



H&R Block Inc. (HRB)

Updated February 23rd, 2024 by Samuel Smith

Key Metrics

Current Price:	\$46.1	5 Year CAGR Estimate:	6.2%	Market Cap:	\$6.7B
Fair Value Price:	\$42.4	5 Year Growth Estimate:	5.3%	Ex-Dividend Date:	3/4/24
% Fair Value:	109%	5 Year Valuation Multiple Estimate:	-1.7%	Dividend Payment Date	4/3/24
Dividend Yield:	2.8%	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 February 6th, 2024, H&R Block, Inc. (HRB) announced its financial results for the second quarter of fiscal 2024, which ended on December 31, 2023. The company generated an 8% growth in revenue, driven by a robust conclusion to the extended filing season. This success led the management to reconfirm its previously stated outlook for fiscal year 2024. Additionally, the company repurchased \$218.1 million worth of shares during the quarter, retiring an additional 3% of outstanding shares. The total revenue reached \$179.1 million, marking a \$12.7 million (8%) increase from the previous year. This growth was mainly attributed to higher volumes and net average charge in the Assisted category, coupled with increased interest and fee income on Emerald AdvanceSM. The rise in Emerald AdvanceSM Loans and an earlier start to the offering period in the current year contributed to this increase. Operating expenses totaled \$446.5 million, showing a decrease of \$3.1 million. This reduction was driven by lower consulting, marketing, and advertising expenses. However, it was partially offset by higher corporate wages resulting from an increased headcount in the current year.

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	\$4.24	\$5.50
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	139.5	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 5.3% annually over the next half decade.

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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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	10.9	10.0
Avg. Yld.	4.1%	2.8%	2.5%	2.5%	3.7%	3.4%	5.0%	4.4%	2.4%	3.3%	2.8%	2.9%

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 10x. Given that the current valuation multiple is 10.9x, we expect multiple compression will serve as a modest headwind 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%	29%

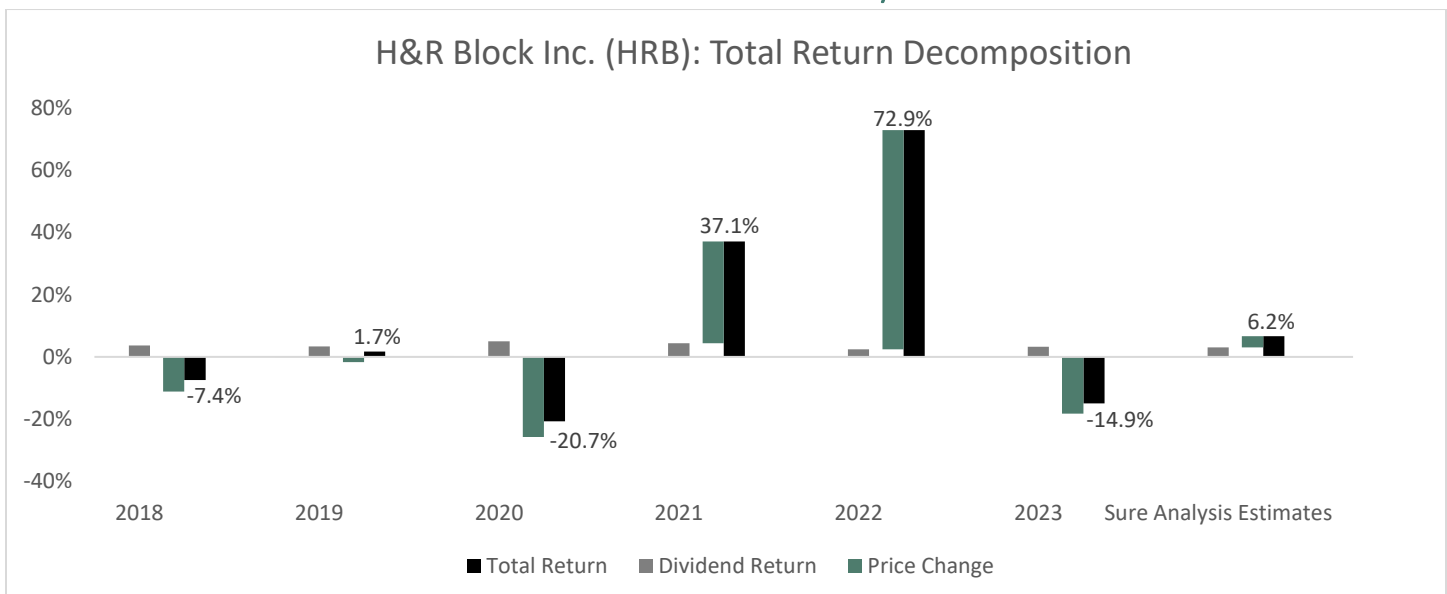
H&R Block scores fairly well when it comes to safety and quality metrics. The company has a large amount of debt, but also generates strong interest coverage. It also has a payout ratio of just 30%, which indicates the dividend is secure. H&R Block has paid quarterly dividends consecutively since the 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 6.2% over the next half-decade, stemming from a combination of its dividend, per share growth, and expected multiple compression. Given these factors, we view the stock as a Hold.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	3,024	3,079	3,038	3,036	3,160	3,095	291	466	3,463	3,472
Gross Profit	1,202	1,210	1,353	1,392	1,420	1,338	94	233	1,582	1,549
Gross Margin	39.7%	39.3%	44.5%	45.8%	44.9%	43.2%	32.3%	50.1%	45.7%	44.6%
SG&A Exp.	361	367	719	676	668	722	82	99	837	800
D&A Exp.	116	160	174	182	183	167	27	25	142	131
Operating Profit	818	795	633	716	752	616	12	134	745	749
Operating Margin	27.1%	25.8%	20.8%	23.6%	23.8%	19.9%	4.2%	28.8%	21.5%	21.6%
Net Profit	475	474	374	409	613	423	(11)	90	554	554
Net Margin	15.7%	15.4%	12.3%	13.5%	19.4%	13.7%	-3.6%	19.2%	16.0%	15.9%
Free Cash Flow	663	503	445	463	751	511	(105)	30	747	752
Income Tax	267	256	186	208	42	100	2	30	98	149

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	4,694	4,515	2,847	2,694	3,141	3,300		4,014	3,269	3,072
Cash & Equivalents	2,185	2,007	897	1,011	1,545	1,572		1,434	885	987
Accounts Receivable	125	122	109	88	16	56		9	8	5
Goodwill & Int. Ass.	792	874	905	901	882	862		1,106	1,070	1,052
Total Liabilities	3,137	2,682	2,824	2,755	2,747	2,758		3,626	3,058	3,040
Accounts Payable	222	231	260	217	252	250		164	161	160
Long-Term Debt	906	506	1,492	1,494	1,496	1,493	-	1,984	1,487	1,489
Shareholder's Equity	1,557	1,833	23	(61)	394	542		388	212	32
LTD/E Ratio	0.58	0.28	64.59	(24.5)	3.80	2.76		5.11	7.03	46.44

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	10.3%	10.3%	10.2%	14.8%	21.0%	13.1%		2.3%	15.2%	17.5%
Return on Equity	33.7%	27.9%	40.3%		368.4%	90.4%		24.2%	184.7%	454.4%
ROIC	20.5%	19.7%	19.4%	27.7%	36.9%	21.5%		4.3%	27.2%	34.4%
Shares Out.	274.2	275.3	220.5	207.2	209.3	202.0	192.5	181.5	159.9	147.0
Revenue/Share	10.96	11.11	12.11	14.18	15.03	14.97	1.51	2.52	20.20	22.08
FCF/Share	2.40	1.82	1.77	2.16	3.57	2.47	(0.55)	0.16	4.35	4.78

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

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