> 84.3%
<b>Dividend Yield:</b> 3.8%	<b>5 Year Price Target</b> \$36	<b>Total Return Percentile:</b> 67.7%

## Overview & Current Events

H&R Block, Inc. is a global consumer tax services provider. It offers comprehensive tax return preparation through approximately 12,000 company owned and franchised H&R Block locations around the world. H&R Block also offers tax software. The company generates annual revenue of more than \$3 billion, and prepared over 23 million tax returns in fiscal 2018.

On 8/28/18 the company announced financial results for the fiscal 2019 first quarter. Revenue increased 5%, due primarily to the timing of revenue related to the company's Tax Plus products. Revenue of \$145 million beat analyst expectations by \$7.6 million. H&R Block reported a net loss of \$149 million, compared with a loss of \$128 million in the same quarter last year. On a per-share basis, loss of \$0.72 per share also beat analyst expectations, by \$0.05 per share.

## Per-Share Growth

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
<b>EPS</b>	\$1.46	\$1.35	\$1.25	\$1.69	\$1.81	\$1.75	\$1.53	\$1.96	\$2.98	\$2.40	<b>\$2.40</b>	<b>\$2.78</b>
<b>DPS</b>	\$0.60	\$0.60	\$0.70	\$0.80	\$0.80	\$0.80	\$0.80	\$0.84	\$0.92	\$0.98	<b>\$1.00</b>	<b>\$1.16</b>
<b>Shares</b>	323.3	305.4	292.1	272.6	274.2	275.3	220.5	207.2	209.3	207.0	<b>207.0</b>	<b>207.0</b>

H&R Block has a murky growth outlook. Customer retention stood at 73% in the most recent quarter, which is a relatively poor result that has prompted the company to engineer a turnaround. Broadly speaking, the operating environment for tax preparation is changing. While there will always be a need for tax preparation, the Trump administration has expressed a desire to greatly simplify the tax code. A much more simplified tax system could mean less demand for H&R Block's higher-margin services. In addition, earnings growth could be negatively impacted by the rise of online or do-it-yourself tax software such as TurboTax. H&R Block has had to act on price and also invest in its own software services, to meet the needs of a changing marketplace. These forces are expected to weigh on H&R Block's earnings growth, this fiscal year and going forward.

H&R Block management expects fiscal 2019 revenue of \$3.05 billion to \$3.1 billion. Earnings-per-share are expected to remain flat with fiscal 2018, based on the midpoint of 2019 guidance. We expect 3% annual earnings growth over the next five fiscal years. Dividends are also expected to grow by 3% per year.

## Valuation Analysis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Now	2023
<b>Avg. P/E</b>	13.7	12.5	10.6	12.5	11.5	16.1	18.4	21.2	11.6	9.1	<b>10.8</b>	<b>12.9</b>
<b>Avg. Yld.</b>	2.8%	3.3%	4.2%	4.5%	4.1%	2.8%	2.5%	2.5%	3.7%	3.4%	<b>3.8%</b>	<b>3.2%</b>

In the past 10 years, H&R Block shares traded for an average price-to-earnings ratio of 13.7. However, this period includes an abnormally high valuation in 2015, when the company's earnings-per-share took a significant dive. Excluding this one year, H&R Block shares traded for an average price-to-earnings ratio of 12.9, which is a reasonable estimate of

*Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.*

fair value. Based on this, the stock appears to be undervalued. Expansion of the price-to-earnings ratio is expected to add 3.6% to the annual returns for H&R Block.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

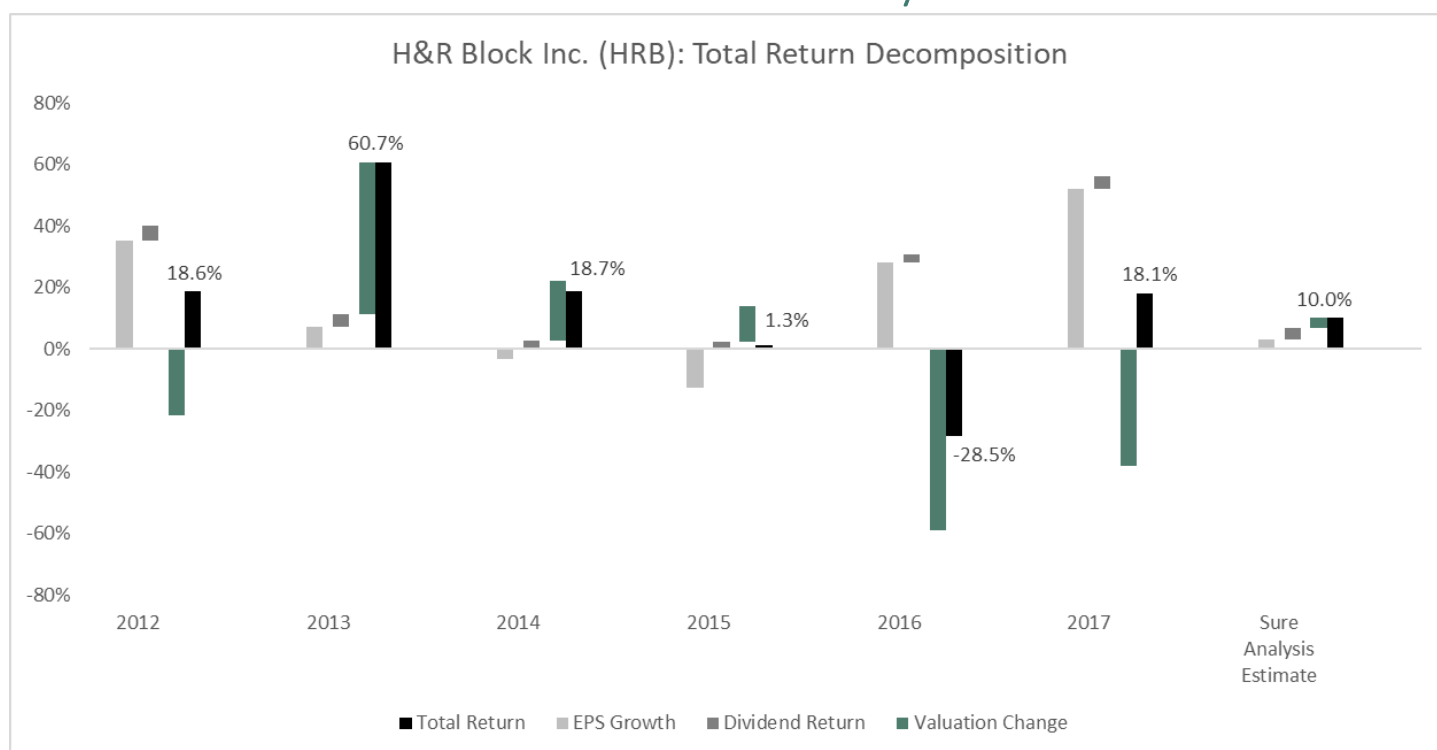
Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
<b>GP/A</b>	27.8%	24.5%	22.4%	25.6%	30.3%	30.9%	32.1%	47.5%	51.7%	45.2%	<b>45.0%</b>	<b>45.0%</b>
<b>Debt/A</b>	73.8%	72.5%	72.2%	71.5%	72.2%	66.8%	59.4%	99.2%	102%	87.5%	<b>87.5%</b>	<b>87.5%</b>
<b>Int. Cov.</b>	9.0	9.8	8.6	8.2	10.4	23.3	17.5	11.3	8.1	9.2	<b>9.0</b>	<b>9.0</b>
<b>Payout</b>	41.1%	44.4%	56.0%	47.3%	44.2%	45.7%	52.3%	42.9%	30.9%	40.8%	<b>41.7%</b>	<b>41.7%</b>
<b>Std. Dev.</b>	29.8%	31.3%	30.5%	19.4%	31.3%	23.6%	20.5%	34.1%	32.8%	26.6%	<b>26.5%</b>	<b>26.5%</b>

H&R Block scores fairly well when it comes to safety and quality metrics. The company has a large amount of debt but also generates strong interest coverage. It also has a payout ratio below 50%, which indicates the dividend is secure. H&R Block has paid quarterly dividends consecutively since the company went public in 1962. H&R Block benefits from durable competitive advantages. It is the leading brand in the tax preparation industry, and provides a necessary service to taxpayers. H&R Block remained profitable each year during the Great Recession, and the company should be expected to remain profitable if and when another recession occurs in the United States.

## Final Thoughts & Recommendation

H&R Block has a number of good qualities as a business. It has a leading brand in its industry, and a highly profitable business model. This allows the company to return cash to shareholders through share repurchases and dividends. However, H&R Block is in the middle of a turnaround. It needs to invest sufficiently to adapt to a more challenging operating climate. This will inhibit the company's growth over the next five years. H&R Block has expected returns of 10% per year, and a high dividend yield, which makes the stock a buy for income and value investors. However, investors should not expect high growth from H&R Block.

## Total Return Breakdown by Year



[Click here to rate and review this research report. Your feedback is important to us.](#)

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.