



H&R Block Inc. (HRB)

Updated June 18th, 2021 by Samuel Smith

Key Metrics

Current Price:	\$23.3	5 Year CAGR Estimate:	7.0%	Market Cap:	\$4.2B
Fair Value Price:	\$26.6	5 Year Growth Estimate:	0.3%	Ex-Dividend Date:	6/24/21
% Fair Value:	87%	5 Year Valuation Multiple Estimate:	2.7%	Dividend Payment Date:	7/1/21
Dividend Yield:	4.6%	5 Year Price Target:	\$27	Years Of Dividend Growth:	1
Dividend Risk Score:	B	Retirement Suitability Score:	A	Last Dividend Increase:	3.8%

Overview & Current Events

H&R Block, Inc. is a \$4.2 billion 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 about \$3.4 billion and prepares over 20 million tax returns annually.

H&R Block announced financial results for the fiscal 2021 Q4 on June 15th, 2021. Adjusted earnings-per-share came in at \$5.16, compared to \$3.01 per share in the year-ago period. \$2.33 billion in revenue for Q4 FY2021 increased from \$1.81 billion year-over-year. Adjusted EBITDA for this quarter was \$1.13 billion, up from \$819.6 million in the year-ago period. Operating expenses stood at \$1.2 billion from \$1.1 billion year-over-year. Pretax income for the fiscal year 2021 stood at \$669 million comparing favorably to a pretax loss of \$3 million in the prior year. Meanwhile, H&R Block also announced a 3.8% quarterly dividend increase to \$0.27 per share.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	\$1.81	\$1.75	\$1.53	\$1.96	\$2.98	\$2.40	\$2.40	\$2.39	\$0.84	\$3.39	\$2.96	\$3.00
DPS	\$0.80	\$0.80	\$0.80	\$0.84	\$0.92	\$0.98	\$1.00	\$1.02	\$1.04	\$1.04	\$1.08	\$1.16
Shares¹	274.4	272.7	274.2	275.3	220.5	207.2	209.3	202.0	192.5	181.5	181.4	170.0

The Wave Financial acquisition added a boost to HRB's otherwise murky growth outlook. Poor customer retention has prompted the company to engineer a turnaround. Broadly speaking, the operating environment for tax preparation is changing as automation is increasingly encroaching on what was once done by human tax professionals.

Additionally, the simplification of the tax code remains a risk for the company moving forward, regardless of who is in power. 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 continued adoption of online or do-it-yourself tax software such as TurboTax. H&R Block has had to 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, both this fiscal year and moving forward.

That said, Wave Financial will give the company more opportunities to grow in the small business sector, an area less likely to be impacted by a simplified personal income tax code. Fiscal 2020 earnings-per-share were artificially suppressed due to the extension of the tax filing deadline to further after the end of the fiscal year end. As a result, 2021 earnings-per-share were artificially inflated. Therefore, we do not expect 2022 results to equal 2021's.

Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	10.6	12.5	11.5	16.1	18.4	21.2	11.6	9.1	20.0	7.0	7.9	9.0
Avg. Yld.	4.2%	4.5%	4.1%	2.8%	2.5%	2.5%	3.7%	3.4%	5.0%	4.4%	4.6%	4.3%

¹ In millions

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Given that HRB shares have traded at a multiple in the range of the low to mid-teens over the past decade, a fair value multiple of ~11 is a reasonable assumption. However, given the accelerated drive towards automation threatening the industry, partially offset by HRB's growth initiatives into ancillary businesses, we believe that a multiple of 9 is fair. Based on this, the stock appears to be undervalued.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	44.2%	45.7%	52.3%	42.9%	30.9%	40.8%	41.7%	42.7%	123.8%	30.7%	36.5%	38.7%

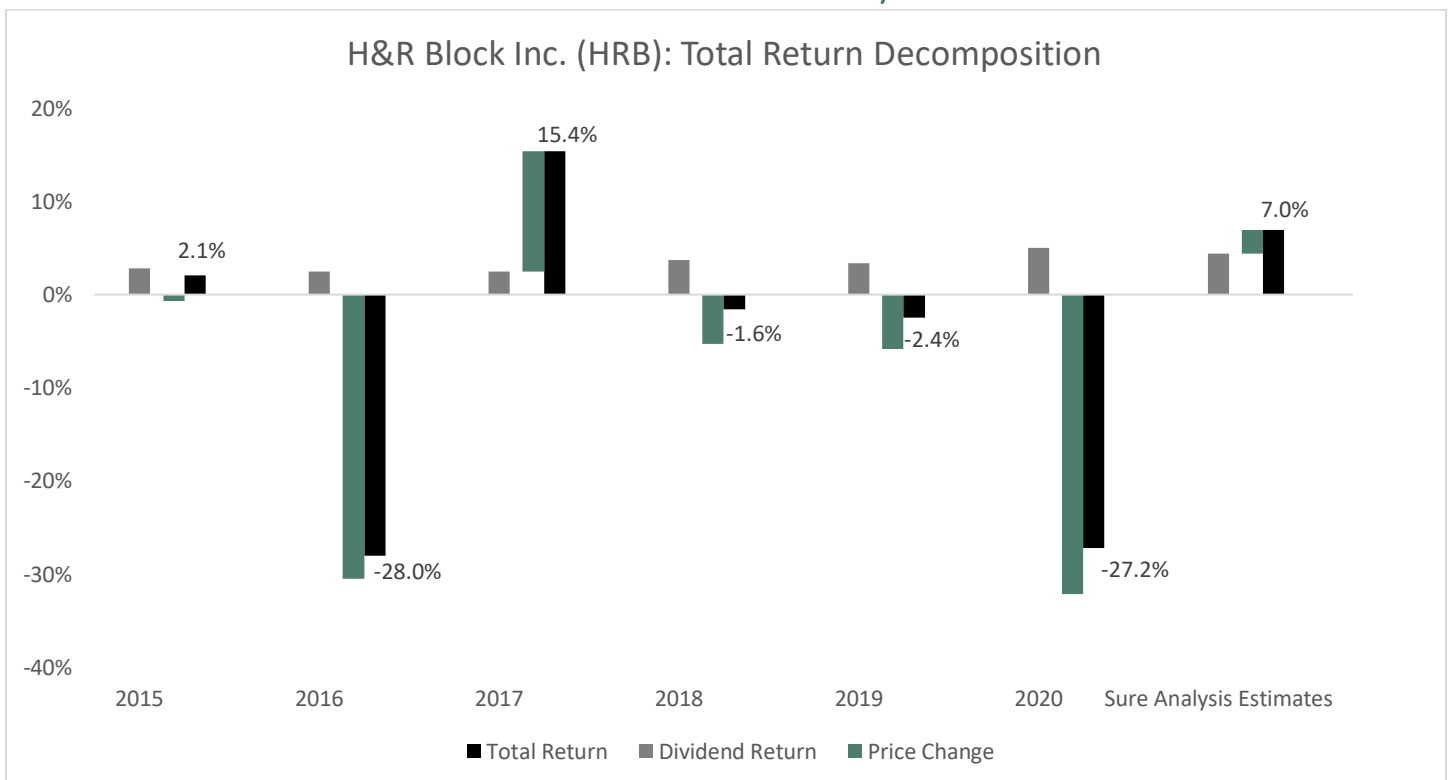
H&R Block scores fairly well when it comes to safety and quality metrics. The company has a large amount of debt, but also generates strong interest coverage. It also has a payout ratio of just 36.5%, which indicates the dividend is secure. H&R Block has paid quarterly dividends consecutively since the 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 several favorable qualities as a business. It has a leading brand in its industry and has a highly profitable capital-light 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 in ancillary growth opportunities 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 annualized total returns of 7% per year largely stemming from its dividend yield. Given these factors, we view the stock as a hold.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	2,894	2,906	3,024	3,079	3,038	3,036	3,160	3,095	2,640	3,414
Gross Profit	972	1,161	1,202	1,210	1,353	1,392	1,420	1,338	927	1,572
Gross Margin	33.6%	40.0%	39.7%	39.3%	44.5%	45.8%	44.9%	43.2%	35.1%	46.0%
SG&A Exp.	378	373	361	367	719	676	668	722	744	802
D&A Exp.	104	92	116	160	174	182	183	167	170	157
Operating Profit	574	771	818	795	633	716	752	616	183	770
Operating Margin	19.8%	26.5%	27.1%	25.8%	20.8%	23.6%	23.8%	19.9%	6.9%	22.5%
Net Profit	266	434	475	474	374	409	613	423	(8)	584
Net Margin	9.2%	14.9%	15.7%	15.4%	12.3%	13.5%	19.4%	13.7%	-0.3%	17.1%
Free Cash Flow	280	384	663	503	445	463	751	511	27	573
Income Tax	230	237	267	256	186	208	42	100	(10)	79

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	4,650	4,538	4,694	4,515	2,847	2,694	3,141	3,300	5,112	3,654
Cash & Equivalents	1,944	1,748	2,185	2,007	897	1,011	1,545	1,572	2,662	934
Accounts Receivable	129	131	125	122	109	88	16	56	17	21
Goodwill & Int. Ass.	704	719	792	874	905	901	882	862	1,127	1,118
Total Liabilities	3,324	3,274	3,137	2,682	2,824	2,755	2,747	2,758	5,041	3,301
Accounts Payable	567	524	222	231	260	217	252	250	203	198
Long-Term Debt	1,041	907	906	506	1,492	1,494	1,496	1,493	3,495	1,490
Shareholder's Equity	1,326	1,264	1,557	1,833	23	(61)	394	542	71	352
D/E Ratio	0.78	0.72	0.58	0.28	64.59	(24.5)	3.80	2.76	49.20	4.23

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	5.4%	9.4%	10.3%	10.3%	10.2%	14.8%	21.0%	13.1%	-0.2%	13.3%
Return on Equity	19.2%	33.5%	33.7%	27.9%	40.3%		368%	90.4%	-2.5%	276%
ROIC	9.3%	19.1%	20.5%	19.7%	19.4%	27.7%	36.9%	21.5%	-0.3%	21.6%
Shares Out.	274.4	272.7	274.2	275.3	220.5	207.2	209.3	202.0	192.5	181.5
Revenue/Share	9.69	10.59	10.96	11.11	12.11	14.18	15.03	14.97	13.32	18.08
FCF/Share	0.94	1.40	2.40	1.82	1.77	2.16	3.57	2.47	0.14	3.04

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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