



H&R Block Inc. (HRB)

Updated August 23rd, 2023 by Samuel Smith

Key Metrics

Current Price:	\$39.7	5 Year CAGR Estimate:	9.4%	Market Cap:	\$5.8B
Fair Value Price:	\$46.2	5 Year Growth Estimate:	3.5%	Ex-Dividend Date:	09/06/23
% Fair Value:	86%	5 Year Valuation Multiple Estimate:	3.1%	Dividend Payment Date:	10/06/23
Dividend Yield:	3.2%	5 Year Price Target:	\$55	Years Of Dividend Growth:	8
Dividend Risk Score:	B	Retirement Suitability Score:	B	Rating:	Hold

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 August 15th, 2023, H&R Block announced financial results for the fiscal 2023 fourth quarter. In Q4, the company reported Non-GAAP EPS of \$2.05, surpassing expectations by \$0.17. However, the revenue of \$1.03 billion, which is down 1.9% compared to the previous year, fell short by \$10 million. The Board of Directors has decided to increase the quarterly dividend by 10%, marking the seventh consecutive yearly increase. The new quarterly cash dividend is set at \$0.32 per share, payable on October 4, 2023, to shareholders on record as of September 7, 2023. Looking ahead to 2024, the company's projections include revenue expected to fall within the range of \$3.530 to \$3.585 billion, EBITDA projected to be between \$930 to \$965 million, an approximate effective tax rate of 23%, and an Adjusted Diluted Earnings Per Share anticipated to be in the range of \$4.10 to \$4.30.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
EPS	\$1.67	\$1.75	\$1.59	\$1.96	\$2.98	\$2.15	\$0.84	\$3.94	\$3.51	\$3.82	\$4.20	\$5.00
DPS	\$0.80	\$0.84	\$0.92	\$0.98	\$1.00	\$1.02	\$1.04	\$1.04	\$1.16	\$1.19	\$1.28	\$1.60
Shares¹	274.2	275.3	220.5	207.2	209.3	202.0	192.5	181.5	159.9	147.0	147.0	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 3.3% annually over the next half decade.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	11.5	16.1	18.4	21.2	11.6	9.1	20.0	7.0	13.8	9.5	9.5	11.0
Avg. Yld.	4.1%	2.8%	2.5%	2.5%	3.7%	3.4%	5.0%	4.4%	2.4%	3.3%	3.2%	2.9%

¹ In millions

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.



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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 9.5x, we expect multiple expansion will serve as a tailwind to total returns in the years to come.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	48%	48%	58%	50%	34%	47%	124%	26%	33%	31%	30%	32%

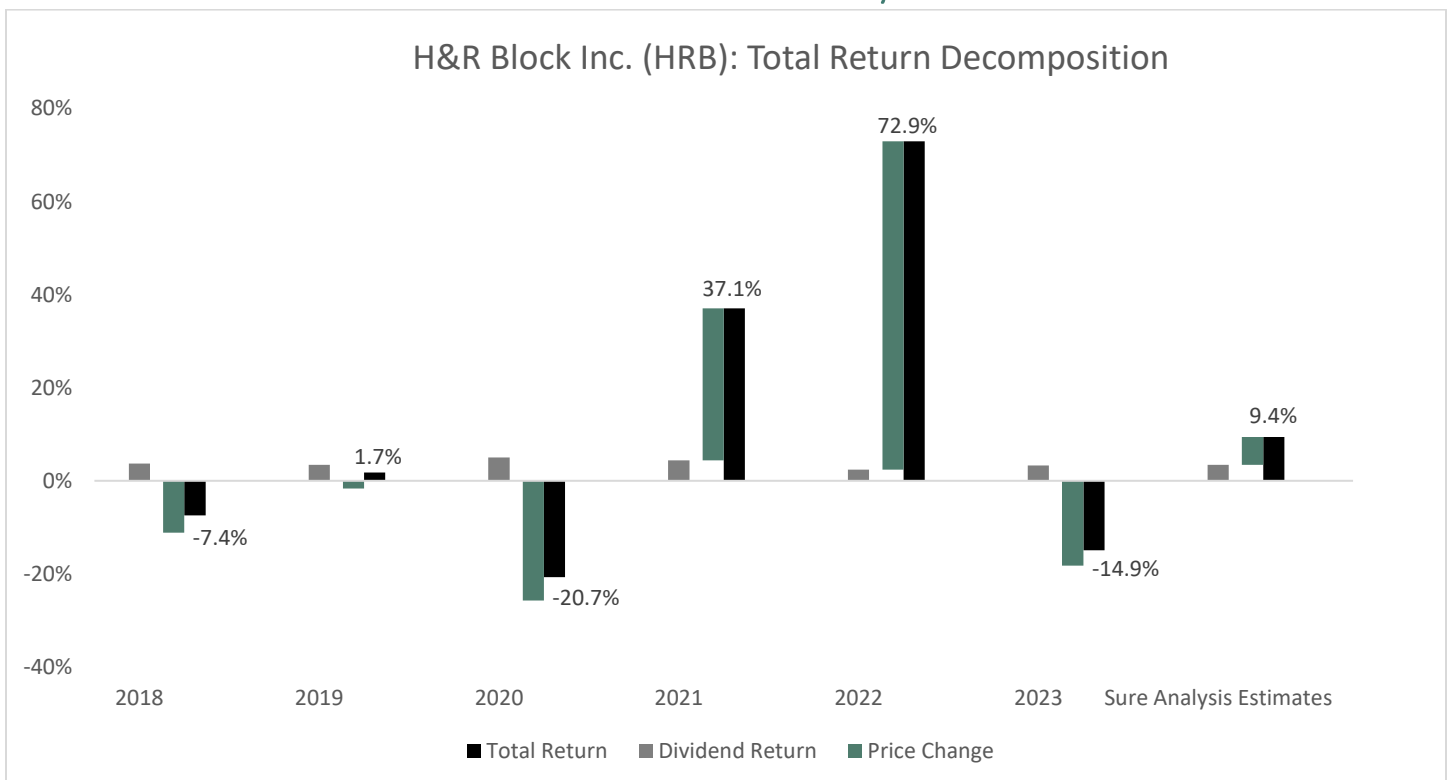
H&R Block scores fairly well when it comes to safety and quality metrics. The company has a large amount of debt, but also generates strong interest coverage. It also has a payout ratio of just 30%, which indicates the dividend is secure. H&R Block has paid quarterly dividends consecutively since the 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 9.4% 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 Hold.

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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