

H&R Block (HRB)

\$14.71 (As of 05/13/20)

Price Target (6-12 Months): **\$16.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 02/09/20)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

2-Buy

Zacks Style Scores:

VGM:C

Value: A

Growth: F

Momentum: B

Summary

H&R Block looks well poised to gain from opportunities offered by the tax industry that has been growing since 2005. The company has undertaken several initiatives to boost both assisted and DIY businesses. The company continues to focus on competitive pricing, investment in product innovation and user experience improvement. The company's solid cash position allows it to pursue opportunities that exhibit true potential and positions it for sustainable clients, revenue and earnings growth. However, escalating costs due to heavy investments in technology and operations might weigh on H&R Block's bottom line, thereby affecting its share price, which has underperformed its industry over the past year. Seasonality causes considerable fluctuations in revenues and makes profit forecasting difficult. The company also faces huge litigations.

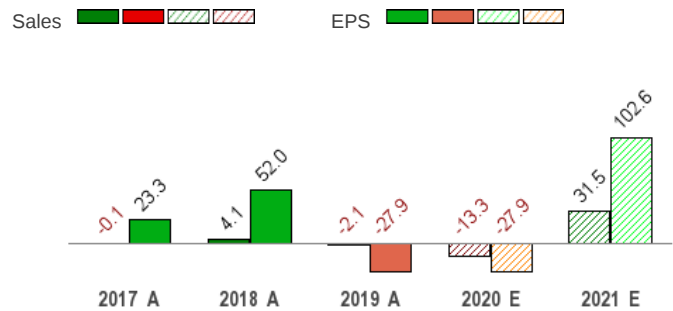
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$29.62 - \$11.29
20 Day Average Volume (sh)	3,072,892
Market Cap	\$2.8 B
YTD Price Change	-37.4%
Beta	0.82
Dividend / Div Yld	\$1.04 / 7.1%
Industry	Consumer Services - Miscellaneous
Zacks Industry Rank	Bottom 20% (203 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-9.3%
Last Sales Surprise	6.2%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	06/09/2020
Earnings ESP	0.0%
P/E TTM	6.8
P/E F1	4.7
PEG F1	0.5
P/S TTM	0.9

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					3,527 E
2020	150 A	161 A	519 A	2,047 E	2,682 E
2019	145 A	149 A	468 A	2,332 A	3,095 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.57 E	-\$0.97 E	-\$0.54 E	\$4.38 E	\$3.14 E
2020	-\$0.72 A	-\$0.85 A	-\$0.59 A	\$3.72 E	\$1.55 E
2019	-\$0.72 A	-\$0.83 A	-\$0.58 A	\$4.32 A	\$2.15 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 05/13/2020. The reports text is as of 05/14/2020.

Overview

H&R Block Inc. is a leading provider of tax preparation services. The company provides assisted income tax return preparation, do-it-yourself (DIY) tax solutions and other products and services associated with income tax return preparation in the United States, Canada and Australia.

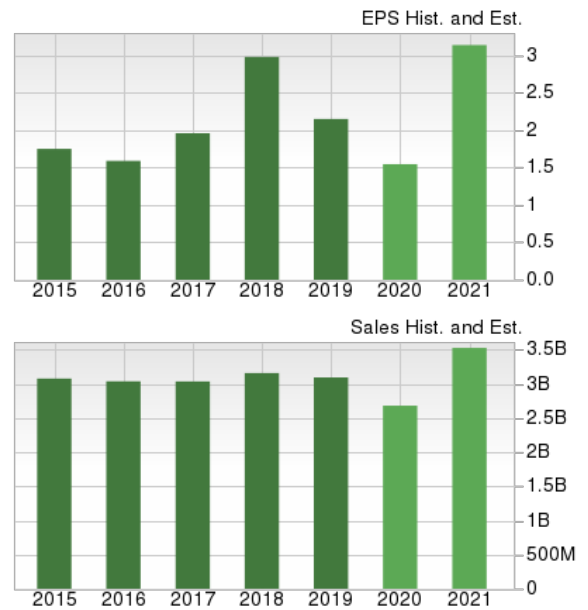
The company's assisted income tax return preparation services are provided through a system of retail offices operated directly by the company or by franchisees. H&R Block's DIY tax services include preparation of federal and state income tax returns, advice and tax-related news, access to tax tips, use of calculators for tax planning, and error checking and electronic filing. The company develops and markets DIY income tax preparation software online, and through third-party retail stores and direct mail. The company offers return preparation solutions through mobile applications as well.

Additional offerings from the company include Refund Transfers, H&R Block Emerald Advance lines of credit, Peace of Mind Extended Service Plan, Tax Identity Shield, H&R Block Emerald Prepaid MasterCard, and refund advance loans; POM, an Instant Cash Back refund option; and H&R Block Pay with Refund option.

H&R Block was organized as a corporation in 1955 under the laws of the State of Missouri and is headquartered in Kansas City, MO. The company has around 11,600 company-owned and franchise offices worldwide. As most of the clients file their tax returns from January through April of each year, most of H&R Block's revenues from income tax return preparation and related services and products are received during this period. As a result, the Tax Services segment generally operates at a loss through the first nine months of a fiscal year.

H&R Block has a robust cash generation capacity, which allows it to pursue opportunities that exhibit true potential and positions it for sustainable clients, revenue and earnings growth.

In fiscal 2019, the company's revenues decreased \$2.1% on a year-over-year basis. **U.S. assisted tax preparation fees** were down 4.5% due decrease in net average charge of 4.0% because of lower prices. **U.S. DIY tax preparation fees** increased \$16.9 million , or 7.0% , mainly due to higher online volumes.



Reasons To Buy:

▲ **The tax industry is growing** steadily since 2005 in both assisted and DIY channels and the momentum is expected to continue in the years to come. H&R Block looks well poised to gain from opportunities offered by the industry. In its assisted business, the company is focused on investment in price, developing and delivering on a clear brand promise, enhancing the quality service delivery. In the DIY business, H&R Block continues focusing on competitive pricing and investment in product innovation and user experience improvement.

H&R Block looks well poised to gain from opportunities offered by growing tax industry in both assisted and DIY channels.

▲ **H&R Block invested** in three broad areas in 2019 — price, technology, and operational excellence. On the price front, it focussed on price reduction to attain competitive pricing. With technology, H&R Block built new tax engine to consolidate multiple systems, invested in cross-channel capabilities to streamline client experience across platforms, moved its physical data centers to the cloud, and optimized data architecture and analytics platform. With regard to operational excellence, the company is improving execution of standard operating procedures for better quality and consistency of service delivery. These initiatives are aimed at achieving overall objectives of clients, revenue, and earnings growth over the long term.

▲ H&R Block has a **robust cash generation capacity**, which allows it to pursue opportunities that exhibit true potential and positions it for sustainable clients, revenue and earnings growth. The company used \$774.5 million of cash in operating activities and spend \$23.7 million on capex in third-quarter fiscal 2020.

Reasons To Sell:

- ▼ H&R Block is witnessing **escalation in costs** as it plans to invest heavily in technology and operations. This might weigh on the company's bottom line, thereby affecting its share price, that has declined 46.3% over the past year. The company earns majority of its revenues in the fourth quarter of the fiscal year as most of its clients file their tax returns from February through April. Revenues stay significantly down and the company incurs loss in first three quarters of fiscal year.
- ▼ H&R Block **faces huge litigations** in connection with its various operating activities. H&R Block is also exposed to employment related lawsuits in various parts of the country and compliance fee litigation in Missouri state and federal courts. Such litigations weigh on investor sentiment and hamper the company's goodwill.
- ▼ H&R Block has a **debt-laden balance sheet**. Total debt at the end of third-quarter fiscal 2020 was \$3 billion, up from \$2.12 billion at the end of the prior quarter. The debt-to-capital ratio of 0.11 is higher than the previous quarter's 0.10. An increase in debt to capitalization ratio indicates higher risk of insolvency in challenging times. Further, the company's cash and cash equivalent of \$362 million at the end of the fiscal third-quarter was well below this debt level, underscoring that the company doesn't have enough cash to meet this debt burden. Also, the cash level, can't meet the short-term debt of \$837 million.

Higher expenses and seasonality weigh on the company's bottom line.

Last Earnings Report

H&R Block Q3 Loss Widens Year Over Year

H&R Block incurred third-quarter fiscal 2020 adjusted loss per share from continuing operations of 59 cents, higher than the Zacks Consensus Estimate of loss of 54 cents.

Loss increased year over year due to rise in pre-tax loss (11.6% year over year to \$177 million) and lower shares outstanding, partially offset by increased tax benefit. The company usually incurs loss in the first three quarters of fiscal year due to the seasonality of its tax business.

Quarter Ending 01/2020

Report Date	Mar 05, 2020
Sales Surprise	6.19%
EPS Surprise	-9.26%
Quarterly EPS	-0.59
Annual EPS (TTM)	2.16

Revenues

Revenues of \$519.2 million surpassed the consensus estimate by 6.2% and increased 10.9% year over year. The improvement was driven by contribution from acquired franchises and Wave, and improved tax return volumes in both Assisted and DIY.

Expenses

Total operating expenses were \$671.8 million, up 10.8% year over year. The increase was due to technology and Wave Financial related investments, increased compensation associated with higher Assisted tax return volumes and timing of marketing expense recognition.

Financial Position

H&R Block exited the quarter with cash and cash equivalents balance of \$192.3 million compared with \$245.3 million at the end of the prior quarter. Long-term debt and line of credit borrowings were \$1.9 billion. The company used \$774.5 million of cash in operating activities and capex was \$23.7 million. The company paid out dividends of \$50.8 million in the quarter. H&R Block repurchased and retired 2.8 million shares at an aggregate price of \$65.8 million.

Outlook

The company reaffirmed its fiscal 2020 revenue growth and margin outlook. It continues to expect total revenue growth of 1.5% to 3.5%. EBITDA margin is expected between 24% and 26%. The company's effective tax rate expectation is 19-21%.

Recent News

On **May 7, 2020**, H&R Block announced that it is launching a Recovery Action Plan consulting service to help small businesses navigate the CARES Act stimulus options, including loan programs, and tax credits.

On **Mar 26, 2020**, H&R Block provided an update about its business operations and liquidity amid the impacts of the coronavirus outbreak.

On **Mar 3, 2020**, H&R Block's board of directors declared a quarterly cash dividend of 26 cents per share, payable on Apr 1, 2020, to shareholders of record as of Mar 17, 2020.

Valuation

H&R Block shares are down 37.4% in the year-to-date period and 46.3% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Business Services sector are down 26.2% and 13.9% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 31.3% and 8.3%, respectively.

The S&P 500 index is down 12.4% in the year-to-date period and 1.4% in the past year.

The stock is currently trading at 4.74X price to forward 12 months' earnings, which compares to 10.86X for the Zacks sub-industry, 27.13X for the Zacks sector and 20.44X for the S&P 500 index.

Over the past five years, the stock has traded as high as 17.27X and as low as 4.17X, with a 5-year median of 13.10X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$16.00 price target reflects 5.16X forward 12-month earnings.

The table below shows summary valuation data for HRB

Valuation Multiples - HRB					
		Stock	Sub-Industry	Sector	S&P 500
P/E F 12M	Current	4.74	10.86	27.13	20.44
	5-Year High	17.27	21.5	27.13	20.79
	5-Year Low	4.17	8.53	16.2	15.19
	5-Year Median	13.1	16.46	19.92	17.45
P/S F 12M	Current	0.81	0.44	1.92	3.18
	5-Year High	3.2	2.38	3.2	3.44
	5-Year Low	0.68	0.4	1.67	2.54
	5-Year Median	1.75	1.4	2.53	3.02
EV/EBITDA TTM	Current	7.24	7.54	9.49	10.2
	5-Year High	12.67	9.67	17.63	12.86
	5-Year Low	4.85	6.1	8.28	8.28
	5-Year Median	7.4	7.6	12.32	10.77

As of 05/13/2020

Industry Analysis Zacks Industry Rank: Bottom 20% (203 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Blucora Inc (BCOR)	Neutral	4
Broadridge Financial Solutions Inc (BR)	Neutral	3
Equifax Inc (EFX)	Neutral	3
Fiserv Inc (FISV)	Neutral	3
Global Payments Inc (GPN)	Neutral	3
Intuit Inc (INTU)	Neutral	3
Paychex Inc (PAYX)	Neutral	4
East West Bancorp Inc (EWBC)	Underperform	4

Industry Comparison Industry: Consumer Services - Miscellaneous				Industry Peers		
	HRB	X Industry	S&P 500	EFX	INTU	PAYX
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	2	-	-	3	3	4
VGM Score	C	-	-	F	B	B
Market Cap	2.83 B	779.49 M	18.76 B	17.35 B	72.20 B	22.21 B
# of Analysts	5	4	14	11	10	12
Dividend Yield	7.07%	0.00%	2.23%	1.09%	0.76%	4.01%
Value Score	A	-	-	F	D	D
Cash/Price	0.12	0.12	0.06	0.02	0.03	0.04
EV/EBITDA	5.81	6.02	11.39	1,280.07	33.15	12.48
PEG Ratio	0.45	1.16	2.54	13.14	2.90	2.57
Price/Book (P/B)	NA	2.25	2.56	7.14	19.37	8.05
Price/Cash Flow (P/CF)	4.94	6.38	10.04	16.91	42.44	15.45
P/E (F1)	4.54	12.07	18.48	32.05	37.01	20.53
Price/Sales (P/S)	0.90	0.52	1.91	4.79	10.13	5.41
Earnings Yield	21.35%	8.42%	5.09%	3.12%	2.70%	4.88%
Debt/Equity	-6.82	0.04	0.75	1.44	0.10	0.33
Cash Flow (\$/share)	2.98	2.66	7.01	8.45	6.53	4.01
Growth Score	F	-	-	F	A	B
Hist. EPS Growth (3-5 yrs)	10.41%	7.93%	10.82%	5.44%	26.40%	10.95%
Proj. EPS Growth (F1/F0)	102.98%	-16.85%	-10.51%	-20.67%	10.93%	6.19%
Curr. Cash Flow Growth	-24.47%	7.99%	5.83%	0.48%	18.22%	10.82%
Hist. Cash Flow Growth (3-5 yrs)	1.16%	9.50%	8.52%	8.37%	9.68%	12.37%
Current Ratio	0.97	0.97	1.27	1.00	1.67	1.19
Debt/Capital	NA%	49.20%	44.25%	59.06%	9.10%	24.63%
Net Margin	12.96%	1.42%	10.59%	7.45%	22.89%	26.98%
Return on Equity	416.90%	10.34%	16.36%	27.87%	41.03%	41.68%
Sales/Assets	1.00	1.11	0.54	0.48	1.09	0.46
Proj. Sales Growth (F1/F0)	31.53%	0.00%	-2.55%	-2.13%	9.14%	8.15%
Momentum Score	B	-	-	C	A	A
Daily Price Chg	-5.89%	-1.65%	-2.85%	-1.77%	-1.60%	-3.31%
1 Week Price Chg	1.00%	2.72%	3.23%	8.33%	7.36%	0.77%
4 Week Price Chg	8.80%	2.22%	-0.28%	15.00%	10.00%	-4.59%
12 Week Price Chg	-36.32%	-22.92%	-23.80%	-11.73%	-9.31%	-31.30%
52 Week Price Chg	-46.31%	-24.26%	-13.31%	20.37%	13.99%	-27.21%
20 Day Average Volume	3,072,892	220,706	2,552,088	978,205	1,138,099	2,279,480
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	-0.20%	0.00%
(F1) EPS Est 4 week change	0.00%	-6.32%	-6.15%	-18.86%	-0.20%	-0.19%
(F1) EPS Est 12 week change	22.96%	-23.92%	-16.21%	-22.31%	-0.45%	-2.92%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	-12.28%	-37.19%	1,129.17%	-0.29%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	A
Growth Score	F
Momentum Score	B
VGM Score	C

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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