H&R Block Inc. (HRB)

Updated November 8th, 2024 by Samuel Smith

Key Metrics

Current Price:	$59.2	**5 Year CAGR Estimate:**	8.8%	**Market Cap:**	$8.2 B
Fair Value Price:	$65.8	**5 Year Growth Estimate:**	4.3%	**Ex-Dividend Date:**	12/5/24
% Fair Value:	90%	**5 Year Valuation Multiple Estimate:**	2.1%	**Dividend Payment Date**	1/6/25
Dividend Yield:	2.5%	**5 Year Price Target**	$81	**Years Of Dividend Growth:**	9
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.

H&R Block, Inc. (HRB) reported first-quarter results for fiscal 2025, showing a positive start to the year with a 5% increase in revenue, totaling $193.8 million. This growth, attributed mainly to higher company office volumes and an increased average charge in the Assisted tax category, alongside gains in international tax preparation, reflects the company's focus on enhancing client experience across both in-office and online channels.

Operating expenses rose by $32.0 million to $422.1 million, driven by increased wages for tax professionals due to higher tax return volumes, additional corporate wages, and legal expenses. Consequently, the company's pretax loss widened by $19.9 million to $232.3 million. Loss per share from continuing operations increased from $(1.11) to $(1.23), influenced by a higher pretax loss and reduced share count due to repurchases.

Capital allocation remained a priority, with approximately $210 million spent repurchasing and retiring 3.3 million shares at $63.51 per share. H&R Block has approximately $1.3 billion remaining on its $1.5 billion share repurchase program, with no set expiration date. The company reaffirmed its fiscal 2025 guidance, expecting revenue between $3.69 and $3.75 billion, EBITDA of $975 million to $1.02 billion, an effective tax rate of 13% providing an estimated EPS benefit of $0.50, and adjusted diluted EPS between $5.15 and $5.35.

Growth on a Per-Share Basis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Now	2030
EPS	$1.75	$1.59	$1.96	$2.98	$2.15	$0.84	$3.94	$3.51	$3.82	$4.41	***$5.26***	***$6.50***
DPS	$0.84	$0.92	$0.98	$1.00	$1.02	$1.04	$1.04	$1.16	$1.19	$1.28	***$1.50***	***$2.00***
Shares[1]	275.3	220.5	207.2	209.3	202.0	192.5	181.5	159.9	147.0	139.6	***139.2***	***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 4.3% annually over the next half decade.

[1] In millions

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Valuation Analysis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Now	2030
Avg. P/E	16.1	18.4	21.2	11.6	9.1	20.0	7.0	13.8	9.5	11.5	***11.3***	***12.5***
Avg. Yld.	2.8%	2.5%	2.5%	3.7%	3.4%	5.0%	4.4%	2.4%	3.3%	3.3%	***2.5%***	***2.5%***

HRB shares have traded at a multiple in the range of the low to mid-teens over the past decade. As a result, we assign a fair value multiple of 12.5x. Given that the current valuation multiple is 11.3x, we expect a slight tailwind from multiple expansion in the years to come.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
Payout	48%	58%	50%	34%	47%	124%	26%	33%	31%	29%	***29%***	***31%***

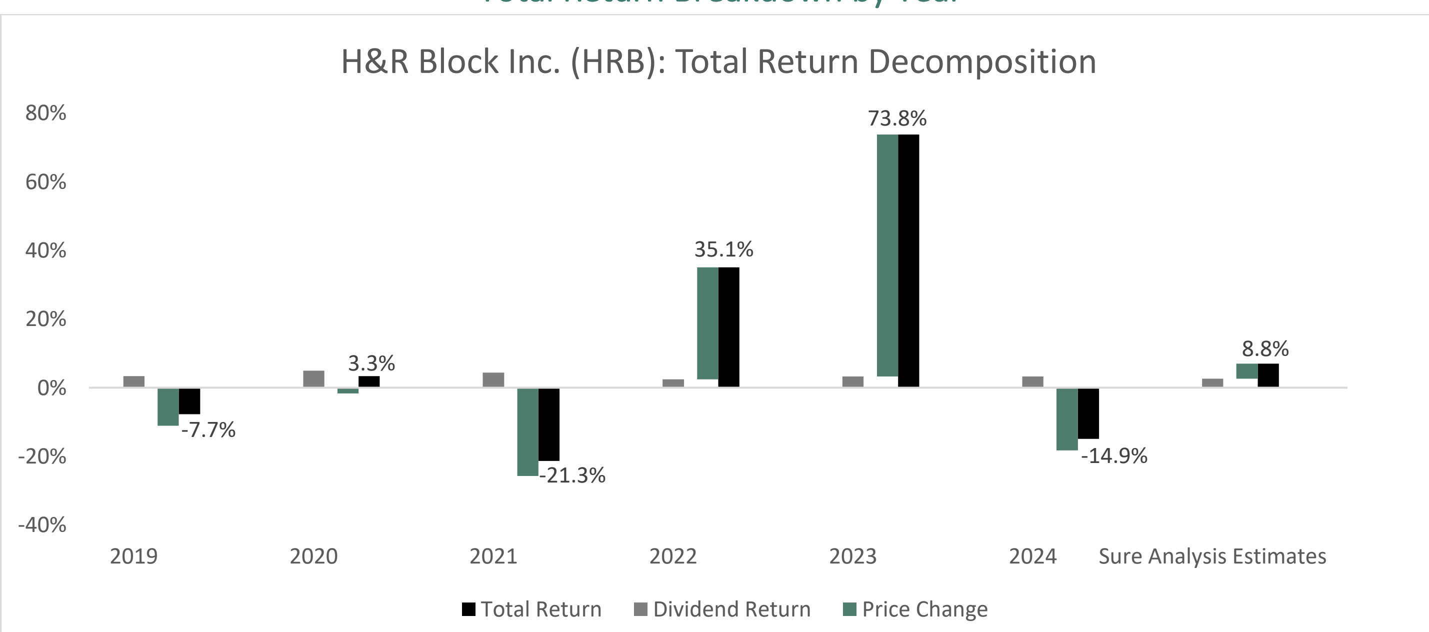
H&R Block scores fairly well when it comes to safety and quality metrics. The company has a large amount of debt, but also generates strong interest coverage. It also has a payout ratio of just 29%, which indicates the dividend is secure. H&R Block has paid quarterly dividends consecutively since the 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. H&R Block has expected annualized total returns of 8.8% over the next half-decade, stemming from a combination of its dividend, per share growth, and slight 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	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Revenue	3,079	3,038	3,036	3,160	3,095	291	466	3,463	3,472	3,610
Gross Profit	1,210	1,353	1,392	1,420	1,338	94	233	1,582	1,549	1,619
Gross Margin	39.3%	44.5%	45.8%	44.9%	43.2%	32.3%	50.1%	45.7%	44.6%	44.8%
SG&A Exp.	367	719	676	668	722	82	99	837	800	814
D&A Exp.	160	174	182	183	167	27	25	142	131	122
Operating Profit	795	633	716	752	616	12	134	745	749	805
Operating Margin	25.8%	20.8%	23.6%	23.8%	19.9%	4.2%	28.8%	21.5%	21.6%	22.3%
Net Profit	474	374	409	613	423	(11)	90	554	554	595
Net Margin	15.4%	12.3%	13.5%	19.4%	13.7%	-3.6%	19.2%	16.0%	15.9%	16.5%
Free Cash Flow	503	445	463	751	511	(105)	30	747	752	657
Income Tax	256	186	208	42	100	2	30	98	149	164

Balance Sheet Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Total Assets	4,515	2,847	2,694	3,141	3,300		4,014	3,269	3,072	3,219
Cash & Equivalents	2,007	897	1,011	1,545	1,572		1,434	885	987	1,053
Accounts Receivable	100	90	58		34					
Goodwill & Int. Ass.	874	905	901	882	862		1,106	1,070	1,052	1,049
Total Liabilities	2,682	2,824	2,755	2,747	2,758		3,626	3,058	3,040	3,128
Accounts Payable	231	260	217	252	250		164	161	160	156
Long-Term Debt	506	1,492	1,494	1,496	1,493	-	1,984	1,487	1,489	1,491
Shareholder's Equity	1,833	23	(61)	394	542		388	212	32	91
LTD/E Ratio	0.28	64.59	(24.5)	3.80	2.76		5.11	7.03	46.44	16.46

Profitability & Per Share Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Return on Assets	10.3%	10.2%	14.8%	21.0%	13.1%		2.3%	15.2%	17.5%	18.9%
Return on Equity	27.9%	40.3%		368.4%	90.4%		24.2%	184.7%	454.4%	970.7%
ROIC	19.7%	19.4%	27.7%	36.9%	21.5%		4.3%	27.2%	34.4%	38.4%
Shares Out.	275.3	220.5	207.2	209.3	202.0	192.5	181.5	159.9	147.0	139.6
Revenue/Share	11.11	12.11	14.18	15.03	14.97	1.51	2.52	20.20	22.08	25.09
FCF/Share	1.82	1.77	2.16	3.57	2.47	(0.55)	0.16	4.35	4.78	4.57

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

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