

H&R Block FY24

Financial Results Conference Call Transcript

August 15, 2024

[Introduction & Forward-Looking Statements]

Michaella Gallina, Vice President, Investor Relations: Thank you, operator. Good afternoon, everyone, and welcome to H&R Block's fiscal year 2024 financial results conference call. Joining me today are Jeff Jones, our president and chief executive officer, and Tony Bowen, our chief financial officer.

Earlier today, we issued a press release and presentation, that can be downloaded or viewed live on our website at investors.hrblock.com. Our call is being broadcast and webcast live, and a replay of the webcast will be available for 90 days.

Before we begin, I'd like to remind listeners that comments made by management may include forward-looking statements within the meaning of federal securities laws. These statements involve material risks and uncertainties, and actual results could differ from those projected in any forward-looking statement due to numerous factors. For a description of these risks and uncertainties, please see H&R Block's Annual Report on Form 10-K and Quarterly Reports on Form 10-Q, as updated periodically with our other SEC filings.

Please note, some metrics we'll discuss today are presented on a non-GAAP basis. We've reconciled the comparable GAAP and non-GAAP figures in the appendix of our presentation.

Finally, the content of this call contains time-sensitive information accurate only as of today, August 15, 2024. H&R Block undertakes no obligation to revise or otherwise update any statements to reflect events or circumstances after the date of this call.

With that, I will now turn it over to Jeff.

[Opening Remarks]

Jeff Jones, President, and Chief Executive Officer: Good afternoon, everyone, and thanks for joining us today. We will begin by sharing our results for the full fiscal year and the progress we continue to make on our Block Horizons imperatives; then Tony will discuss our financial performance and outlook for fiscal '25, and then we'll open it up for Q&A.

Beginning with our FY24 results: I am pleased that we were able to deliver another year of revenue growth, EBITDA that grows even faster, and double-digit EPS growth.

Our DIY business continued its momentum with market share gains for the second consecutive year. Performance was driven by paid client and NAC growth, as well as ongoing strength in our Tax Pro Review product. I was pleased with how fast we were able to launch AI Tax Assist, which resulted in higher new client conversion, and our customer satisfaction scores remained strong.

In Assisted, our brand continued to resonate with higher value clients, and we were able to grow NAC; trends in Assisted small business tax also remained positive this year.

In addition, we're continuing to drive value for shareholders through our capital allocation practice. In fact, today we announced another 17% increase to our quarterly dividend as well as a new repurchase authorization of \$1.5 billion dollars which replaces the prior authorization. Since 2016 through today, we have increased the dividend 88% and repurchased more than 40% of shares outstanding.

Looking to fiscal '25, we feel well positioned to deliver for clients and shareholders; and Tony will share more about our Outlook in a moment. But first, let me turn to our Block Horizons strategy, where we continue to make important progress in all three of our strategic imperatives.

[Small Business & Wave]

Starting with Small Business - we had another good year in tax, delivering revenue growth in the mid-single digits. NAC grew 3%, entity trends remained strong, and bookkeeping and payroll had another year of double-digit growth. Our centralized fulfillment model alongside our dedicated sales team have driven services client conversion, and we continue to see a lot of opportunity ahead.

Turning to Wave, I'm pleased with the progress that has been made in the last year on our key priorities to accelerate revenue growth and drive profitability. You'll recall we recently launched a new paid subscription solution, called Pro-Tier. This, along with our paid receipt product, are designed to further empower small business owners to manage their business better. These products have been performing better than anticipated. For the full year, revenue growth was 7%. We continue to improve the losses in the business and expect ongoing positive trends in FY25.

[Financial Products: Spruce]

Moving on to our Financial Products imperative, we are pleased with the growth of our mobile banking platform, Spruce, and its performance in both the Assisted and DIY channels this season. Since launch through June 30, Spruce has 476 thousand sign ups and we are nearing a milestone of \$1 billion dollars in customer deposits. We are pleased to see positive deposit

trends, with nearly 50% coming from non-tax sources this year. In fact, last month deposits increased 60% year over year.

At the same time, Spruce is continuing to deliver on its mission to help people be better with money. We're excited about new innovations that will be rolling out in the coming months, and our team is focused on acquiring users in and out of the tax season.

[Block Experience]

Now let's turn to Block Experience, which is all about blending digital tools with human expertise and care. We feel great about how we're positioned to serve clients however they want to be served – fully virtual to fully in person and every way in between.

In DIY, our strategy continues to deliver, and we're pleased with the results. As I mentioned, we had meaningful growth in paid clients and NAC, which translated to strong revenue growth of 11% this year. AI Tax Assist performed well, and we're excited about our genAI use cases which have the potential to drive future efficiencies and cost savings. We look forward to continuing this momentum in fiscal year '25.

In the Assisted channel, we were pleased with our NAC growth, improved client satisfaction scores, and success in attracting and serving higher value clients. We're clear about where we

can improve the experience for clients, and recently welcomed Curtis Campbell as President of Global Consumer Tax and Chief Product Officer, who has more than ten years of tax industry experience. His impact is already being felt across the organization and I'm excited about his leadership.

Over the last few years, we've made significant strides in our products, services, and features through our Block Horizons plan, and I'm feeling very good about our positioning for fiscal year '25.

Before I turn things over to Tony to share more about our financial performance and outlook, I want to take a moment to thank him for his incredible tenure at H&R Block.

[Management Transitions]

As we shared on the Q2 call, Tony made the personal decision to retire after a 20-year career with Block.

Tony has been an integral part of our company, playing a key role in our growth, transformation, and success. His financial acumen, strategic insights, and industry experience have been invaluable to our team.

During his tenure, Tony helped us navigate through numerous challenges and opportunities, ensuring that we remain on strong financial footing. He began his career with H&R Block as a Senior Treasury Analyst and has since held multiple executive roles. Under his leadership as CFO, we have returned more than \$3.9 billion dollars to shareholders. His impact on H&R Block will be felt for years to come.

On behalf of the entire Block family and our Board of Directors, I want to extend our gratitude to Tony for his years of service and leadership and we wish him all the best in his retirement and future endeavors.

As you may have seen in our announcement last week, I am pleased to share that we have hired Tony's successor. Tiffany Mason brings a proven track record of financial leadership in consumer services, retail, and franchising, which are all critical to our business. She most recently served as EVP and CFO at Driven Brands, a high-growth auto services company, where she drove strong organic and inorganic growth and led the company through a successful IPO. Prior to that, Tiffany spent 13 years at Lowe's, a Fortune 50 omni-channel home improvement retailer. Tony and Tiffany are working closely together to ensure a seamless transition, and she will officially step into the role of CFO on September 13th.

In addition, as we continue to transform H&R Block into an agile and innovative company that delivers more value to our clients, associates, and shareholders, I've also added another key member to our senior leadership team. Scott Manuel joined last week as Chief Strategy and Operations Officer and reports directly to me. Within his role, Scott is overseeing functions essential to driving our long-term enterprise strategy and improving our execution. Scott has a long history of delivering customer-centric innovation in complex and dynamic environments – he's an accomplished engineer, has worked in large scale companies and private equity, and across industries, and is steeped in artificial intelligence.

I'm thrilled to have Curtis, Tiffany, and Scott join the already strong Senior Leadership Team.

With that, Tony, I will now turn it over to you.

Tony Bowen, Chief Financial Officer: Thank you, Jeff. It's been an incredible journey, and I'm deeply grateful for the career I've had at H&R Block.

First and foremost, I want to thank our finance department and associates, whose hard work and commitment have been instrumental in driving our success. I also want to extend my gratitude to our Board of Directors, shareholders, and investors for their support and trust.

As I look back on my time with the company, I'm immensely proud of what we have accomplished together. I'm confident that Block will continue to drive value for shareholders in the years to come.

[FY24 Financial Results]

With that, I will now turn to our fiscal year '24 results:

We delivered \$3.6 billion dollars of revenue, an increase of 4% or \$138 million dollars, primarily due to a higher net average charge and company-owned volumes in the Assisted category, combined with greater online paid returns at a higher net average charge in DIY, partially offset by lower Emerald Card® activity in the current year.

Total operating expenses in the year were \$2.8 billion dollars, an increase of 3% or \$82 million dollars, primarily due to higher labor costs and bad debt expense, partially offset by lower consulting and outsourced services.

Interest expense was \$79 million dollars, an increase of 8% over prior year due to higher draws on our line of credit and the higher rate environment.

Pretax income was \$762 million dollars, an increase of \$51 million dollars, or 7%, primarily due to higher revenues in the current year.

Our effective tax rate was 21.6% for the full year versus 21% in the prior year.

Turning to EBITDA, we delivered \$963 million dollars compared to \$915 million dollars in the prior year, an increase of more than 5%. We are pleased with another year of growing EBITDA faster than revenue.

Earnings per share from continuing operations increased from \$3.56 to \$4.14, or 16%, while adjusted earnings per share from continuing operations increased from \$3.82 to \$4.41, or 15%.

In FY24, we acquired a total of 158 franchise offices. We feel great about franchisees' willingness to sell to us and are pleased with how this strategy supports our longer-term revenue and earnings growth.

[Capital Allocation Remains Strong]

As Jeff shared, our capital allocation story remains strong. Regardless of year-to-year nuances, our disciplined approach drives meaningful value for shareholders. We produce significant and stable cash flow, pay a growing dividend, and buy back a material number of shares.

We also today announced a 17% increase in our quarterly dividend to 37 and a half cents per share. Since 2016, we've increased the dividend by 88%.

In FY24 we completed \$350 million dollars of share repurchases at an average price of \$43.66; and today we are pleased to announce a new share repurchase authorization of \$1.5 billion dollars.

Since 2016, we have repurchased more than \$2.3 billion dollars, retiring over 89 million shares, or more than 40% of shares outstanding at an average price of \$26.74.

[FY25 Outlook]

Now turning to our FY25 outlook, let me begin with context around the assumptions we've made:

- First, we believe the industry growth next year will be in line with historical trends, or about 1%.

- Second, we assume that we will maintain market share in the overall tax category - but our goal, of course, is always to grow share.
- Third, we expect to continue taking low single digit price, which we successfully executed again this year with customer satisfaction scores remaining strong.
- Fourth, we expect Wave and Small Business to continue to be revenue growth drivers, and
- Lastly, we will continue to repurchase franchise locations opportunistically.

As a result, our outlook for FY25 is for:

- Revenue to be in the range of \$3.69 to \$3.75 billion dollars.
- EBITDA to be in the range of \$975 million to \$1.02 billion dollars.
- EPS to be in the range of \$5.15 to \$5.35, which will benefit from an unusually low effective tax rate of approximately 13%. The tax rate is positively impacted due to the anticipated closure of various matters under examination and the expiration of statute of limitations. We expect this to contribute approximately 50 cents to EPS in fiscal year '25.

As we have shared, we have multiple levers to drive annual revenue growth in our targeted range of 3-6%; and we believe we can leverage our cost structure for EBITDA to outpace

revenue, while utilizing share repurchase to grow EPS even faster. All in all, we are well positioned for fiscal '25 and beyond.

In closing, it has been an honor to serve as CFO, and I look forward to seeing the company's continued success in the years to come.

With that, I will now turn it back over to Jeff for some closing remarks.

[Closing Remarks]

Jeff Jones, President, and Chief Executive Officer: Thank you, Tony. As I reflect on all that we have accomplished, I am grateful for our associates and team. Every day, we strive to deliver on our Purpose of providing help and inspiring confidence in our clients and communities everywhere.

I would like to extend a sincere and meaningful thank you to our tax professionals, our franchisees, and our associates who make our success possible.

I am looking forward to all we will accomplish in the next year and sharing our Q1 results in November.

Now, operator, we will open the line for questions.

[Q&A]

Forward-Looking Statements

These materials contain forward-looking statements within the meaning of the securities laws. Forward-looking statements can be identified by the fact that they do not relate strictly to historical or current facts. They often include words or variation of words such as "expects," "anticipates," "intends," "plans," "believes," "commits," "seeks," "estimates," "projects," "forecasts," "targets," "would," "will," "should," "goal," "could," "may," or other similar expressions. Forward-looking statements provide management's current expectations or predictions of future conditions, events or results. All statements that address operating performance, events or developments that we expect or anticipate will occur in the future are forward-looking statements. They may include estimates of revenues, client trajectory, income, effective tax rate, earnings per share, cost savings, capital expenditures, dividends, share repurchases, liquidity, capital structure, market share, industry volumes, or other financial items, descriptions of management's plans or objectives for future operations, products or services, or descriptions of assumptions underlying any of the above. They may also include the expected impact of external events beyond the Company's control, such as outbreaks of infectious disease, severe weather events, natural or manmade disasters, or changes in the regulatory environment in which we operate. All forward-looking statements speak only as of the date they are made and reflect the Company's good faith beliefs, assumptions and expectations, but they are not guarantees of future performance or events. Furthermore, the Company disclaims any obligation to publicly update or revise any forward-looking statement to reflect changes in underlying assumptions, factors, or expectations, new information, data or methods, future events or other changes, except as required by law. By their nature, forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially from those suggested by the forward-looking statements. Factors that might cause such differences include, but are not limited to a variety of economic, competitive, and regulatory factors, many of which are beyond the Company's control, that are described in our Annual Report on Form 10-K for the most recently completed fiscal year in the section entitled "Risk Factors" and additional factors we may describe from time to time in other filings with the Securities and Exchange Commission. You may get such filings for free at our website at <http://investors.hrblock.com>. In addition, factors that may cause the Company's actual effective tax rate to differ from estimates include the Company's actual results from operations compared to current estimates, future discrete items, changes in interpretations and assumptions the Company has made, future actions of the Company, and increases in applicable tax rates in jurisdictions where the Company operates. You should understand that it is not possible to predict or identify all such factors and, consequently, you should not consider any such list to be a complete set of all potential risks or uncertainties.

Non-GAAP Measures

We refer to certain Non-GAAP financial measures in these materials, including adjusted earnings per share (EPS), earnings before interest, taxes, depreciation, and amortization (EBITDA), free cash flow, and free cash flow yield, which management believes provide additional meaningful information regarding the Company's performance and financial strength. All non-GAAP financial measures in these materials are from continuing operations. Non-GAAP financial measures should not be considered as a substitute for, or superior to, measures of financial performance prepared in accordance with accounting principles generally accepted in the United States (GAAP). Because these measures are not measures of financial performance under GAAP and are susceptible to varying calculations, they may not be comparable to similarly titled measures for other companies. For a description of these non-GAAP financial measures, including the reasons management uses each measure, and reconciliations of these non-GAAP financial measures to the most directly comparable financial measures prepared in accordance with GAAP, please refer to the tables accompanying these materials and previously filed press releases posted on our investor relations website at <https://investors.hrblock.com>.

Market, Industry, and Operational Tax Data

The data included in these materials regarding the tax preparation services industry, including trends in the market and the Company's position and the position of its competitors within this industry, are based on the Company's estimates, which have been derived from management's knowledge and experience in the industry, and information obtained from customers, trade and business organizations, internal research, publicly available information, industry publications and surveys and other contacts in the industry. The Company has also cited information compiled by industry publications, governmental agencies and publicly available sources. Although the Company believes these third-party sources to be reliable, it has not independently verified the data obtained from these sources and it cannot assure you of the accuracy or completeness of the data. Estimates of market size and relative positions in a market are difficult to develop and inherently uncertain and the Company cannot assure you that it is accurate. Accordingly, you should not place undue weight on the industry and market share data presented in these materials.