



# H&R Block Inc. (HRB)

Updated May 13<sup>th</sup>, 2023 by Samuel Smith

## Key Metrics

<b>Current Price:</b>	\$32.0	<b>5 Year CAGR Estimate:</b>	12.0%	<b>Market Cap:</b>	\$4.8B
<b>Fair Value Price:</b>	\$42.1	<b>5 Year Growth Estimate:</b>	3.3%	<b>Ex-Dividend Date:</b>	06/06/23
<b>% Fair Value:</b>	76%	<b>5 Year Valuation Multiple Estimate:</b>	5.7%	<b>Dividend Payment Date:</b>	07/06/23
<b>Dividend Yield:</b>	3.6%	<b>5 Year Price Target:</b>	\$50	<b>Years Of Dividend Growth:</b>	7
<b>Dividend Risk Score:</b>	B	<b>Retirement Suitability Score:</b>	A	<b>Rating:</b>	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 May 9<sup>th</sup>, 2023, H&R Block announced financial results for the fiscal 2023 third quarter. The company reported non-GAAP EPS of \$4.20, missing estimates by \$0.26, and revenue of \$2.09B (+1.5% Y/Y), which was in line with expectations. For FY23, due to softer industry volumes, the company now expects 2023 revenue of between \$3.440B and \$3.465B, down from \$3.535B to \$3.585B, and compared to a consensus of \$3.54B. Moreover it expects 2023 EBITDA to come in between \$895M and \$910M, down from \$915M to \$950M and adjusted diluted EPS of between \$3.65 and \$3.80, down from \$3.70 to \$3.95, compared to a consensus of \$3.83.

## Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
<b>EPS</b>	\$1.59	\$1.67	\$1.75	\$1.59	\$1.96	\$2.98	\$2.15	\$0.84	\$3.94	\$3.51	<b>\$3.83</b>	<b>\$4.50</b>
<b>DPS</b>	\$0.80	\$0.80	\$0.84	\$0.92	\$0.98	\$1.00	\$1.02	\$1.04	\$1.04	\$1.16	<b>\$1.16</b>	<b>\$1.50</b>
<b>Shares<sup>1</sup></b>	272.7	274.2	275.3	220.5	207.2	209.3	202.0	192.5	181.5	159.9	<b>152.3</b>	<b>148.0</b>

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 3.3% annually over the next half decade.

## Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
<b>Avg. P/E</b>	12.5	11.5	16.1	18.4	21.2	11.6	9.1	20.0	7.0	13.8	<b>8.4</b>	<b>11.0</b>
<b>Avg. Yld.</b>	4.5%	4.1%	2.8%	2.5%	2.5%	3.7%	3.4%	5.0%	4.4%	2.4%	<b>3.6%</b>	<b>3.0%</b>

<sup>1</sup> In millions

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HRB shares have traded at a multiple in the range of the low to mid-teens over the past decade. As a result, when combined with current headwinds facing the core tax business and higher interest rates, we assign a fair value multiple of 11x. Given that the current valuation multiple is 8.4x, we expect multiple expansion will serve as a tailwind to total returns 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%	33%

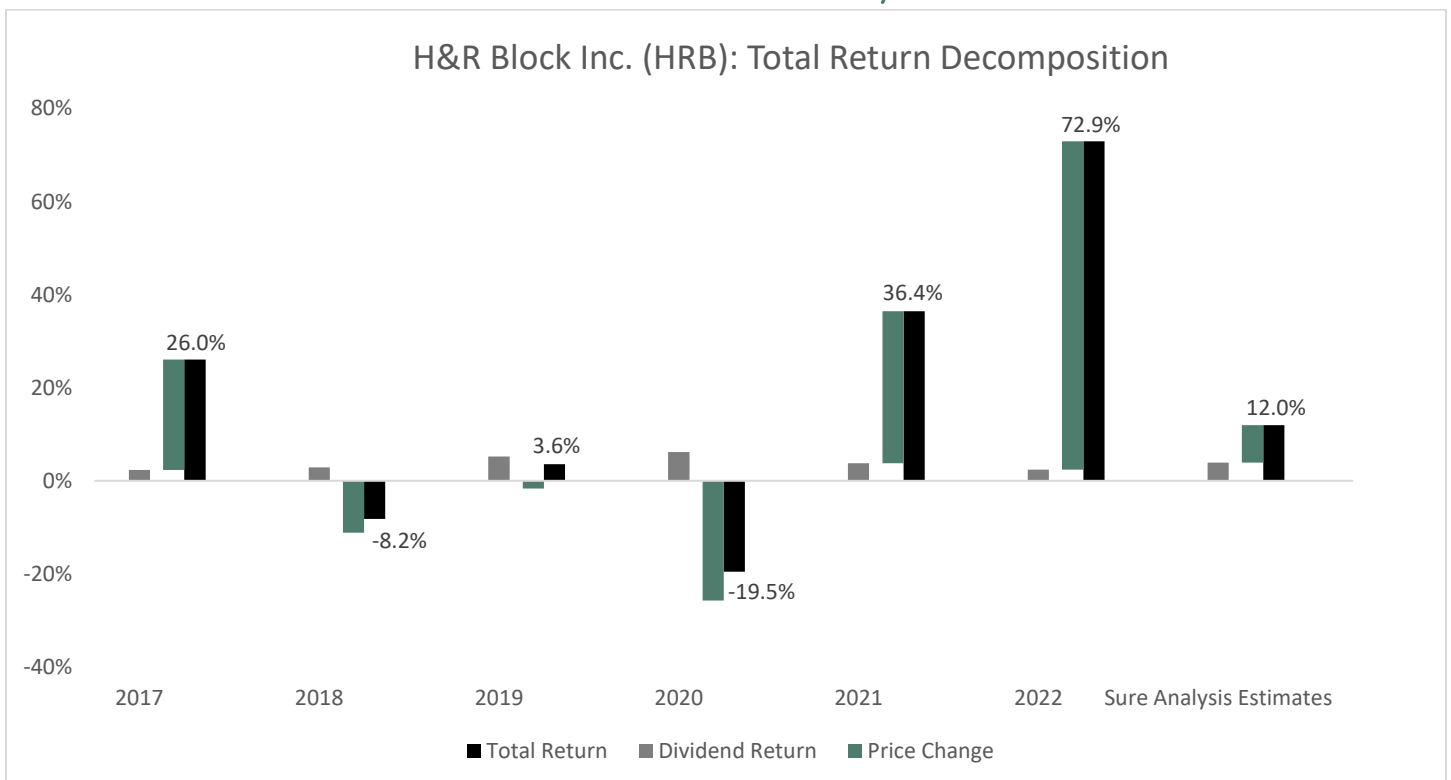
H&R Block scores fairly well when it comes to safety and quality metrics. The company has a large amount of debt, but also generates strong interest coverage. It also has a payout ratio of just 30%, which indicates the dividend is secure. H&R Block has paid quarterly dividends consecutively since the 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 12.0% over the next half decade, stemming from a combination of its dividend, per share growth, and expected 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
<b>Revenue</b>	2,906	3,024	3,079	3,038	3,036	3,160	3,095	291	466	3,463
<b>Gross Profit</b>	1,161	1,202	1,210	1,353	1,392	1,420	1,338	94	233	1,582
<b>Gross Margin</b>	40.0%	39.7%	39.3%	44.5%	45.8%	44.9%	43.2%	32.3%	50.1%	45.7%
<b>SG&amp;A Exp.</b>	373	361	367	719	676	668	722	82	99	837
<b>D&amp;A Exp.</b>	92	116	160	174	182	183	167	27	25	142
<b>Operating Profit</b>	771	818	795	633	716	752	616	12	134	745
<b>Operating Margin</b>	26.5%	27.1%	25.8%	20.8%	23.6%	23.8%	19.9%	4.2%	28.8%	21.5%
<b>Net Profit</b>	434	475	474	374	409	613	423	(11)	90	554
<b>Net Margin</b>	14.9%	15.7%	15.4%	12.3%	13.5%	19.4%	13.7%	-3.6%	19.2%	16.0%
<b>Free Cash Flow</b>	384	663	503	445	463	751	511	(105)	30	747
<b>Income Tax</b>	237	267	256	186	208	42	100	2	30	98

## Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Total Assets</b>	4,538	4,694	4,515	2,847	2,694	3,141	3,300		4,014	3,269
<b>Cash &amp; Equivalents</b>	1,748	2,185	2,007	897	1,011	1,545	1,572		1,434	885
<b>Accounts Receivable</b>	131	125	122	109	88	16	56		9	8
<b>Goodwill &amp; Int. Ass.</b>	719	792	874	905	901	882	862		1,106	1,070
<b>Total Liabilities</b>	3,274	3,137	2,682	2,824	2,755	2,747	2,758		3,626	3,058
<b>Accounts Payable</b>	524	222	231	260	217	252	250		164	161
<b>Long-Term Debt</b>	907	906	506	1,492	1,494	1,496	1,493	-	1,984	1,487
<b>Shareholder's Equity</b>	1,264	1,557	1,833	23	(61)	394	542		388	212
<b>LTD/E Ratio</b>	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
<b>Return on Assets</b>	9.4%	10.3%	10.3%	10.2%	14.8%	21.0%	13.1%		2.3%	15.2%
<b>Return on Equity</b>	33.5%	33.7%	27.9%	40.3%		368%	90.4%		24.2%	185%
<b>ROIC</b>	19.1%	20.5%	19.7%	19.4%	27.7%	36.9%	21.5%		4.3%	27.2%
<b>Shares Out.</b>	272.7	274.2	275.3	220.5	207.2	209.3	202.0	192.5	181.5	159.9
<b>Revenue/Share</b>	10.59	10.96	11.11	12.11	14.18	15.03	14.97	1.51	2.52	20.20
<b>FCF/Share</b>	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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