



# **H&R BLOCK<sup>®</sup>**

2<sup>nd</sup> Quarter Fiscal 2017 Earnings Call  
December 7, 2016

# Safe Harbor Statement

## Forward-Looking Statements

This presentation contains 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," "seeks," "estimates," "projects," "forecasts," "targets," "would," "will," "should," "goal," "could" or "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, income, earnings per share, cost savings, capital expenditures, dividends, share repurchases, liquidity, capital structure 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. 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 fiscal year ended April 30, 2016 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>. 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 this presentation. 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 our press release filed on December 7, 2016 and our previously filed press releases, both of which are posted on our investor relations website at <http://investors.hrblock.com>.

## Market and Industry Data

The data included in this presentation 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 this presentation.

# **BILL COBB**

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PRESIDENT AND CEO

# TONY BOWEN

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CFO

# Q2 FY17 Summary – Continuing Operations

| (in millions, except EPS)             | GAAP Actual      |                  | Non-GAAP Adjusted <sup>1</sup> |                  |
|---------------------------------------|------------------|------------------|--------------------------------|------------------|
|                                       | Fiscal Year 2017 | Fiscal Year 2016 | Fiscal Year 2017               | Fiscal Year 2016 |
| <b>Revenue</b>                        | \$ 131           | \$ 128           | \$ 131                         | \$ 128           |
| <b>Pretax Loss</b>                    | \$ (228)         | \$ (238)         | \$ (229)                       | \$ (225)         |
| <b>Net Loss</b>                       | \$ (143)         | \$ (143)         | \$ (144)                       | \$ (135)         |
| <b>Weighted-Avg. Shares - Diluted</b> | 215.5            | 266.3            | 215.5                          | 266.3            |
| <b>EPS<sup>2</sup></b>                | \$ (0.67)        | \$ (0.54)        | \$ (0.67)                      | \$ (0.51)        |
| <b>EBITDA<sup>1</sup></b>             | \$ (160)         | \$ (181)         | \$ (161)                       | \$ (169)         |

<sup>1</sup>EBITDA (earnings before interest, taxes, depreciation, and amortization) and adjusted financial performance are non-GAAP financial measures. Please refer to our December 7, 2016 earnings release, posted to our investor relations website at <http://investors.hrblock.com>, for more information regarding financial measures not prepared in accordance with GAAP, and for reconciliations of these non-GAAP financial measures to the most directly comparable financial measures prepared in accordance with GAAP.

<sup>2</sup>All per share amounts are based on fully diluted shares at the end of the corresponding period.



# Selling legacy mortgage portfolio

- Non-core asset that was retained after divestiture of H&R Block Bank
- Improved market conditions make it favorable to liquidate
- Moved asset on the balance sheet from held for investment to held for sale as of the end of Q2
- Expect cash proceeds of approximately \$190 million
  - Exceeds current book value of \$183 million

# Share repurchases continued in Q2

- Repurchased 7.6 million shares in Q2 for \$168 million
- Fiscal year-to-date repurchases through Q2 of 9.6 million shares at an aggregate price of \$217 million
- Future share repurchases will be opportunistic as a component of overall capital allocation strategy

# TAX SEASON 2017

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FINANCIAL OUTLOOK



# Refund Advance Summary

- Interest-free, no-fee loan
- Seamless process for clients
- Individual loan amounts of \$1,250, \$750 or \$500 based on client eligibility
- Approval notification and funds loaded onto H&R Block Emerald Card typically within 24 hours after application
- Cost to HRB of \$32-\$36 on average per loan
- Recently added \$200 million of capacity to the program, bringing total available funding to \$1.65 billion

**YOU COULD GET A  
REFUND  
ADVANCE  
OF UP TO  
\$1,250\*  
AFTER YOU FILE.**

**No-Interest Loan<sup>1</sup>.**

Available beginning Jan. 9.  
Limited time offer.

<sup>1</sup>This is an optional loan and not your tax refund. Limited time offer; at participating locations. Not offered in Puerto Rico. Approval and loan amount based on estimated refund, outstanding debt and other factors. Creditor is MetaBank®, Member FDIC. Funds loaded on a prepaid card. Fees for other products may apply. The loan is a tax refund-related credit product. Maine License Number FRA2. See [hrblock.com/loan](http://hrblock.com/loan) for details.

# Outlook on return volume and pricing

|                              | Assisted | DIY |
|------------------------------|----------|-----|
| Return Volume                |          |     |
| Net Average Charge (Pricing) |          |     |

*Note: references are in comparison to Fiscal Year 2016; See <https://www.hrblock.com/offers> for further information on new products and promotions*

# Outlook on return volume and pricing

|                                     | Assisted  | DIY |
|-------------------------------------|---|-----|
| <b>Return Volume</b>                | <p><b><i>Significantly reduce client losses in FY17</i></b></p> <ul style="list-style-type: none"><li>▪ Right strategy in place</li><li>▪ Expect growth in future years</li></ul> |     |
| <b>Net Average Charge (Pricing)</b> |   |     |

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| <b>Net Average Charge (Pricing)</b> | <p><i>Flat to slightly lower in FY17</i></p> <ul style="list-style-type: none"><li>▪ Impacted by Free 1040EZ</li><li>▪ Moderate price increases in other forms</li></ul>   |     |

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# Outlook on return volume and pricing

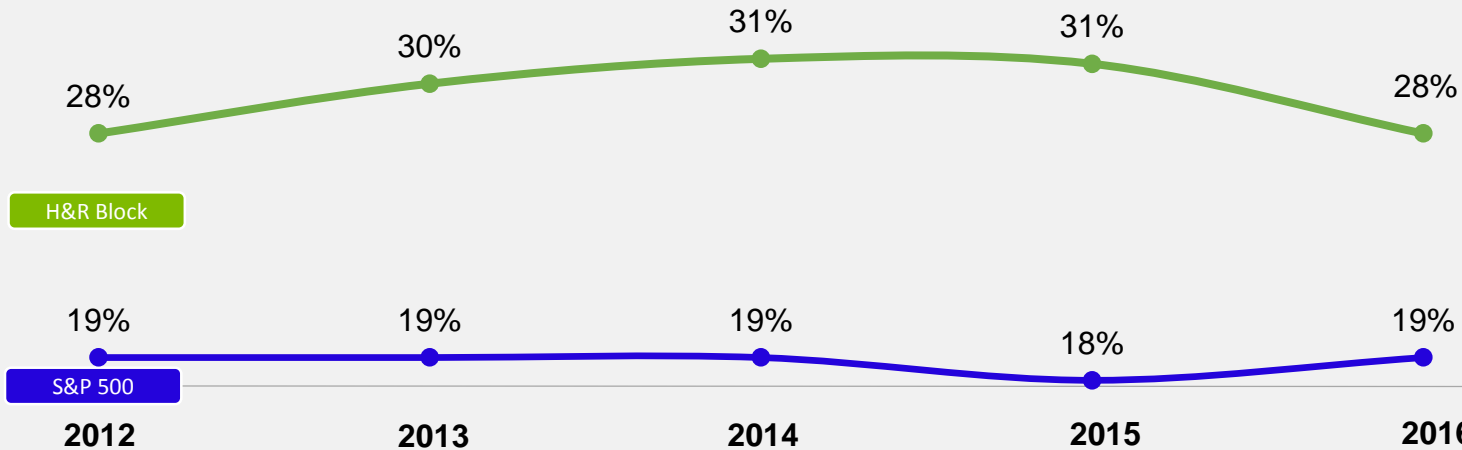
|                                     | Assisted  | DIY   |
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Note: references are in comparison to Fiscal Year 2016; See <https://www.hrblock.com/offers> for further information on new products and promotions



# Maintaining strong EBITDA margins despite investments in client growth initiatives

Adjusted EBITDA Margin<sup>1</sup>



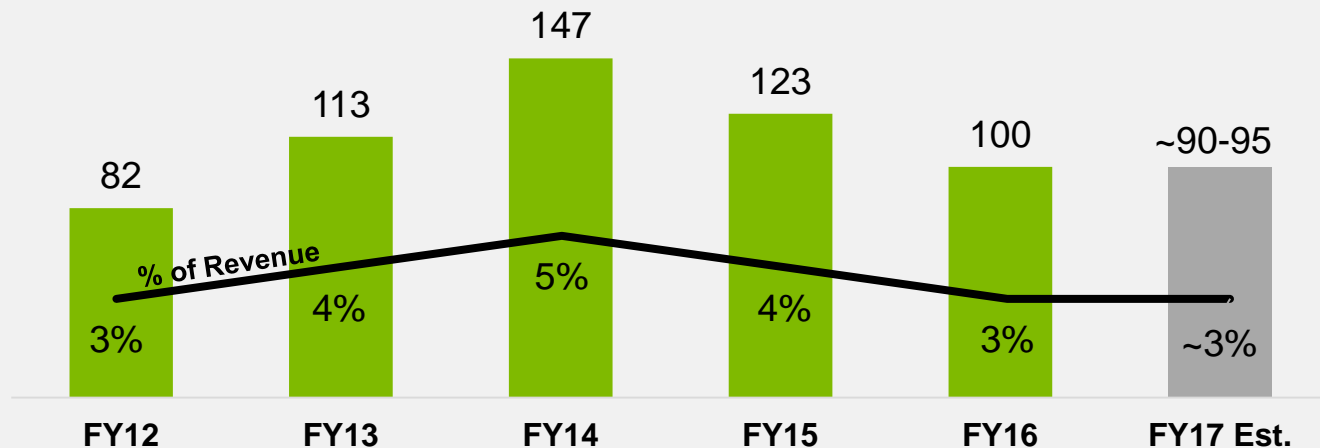
Adjusted EBITDA margin range for FY18 and beyond expected to be 27% - 30%

*FY17 expected to be at the lower end of the long-term range of 27% - 30%*

<sup>1</sup> Adjusted EBITDA Margin from continuing operations is a non-GAAP measure and is calculated as adjusted EBITDA from continuing operations divided by revenues from continuing operations. Our future period guidance in this presentation includes adjustments for items not indicative of our core operations, which may include without limitation those described in our December 7, 2016 press release, and may also be affected by nonrecurring, unusual or unanticipated charges, expenses or gains. The exact amount of these adjustments are not currently determinable, but may be significant. It is therefore not practicable to reconcile this non-GAAP guidance to the most comparable GAAP measures.

# Business model continues to be capital-light

**Capital Expenditures**  
(USD Millions)



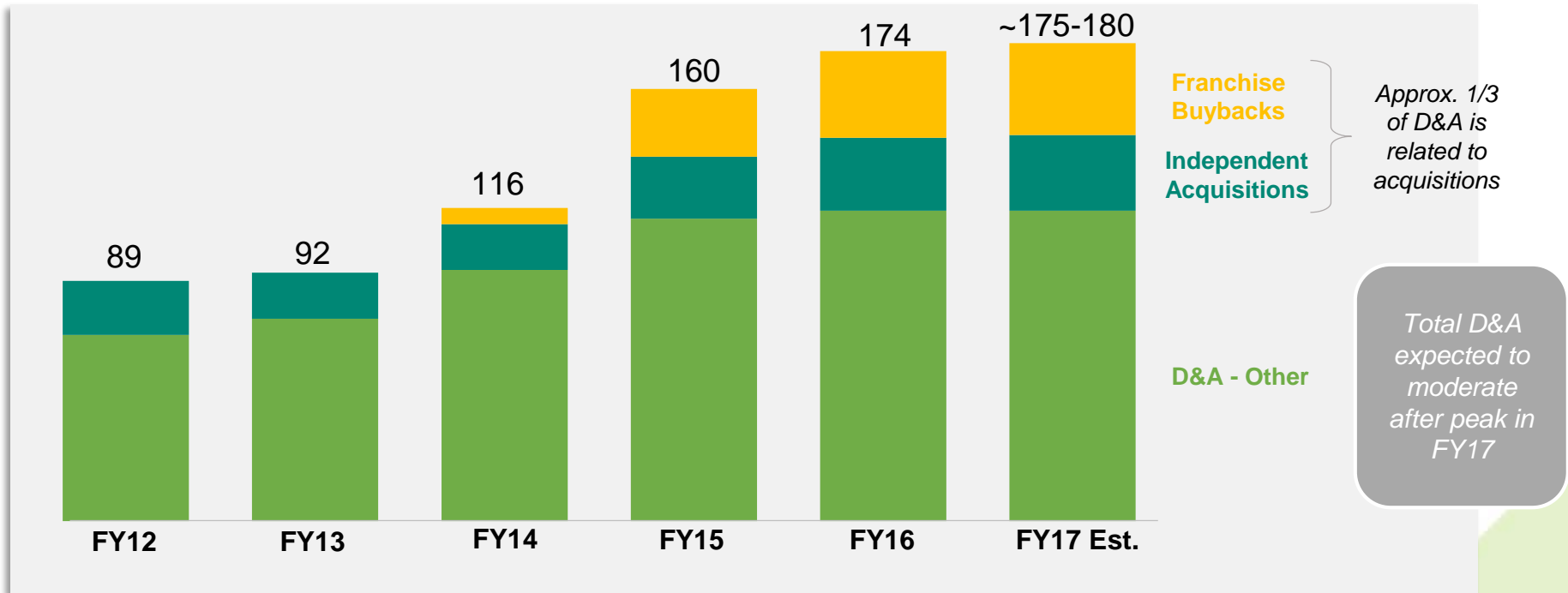
*CapEx range for FY18 and beyond expected to be 3-4% of revenue*

*Capital expenditures peaked in FY14 due to needed office improvements*

# Franchise buybacks continue to moderate

- Acquired ~600 franchise offices over the last two years
- Accretive to earnings
- Franchise buyback opportunities are moderating; expect to repurchase ~145 offices in FY17
- Acquisitions of independents expected to continue at historical levels
- Total aggregate purchase price of both franchise and independent acquisitions of approximately \$60 million in FY17

# Depreciation and amortization peaks in FY17; expected to moderate

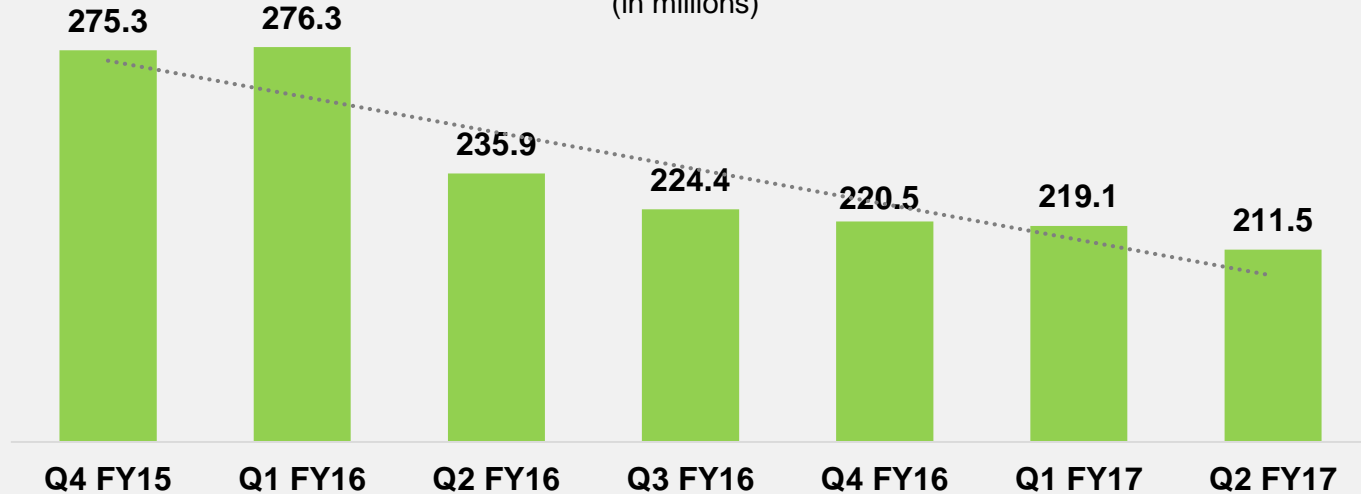


# Capital structure now optimized

- Extended maturity date of the \$2 billion line of credit one additional year to September, 2021
- Plan to maintain investment grade credit ratings metrics
- Continue to target adjusted gross debt to adjusted EBITDA levels of ~2.5 - 3.0 times
- Interest expense expected to be approximately \$90 - \$95 million in FY17

# Outstanding shares continue to decline due to repurchase activity

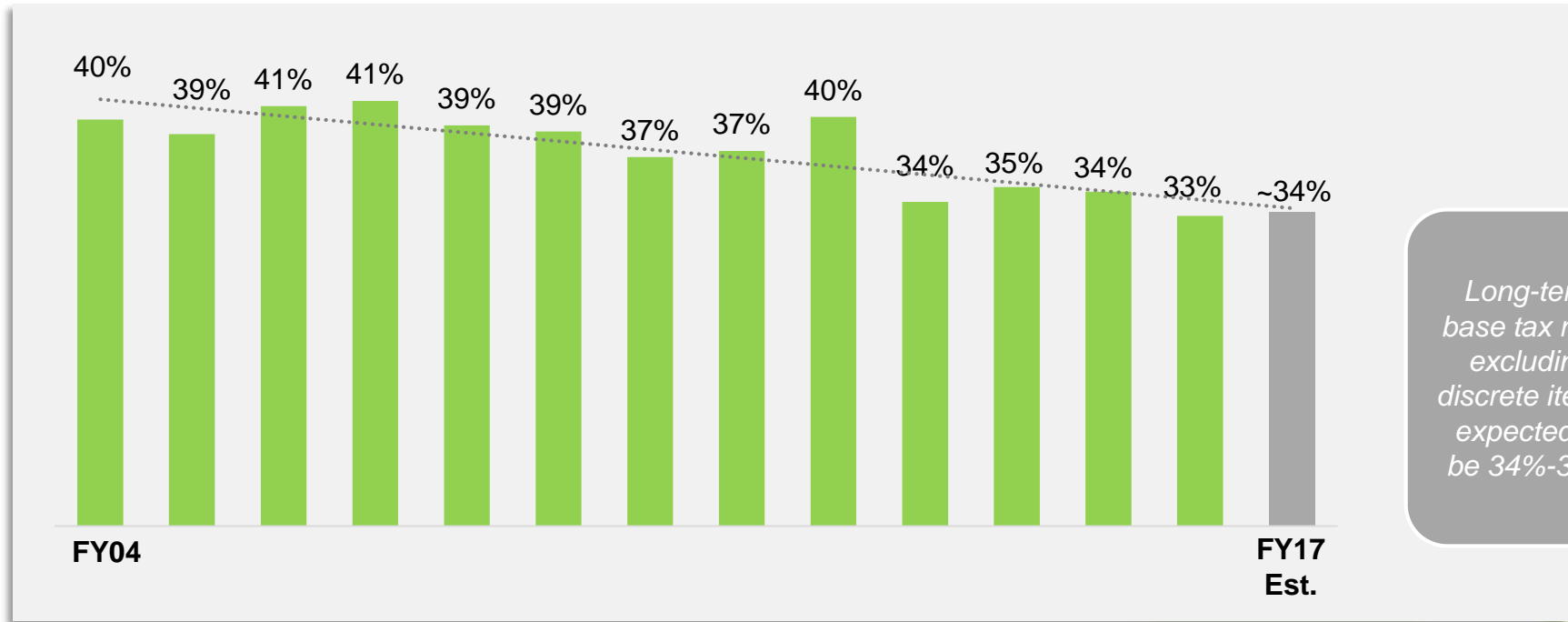
**Outstanding Shares**  
(in millions)



- Will continue to purchase shares opportunistically as component of overall capital allocation strategy
- \$1.3 billion remaining on \$3.5 billion share repurchase authorization through June 2019
- Fiscal year-to-date weighted average fully diluted shares outstanding was ~218 million at the end of Q2; will be lower on a full-year basis due to the weighted average share calculation



# Significant improvements in effective tax rate



*H&R Block may benefit from future corporate tax reform*

# **BILL COBB**

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PRESIDENT AND CEO

# HRB Investment Thesis

**Growth**

**Value**

Favorable Macro  
Conditions

Predictable  
and Growing  
Core Industry

Long Track Record of  
Significant Free Cash Flow

“Tax Plus”  
Product Attach

**H&R BLOCK<sup>®</sup>**

Superior  
ROIC

Digital  
Expansion

Solid Dividend & Share  
Repurchase Record

International  
Growth

Consistent  
Management

Limited Mortgage Loan  
Exposure Expected

**Stability**

# Tax Plus products continue to add value

***Tax Plus product revenues of over \$400M in fiscal 2016***



**EMERALD  
ADVANCE**

Line of credit



**REFUND  
TRANSFER**

Fees from refund



*Year-round*

**EMERALD  
CARD**

Reloadable  
debit card



**PEACE  
OF MIND**

Audit rep, covers  
add'l tax if HRB error



*Year-round*

**TAX ID  
SHIELD**

Tax identity theft  
services

*Also offering Refund Advances and IRAs in Tax Season 2017*

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**Growth**

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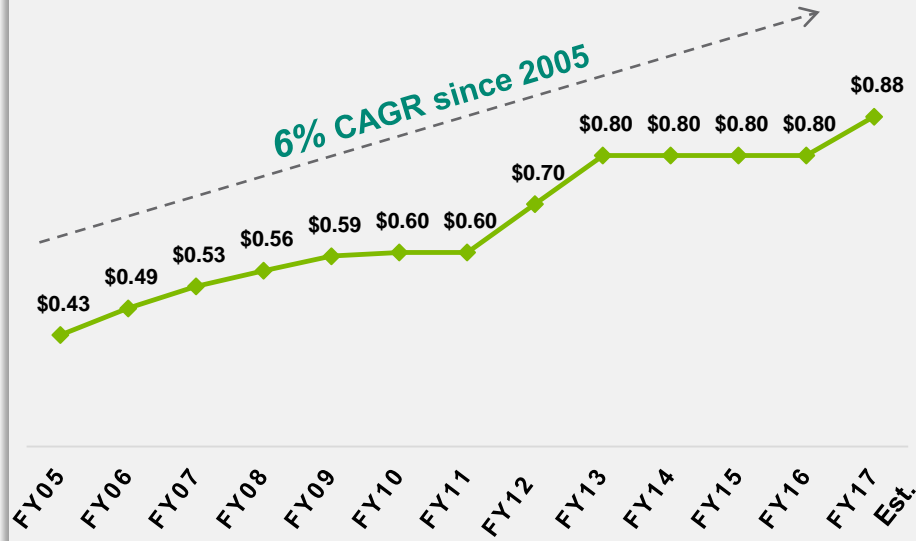
Limited Mortgage Loan  
Exposure Expected

**Stability**

# Historical dividend growth

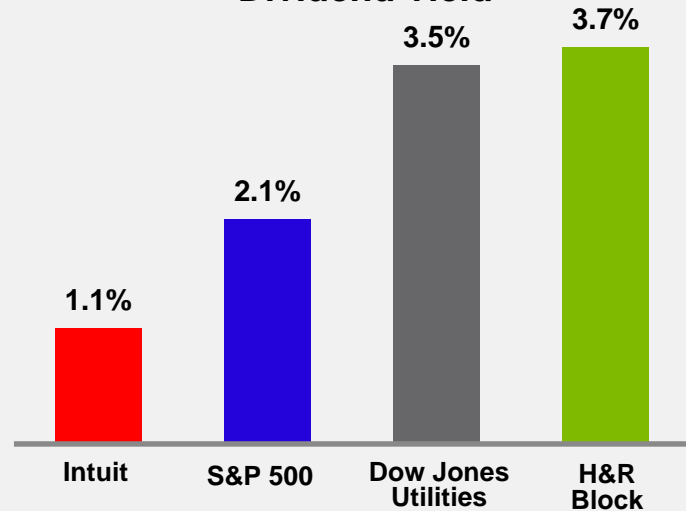
**Current yield well above S&P 500 average**

### Cash Dividends/Share<sup>1</sup>



<sup>1</sup> No dividend increases were made in FY14, FY15 or a portion of FY16 due to savings and loan holding company regulatory constraints. FY17 estimate based on \$0.22 quarterly dividends announced August 25, 2016 and November 10, 2016. Future quarterly dividend decisions have not been made and are at the discretion of H&R Block's Board of Directors.

### Dividend Yield<sup>2</sup>

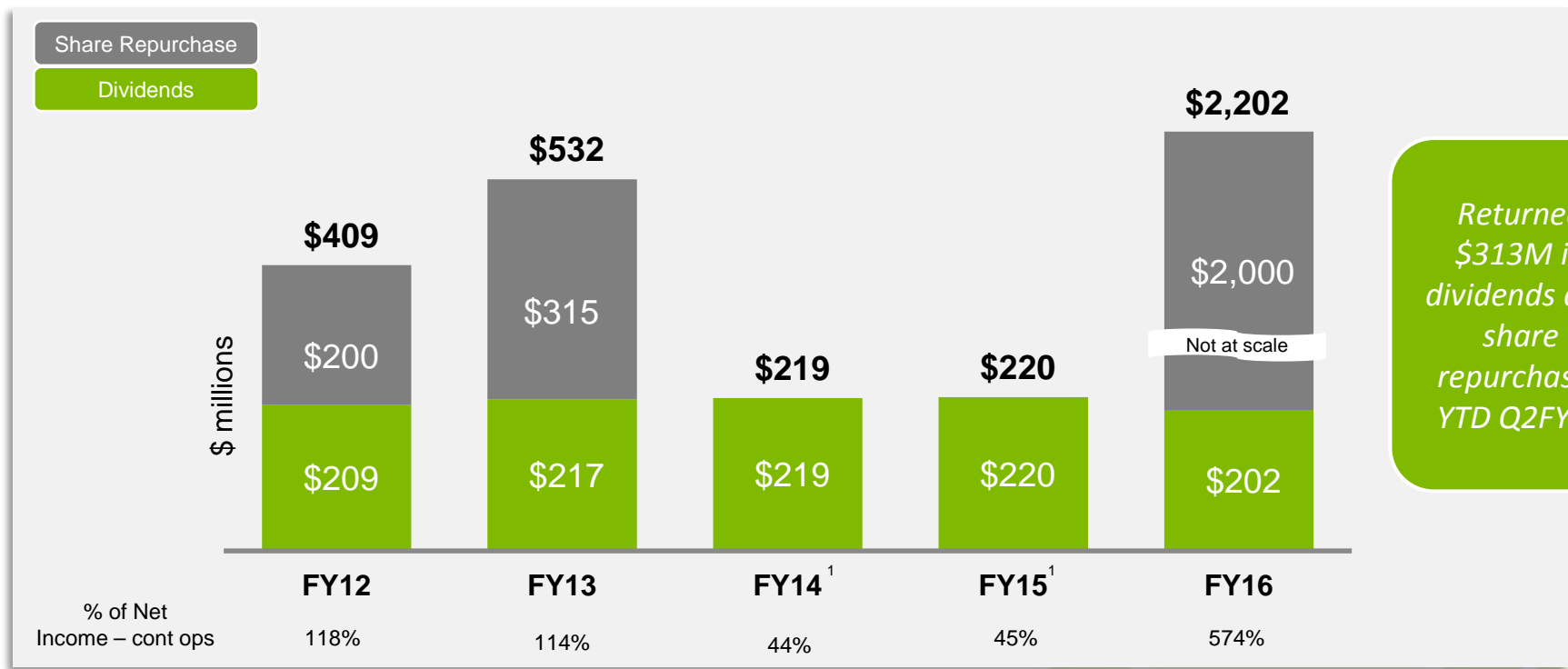


<sup>2</sup> Yield calculated as of NYSE market close on 12/06/16



# Substantial return of capital to shareholders

- Since May 2011:**
- Repurchased ~102M shares (~33% of shares outstanding)
  - Returned a total of ~\$3.9B of capital



# Q&A

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# **H&R BLOCK<sup>®</sup>**

2<sup>nd</sup> Quarter Fiscal 2017 Earnings Call  
December 7, 2016

# HRB Financial Outlook

| HRB Outlook                 | FY2017   | 3-Year Expectation                      |
|-----------------------------|--|---|
| Adjusted EBITDA Margin      | Lower end of the long-term range   | 27% - 30%                               |
| Capital Expenditures        | ~\$90M - \$95M   | 3% - 4% of revenue                      |
| A&D/Franchise Buybacks      | Expect to acquire ~65 independent and ~145 franchise locations;<br>Aggregate purchase price ~\$60M | Franchise buybacks continue to moderate |
| Depreciation & Amortization | ~\$175M - \$180M<br>Approx. 1/3 related to acquisitions,<br>2/3 related to capital expenditures    | Expected to moderate after peak in FY17 |
| Effective Tax Rate          | ~34%   | 34% - 36%                               |
| Interest Exp. on Borrowings | ~\$90M - \$95M   | -                                       |