

H&R Block (HRB)

\$14.88 (As of 08/13/20)

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

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 07/07/20)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:A

Value: A

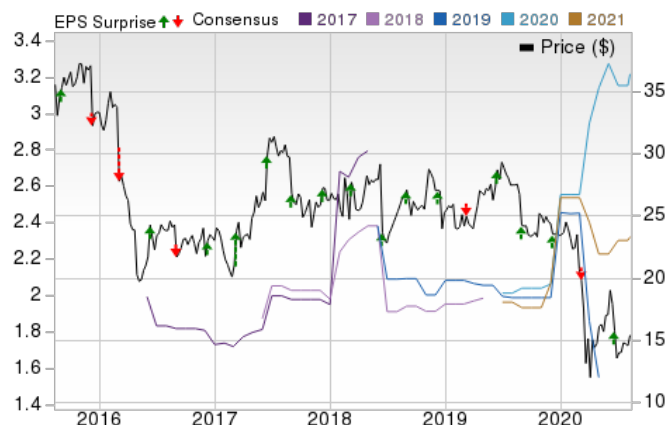
Growth: B

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 declined significantly over the past year. Seasonality causes considerable fluctuations in revenues and makes profit forecasting difficult. The company also faces huge litigations.

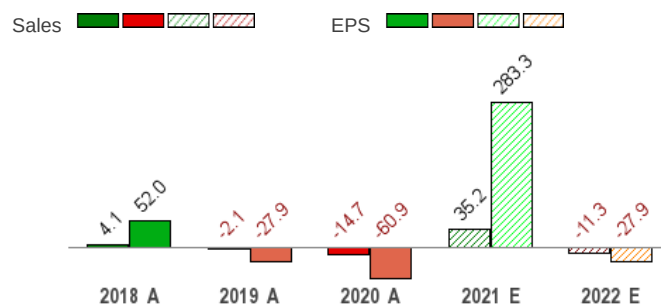
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$27.84 - \$11.29
20 Day Average Volume (sh)	3,133,678
Market Cap	\$2.9 B
YTD Price Change	-36.6%
Beta	0.77
Dividend / Div Yld	\$1.04 / 7.0%
Industry	Consumer Services - Miscellaneous
Zacks Industry Rank	Bottom 27% (183 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	0.0%
Last Sales Surprise	4.3%
EPS F1 Est- 4 week change	2.0%
Expected Report Date	09/01/2020
Earnings ESP	-16.7%
P/E TTM	17.5
P/E F1	4.6
PEG F1	0.5
P/S TTM	1.1

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022					3,168 E
2021	558 E	164 E	524 E	2,307 E	3,570 E
2020	150 A	161 A	519 A	1,809 A	2,640 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022	-\$0.78 E	-\$0.99 E	-\$0.52 E	\$4.61 E	\$2.32 E
2021	\$0.37 E	-\$0.92 E	-\$0.51 E	\$4.28 E	\$3.22 E
2020	-\$0.72 A	-\$0.85 A	-\$0.59 A	\$3.01 A	\$0.84 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 08/13/2020. The reports text is as of 08/14/2020.

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.

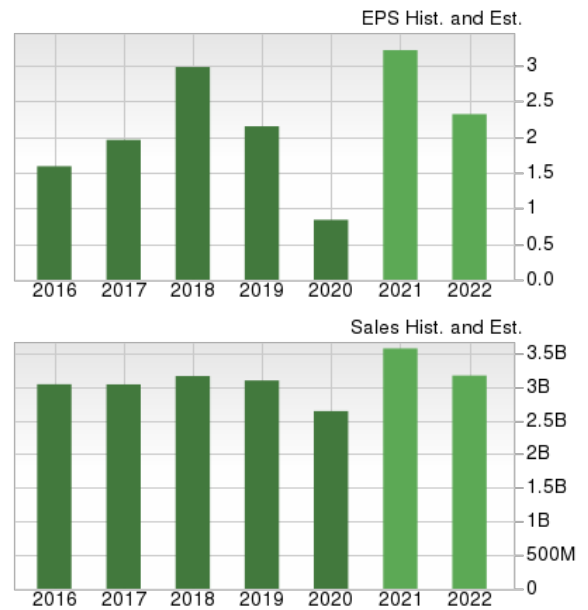
The company's assisted income tax return preparation services are provided through a system of retail offices operated directly by the company or by franchisees. H&R Block's DIY tax services include preparation of federal and state income tax returns, advice and tax-related news, access to tax tips, 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's **cash generation capacity** allows it to pursue opportunities that exhibit true potential and positions it for sustainable clients, revenue and earnings growth. The company exited the fourth quarter of fiscal 2020 with cash and cash equivalents balance of \$2.66 billion compared with \$192.34 million at the end of the prior quarter.

▲ We believe the main drivers of the company's performance post the pandemic will be digital enablement of business, client addition and retention in both Assisted and DIY, greater **usage of AI, and machine learning** for product improvement and expansion in small business.

Reasons To Sell:

- ▼ H&R Block's performance is currently weighed down due to **delayed tax season** in response to the coronavirus pandemic. The deadline for Federal filing was extended to Jul 15. Moreover, as small businesses have been badly hit by the pandemic, volumes and revenues through the company's Wave payments platform are low.
- ▼ 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 45.4% 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.
- ▼ A **debt-laden balance sheet** with high debt-to-capital ratio indicates increased risk of insolvency in challenging times. Total debt at the end of fourth-quarter fiscal 2020 was \$4 billion, up from \$3 billion at the end of the prior quarter. Total debt to total capital ratio of 0.98 is higher than the industry's 0.93.

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

Last Earnings Report

H&R Block Q4 Earnings Match Estimate

H&R Block, Inc.'s fourth-quarter fiscal 2020 earnings matched the Zacks Consensus Estimate while revenues surpassed the same.

Adjusted earnings per share came in at \$3.01 down 30.3% year over year. Revenues of \$1.81 billion surpassed the consensus estimate by 4.3% and declined 22.3% year over year.

The year-over-year decline in both top and bottom lines is due to delayed tax season in response to the coronavirus pandemic. The deadline for Federal filing has been extended to Jul 15.

Moreover, as small businesses have been badly hit by the pandemic, volumes and revenues through the company's Wave payments platform were low in the quarter.

Other Quarterly Numbers

Adjusted EBITDA from continuing operations came in at \$819.62 million, down 31.5% year over year. Adjusted EBITDA margin of 45.3% from continuing operations declined from 51.3% in the year-ago quarter. Total operating expenses were \$1.14 billion, down 3.3% year over year.

H&R Block exited the quarter with cash and cash equivalents balance of \$2.66 billion compared with \$192.34 million at the end of the prior quarter. Long-term debt and line of credit borrowings were \$2.85 billion.

The company generated \$1.58 billion of cash from operating activities and capex was \$15.18 million. The company paid out dividends of \$50 million in the quarter.

Quarter Ending 04/2020

Report Date	Jun 16, 2020
Sales Surprise	4.33%
EPS Surprise	0.00%
Quarterly EPS	3.01
Annual EPS (TTM)	0.85

Recent News

On **Jun 26, 2020**, H&R Block announced Lindsey Lanzisero as the new Vice President of Total Rewards.

On **Jun 11, 2020**, H&R Block's Wave Financial announced the launch of Wave Money, a small business banking and bookkeeping solution with built-in bookkeeping and no banking fees.

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.

Valuation

H&R Block shares are down 36.6% in the year-to-date period and 45.4% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Consumer Discretionary sector are down 7.5% and 3.6% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry is down 14.6% but the sector is up 9.5%.

The S&P 500 index is up 4.7% in the year-to-date period and 18.6% in the past year.

The stock is currently trading at 5.03X price to forward 12 months' earnings, which compares to 12.71X for the Zacks sub-industry, 30.06X for the Zacks sector and 22.87X 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 12.91X. Our Neutral recommendation indicates that the stock will perform in-line the market. Our \$16.00 price target reflects 5.41X 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	5.03	12.71	30.06	22.87
	5-Year High	17.27	21.5	30.06	22.87
	5-Year Low	4.17	8.53	18.68	15.25
	5-Year Median	12.91	16.26	20.96	17.58
P/S F12M	Current	0.83	0.51	4.2	3.7
	5-Year High	3.2	2.38	4.2	3.7
	5-Year Low	0.68	0.4	3.07	2.53
	5-Year Median	1.72	1.4	3.6	3.05
EVEBITDA TTM	Current	7.96	9.34	12.71	12.72
	5-Year High	12.67	9.72	13.36	12.84
	5-Year Low	4.85	6.1	8.6	8.24
	5-Year Median	7.49	7.68	10.67	10.9

As of 08/13/2020

Industry Analysis Zacks Industry Rank: Bottom 27% (183 out of 252)



Top Peers

Company (Ticker)	Rec	Rank
The Providence Service Corporation (PRSC)	Outperform	2
RentACenter, Inc. (RCII)	Outperform	2
BrightView Holdings, Inc. (BV)	Neutral	4
Cimpress plc (CMPR)	Neutral	1
Emerald Expositions Events, Inc. (EEX)	Neutral	3
Green Dot Corporation (GDOT)	Neutral	3
Monro Muffler Brake, Inc. (MNRO)	Neutral	3
SP Plus Corporation (SP)	Underperform	5

Industry Comparison Industry: Consumer Services - Miscellaneous				Industry Peers		
	HRB	X Industry	S&P 500	BV	CMPR	RCII
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Outperform
Zacks Rank (Short Term)	4	-	-	4	1	2
VGM Score	A	-	-	A	C	A
Market Cap	2.87 B	1.29 B	23.58 B	1.30 B	2.49 B	1.72 B
# of Analysts	5	3	14	5	2	6
Dividend Yield	6.99%	0.00%	1.68%	0.00%	0.00%	3.64%
Value Score	A	-	-	A	C	A
Cash/Price	0.97	0.10	0.07	0.07	0.08	0.12
EV/EBITDA	8.57	8.57	13.34	8.80	10.46	2.11
PEG Ratio	0.47	2.37	2.99	NA	1.78	NA
Price/Book (P/B)	40.31	3.28	3.20	1.03	NA	3.53
Price/Cash Flow (P/CF)	6.46	8.87	12.83	5.29	11.27	2.16
P/E (F1)	4.70	18.11	21.99	13.64	35.56	12.16
Price/Sales (P/S)	1.09	0.88	2.53	0.55	1.00	0.63
Earnings Yield	21.64%	5.52%	4.35%	7.33%	2.81%	8.22%
Debt/Equity	44.46	0.91	0.77	0.91	-3.79	0.97
Cash Flow (\$/share)	2.30	2.35	6.94	2.35	8.54	14.77
Growth Score	B	-	-	B	D	A
Hist. EPS Growth (3-5 yrs)	4.10%	6.33%	10.41%	NA	25.63%	6.33%
Proj. EPS Growth (F1/F0)	282.86%	-21.69%	-6.32%	-20.87%	6.92%	17.04%
Curr. Cash Flow Growth	-27.59%	-4.60%	5.20%	-4.60%	-13.32%	7.99%
Hist. Cash Flow Growth (3-5 yrs)	-7.32%	6.25%	8.55%	NA	13.31%	-1.53%
Current Ratio	1.96	1.35	1.33	1.35	0.51	2.37
Debt/Capital	97.80%	53.98%	44.59%	47.77%	NA	49.24%
Net Margin	-0.29%	0.82%	10.13%	-0.44%	3.36%	5.90%
Return on Equity	-1,927.00%	6.60%	14.51%	6.60%	-26.30%	30.41%
Sales/Assets	0.73	1.04	0.51	0.78	1.27	1.73
Proj. Sales Growth (F1/F0)	35.24%	0.00%	-1.43%	-2.89%	1.14%	4.24%
Momentum Score	B	-	-	A	A	C
Daily Price Chg	-1.72%	-0.90%	-0.44%	-2.74%	-1.77%	-1.91%
1 Week Price Chg	5.86%	4.77%	2.30%	5.94%	-1.71%	10.65%
4 Week Price Chg	-0.47%	3.63%	4.38%	4.11%	18.81%	16.52%
12 Week Price Chg	-12.42%	-0.69%	13.59%	-10.46%	20.25%	27.06%
52 Week Price Chg	-45.39%	-8.50%	5.75%	-31.47%	-16.66%	22.00%
20 Day Average Volume	3,133,678	151,537	1,984,154	371,130	192,623	533,314
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	-1.55%
(F1) EPS Est 4 week change	2.03%	9.07%	2.08%	13.74%	93.91%	20.58%
(F1) EPS Est 12 week change	-1.73%	8.49%	2.66%	13.74%	93.91%	34.58%
(Q1) EPS Est Mthly Chg	0.00%	1.68%	0.94%	14.13%	132.96%	41.40%

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	B
Momentum Score	B
VGM Score	A

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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