



H&R Block Inc. (HRB)

Updated February 9th, 2023 by Samuel Smith

Key Metrics

Current Price:	\$39.4	5 Year CAGR Estimate:	10.6%	Market Cap:	\$6.1B
Fair Value Price:	\$55.5	5 Year Growth Estimate:	1.4%	Ex-Dividend Date:	03/06/23
% Fair Value:	71%	5 Year Valuation Multiple Estimate:	7.1%	Dividend Payment Date:	04/05/23
Dividend Yield:	2.9%	5 Year Price Target:	\$59	Years Of Dividend Growth:	7
Dividend Risk Score:	B	Retirement Suitability Score:	B	Rating:	Buy

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 prepares over 20 million tax returns annually.

On February 9th, 2023, H&R Block announced financial results for the fiscal 2023 second quarter ended December 31st, 2022. Total revenue of \$166.4 million, increased by \$7.6 million, or 5%, relative to the prior year. The increase was primarily driven by volumes and net average charge as the company had a strong end to the 2022 tax season, partially offset by lower Emerald Card revenues related to the impact of Advanced Child Tax Credit payments in the prior year. Total operating expenses of \$449.6 million increased by \$13.5 million, or 3%, primarily due to higher corporate and field wages, along with increased bad debt expense, which was partially offset by lower consulting and outsourced services as well as favorable developments in insurance loss reserves.

Pretax loss was effectively flat to the prior year at \$298.0 million. Loss per share from continuing operations increased from \$(1.09) to \$(1.43) and adjusted loss per share from continuing operations increased from \$(1.02) to \$(1.37), primarily due to the larger net loss from lower income tax benefits in the quarter and fewer shares outstanding.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
EPS	\$1.59	\$1.67	\$1.75	\$1.59	\$1.96	\$2.98	\$2.15	\$0.84	\$3.94	\$3.51	\$3.83	\$4.10
DPS	\$0.80	\$0.80	\$0.84	\$0.92	\$0.98	\$1.00	\$1.02	\$1.04	\$1.04	\$1.16	\$1.16	\$1.16
Shares¹	272.7	274.2	275.3	220.5	207.2	209.3	202.0	192.5	181.5	159.9	152.3	148.0

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. The company is currently generating solid growth while also paying out a sizable dividend and buying back shares. We think the company will be able to grow earnings per share by 1.4% annually over the next half decade.

¹ In millions

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Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	12.5	11.5	16.1	18.4	21.2	11.6	9.1	20.0	7.0	13.8	10.3	14.5
Avg. Yld.	4.5%	4.1%	2.8%	2.5%	2.5%	3.7%	3.4%	5.0%	4.4%	2.4%	2.9%	2.0%

HRB shares have traded at a multiple in the range of the low to mid-teens over the past decade. However, given the company's new growth initiatives, we believe it warrants a higher valuation multiple of 14.5. As a result, we expect multiple expansion will serve as a tailwind in the years to come.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	50%	48%	48%	58%	50%	34%	47%	124%	26%	33%	30%	28%

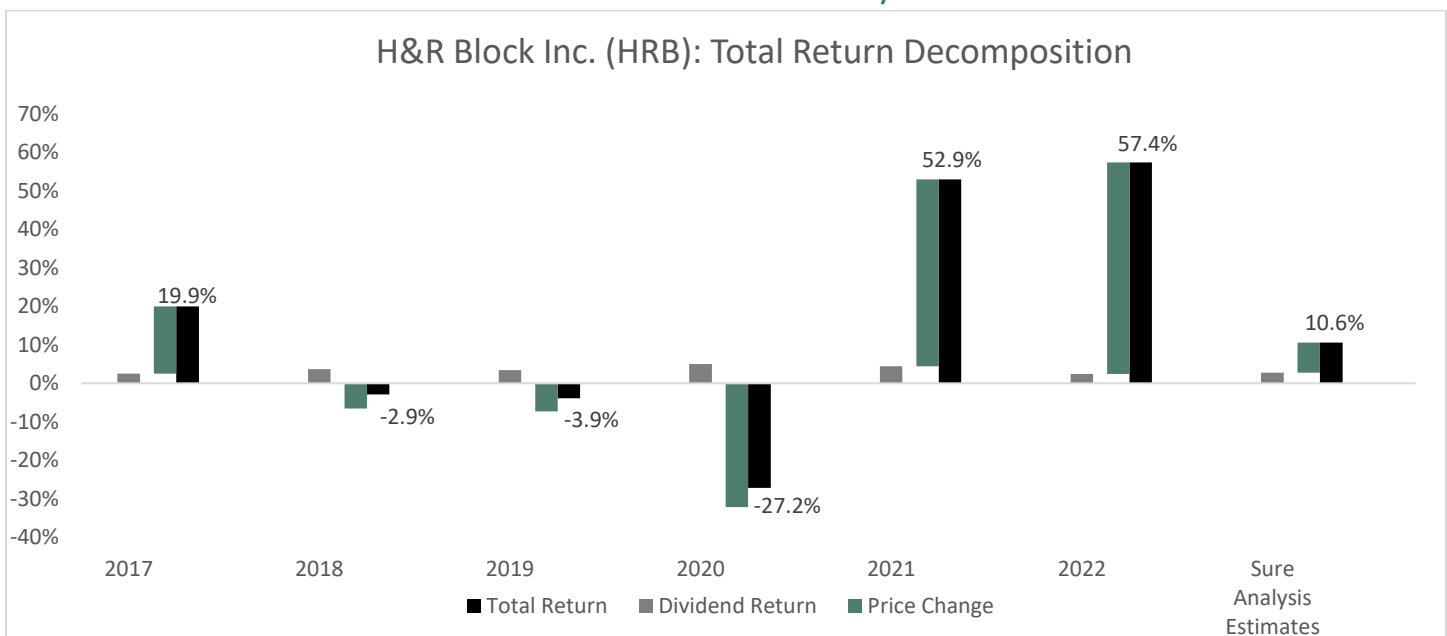
H&R Block scores fairly well when it comes to safety and quality metrics. The company has a large amount of debt, but also generates strong interest coverage. It also has a payout ratio of just 30%, which indicates the dividend is secure. H&R Block has paid quarterly dividends consecutively since the 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 10.6% over the next half decade, stemming from a combination of its dividend, per share growth, and multiple expansion. Given these factors, we view the stock as a Buy.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	2,906	3,024	3,079	3,038	3,036	3,160	3,095	291	466	3,463
Gross Profit	1,161	1,202	1,210	1,353	1,392	1,420	1,338	94	233	1,582
Gross Margin	40.0%	39.7%	39.3%	44.5%	45.8%	44.9%	43.2%	32.3%	50.1%	45.7%
SG&A Exp.	373	361	367	719	676	668	722	82	99	837
D&A Exp.	92	116	160	174	182	183	167	27	25	142
Operating Profit	771	818	795	633	716	752	616	12	134	745
Operating Margin	26.5%	27.1%	25.8%	20.8%	23.6%	23.8%	19.9%	4.2%	28.8%	21.5%
Net Profit	434	475	474	374	409	613	423	(11)	90	554
Net Margin	14.9%	15.7%	15.4%	12.3%	13.5%	19.4%	13.7%	-3.6%	19.2%	16.0%
Free Cash Flow	384	663	503	445	463	751	511	(105)	30	747
Income Tax	237	267	256	186	208	42	100	2	30	98

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	4,538	4,694	4,515	2,847	2,694	3,141	3,300		4,014	3,269
Cash & Equivalents	1,748	2,185	2,007	897	1,011	1,545	1,572		1,434	885
Accounts Receivable	131	125	122	109	88	16	56		9	8
Goodwill & Int. Ass.	719	792	874	905	901	882	862		1,106	1,070
Total Liabilities	3,274	3,137	2,682	2,824	2,755	2,747	2,758		3,626	3,058
Accounts Payable	524	222	231	260	217	252	250		164	161
Long-Term Debt	907	906	506	1,492	1,494	1,496	1,493	-	1,984	1,487
Shareholder's Equity	1,264	1,557	1,833	23	(61)	394	542		388	212
LTD/E Ratio	0.72	0.58	0.28	64.59	-24.5	3.80	2.76		5.11	7.03

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	9.4%	10.3%	10.3%	10.2%	14.8%	21.0%	13.1%		2.3%	15.2%
Return on Equity	33.5%	33.7%	27.9%	40.3%		368%	90.4%		24.2%	185%
ROIC	19.1%	20.5%	19.7%	19.4%	27.7%	36.9%	21.5%		4.3%	27.2%
Shares Out.	272.7	274.2	275.3	220.5	207.2	209.3	202.0	192.5	181.5	159.9
Revenue/Share	10.59	10.96	11.11	12.11	14.18	15.03	14.97	1.51	2.52	20.20
FCF/Share	1.40	2.40	1.82	1.77	2.16	3.57	2.47	(0.55)	0.16	4.35

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

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