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PRESENTATION

Colby Brown *- H&R Block Inc. - VP of IR*

Good morning. I'm Colby Brown, Vice President of Investor Relations, and on behalf of the H&R Block management team, it's my pleasure to welcome you here in attendance, and those participating via the webcast, to H&R Block's December 2015 Investor Conference. We have an informative and exciting morning planned for you and are glad that you're able to join us.

Before we get started, we have a few housekeeping items to take care of. Yesterday, we released our fiscal 2016 second quarter results. That release, as well as today's presentation, include certain non-GAAP financial measures. We've reconciled the comparable GAAP and non-GAAP figures and the schedules attached to the press release, and you can find those, both the release and the schedules, on the Investor Relations page of our website at www.hrblock.com.

I'd also like to remind everyone that today's presentation and various comments made in connection with it will include forward-looking statements as defined under the securities laws. Such statements are based on current information and management's expectations as of this date and are not guarantees of future performance.

Forward-looking statements involves certain risks, uncertainties and assumptions that are difficult to predict. As such, our actual outcomes and results could differ materially. You can learn more about these risks in our Form 10-K for fiscal 2015 and our other SEC filings. H&R Block undertakes no obligation to publicly update these risk factors or forward-looking statements.

Shortly after this morning's presentations conclude, we'll post the slides on our Investor Relations website. As a reminder, our webcast will also be available for replay on the website.

To give you a sense of today's agenda, opening presentations will run until approximately 10 o'clock Eastern and then we'll take a 15-minute break. Refreshments will be available throughout the morning, and on a quick logistical note, rest rooms are out the door and to your right just pass the registration table. We then expect to be in Q&A around 11:15 Eastern.

So, again, welcome, everyone. Thank you for being here today and we hope you enjoy the presentations.

Bill Cobb - *H&R Block Inc. - CEO*

Good morning, everybody, and welcome to this year's investor conference. We're pleased to have you join us.

Today, we're going to share with you a look back at this company's transformation, the opportunities we see going forward, and how we will continue driving value for shareholders, and we have a great line-up of speakers this morning, so let me begin with those introductions.

First up, Kathy Pickering, our Vice President of Regulatory Affairs and the Executive Director of the H&R Block Tax Institute. Kathy is going to talk about the impact of tax fraud and the lack of standards on this industry and how H&R block is leading the industry in partnering with the IRS and others to address these problems.

Next on the agenda, Laura Scobie, our Vice President of Client Insights. Laura will talk about the dynamics of the tax season, our seasonal promotions and the launch of a new brand to better serve clients with more sophisticated tax situations.

Then Jason Houseworth. Jason leads our Tax Product Strategy and Development Group and he is going to discuss trends in the DIY industry and how we're positioning ourselves for continued success in that category.

Then, as Colby said, we'll take a 15-minute break and when we return, Mark Ciaramitaro, our Vice President of Taxes and Healthcare Services. Mark will discuss the Affordable Care Act, what we learned in 2015, and how we see that impacting our business and the industry in 2016 and beyond.

And finally, Greg Macfarlane, our Chief Financial Officer. Greg will talk about our second year and year-to-date results, review all the recent changes and activities, and then pull it all together with a detailed financial view of why H&R Block is a good investment.

But before we get to them, I want to spend a few minutes addressing three topics that will help provide context for the remainder of the morning. The first is a look back at H&R Block's transformation over the last few years. Then I'll address some key issues affecting the tax preparation industry and then I'll close with the company we are today and why we look to the future with great optimism.

To fully understand the transformation of H&R Block to the company we have today, we have to first understand from where we came and as many of you know, the period of 2007 to 2011 was an extremely difficult one for this company. To be blunt, the company was in turmoil. Business results were lagging and we were attempting to be a financial supermarket through diverse business lines that were taking the company away from its core tax business.

In short, H&R Block was unsure of what it wanted to be and who its clients were. All of these factors combine to create leadership challenges. There was an activist involved, the company had a revolving door of CEOs, four of them from 2007 through April of 2011.

I joined the Board in August of 2010, and so I'm often asked why I took the CEO job. Well, it's because I knew this was a great company with great products, and as I've come to learn, great people. So, I was pleased to say yes when the board asked me to step into the CEO role beginning in May of 2011.

Starting out, I knew the company needed focus; focus on our core tax business, focus on sustainably growing the top-line and improving margins. So, we went about exiting non-core businesses.

We had already stopped originating and servicing mortgages through option one, so our next step was to sell RSM McGladrey, an accounting and consultancy business. We also divested a smaller underperforming business, Express Tax, and a tax software company, Red Gear.

But this company needed to grow revenue, so we not only focused on the fundamentals, we innovated as well. We created and implemented a new strategy in fiscal 2013, Tax Plus, which has grown to five products that have added value for our clients before, during, and after the tax season.

And it's important to note, we are the only company with a suite of products like this, a key point of ongoing differentiation. Together over the period of fiscal 2013 through fiscal 2015, our Tax Plus strategy has generated accumulative product revenue of over $1.2 billion with overall growth of 11% over three years.

The company's transformation was made possible by a stable leadership team that has executed on our strategy over the last four years and we expect this team to continue. In June of this year, the board extended my tenure through September 2018, so I plan to be here as CEO for the foreseeable future, and the members of my senior leadership team have multiple tax seasons under their belts with proven results.

In August of this year, we completed the final step in our transformation back to a focused tax company when we finalized the divestiture of our bank. Now, I have to admit, the bank was starting to feel like my life's work, but we did get it done.

And with this final step, we are much better suited to bring even more value to you, our shareholders, through an appropriate new capital structure and the freedom to make capital structure decisions without regulatory oversight.

H&R Block has a long history of returning capital to shareholders. For example, in January we will pay our 213th consecutive quarterly dividend; that's over 53 years and counting. And during my tenure, we have increased the dividend by 33%.

Continuing on this tradition of returning capital to shareholders, in September, we outlined a strategy to put an appropriate capital structure in place for our business going forward. Our board approved a $3.5 billion share repurchase program effective through June of 2019. And as part of this, we executed a $1.5 billion tender offer in October purchasing over 40 million shares at $37 per share.

We also replaced and upsized our existing line of credit to $2 billion and issued $1 billion of new long-term debt. Including the tender offer, all of this translates to total repurchases of over 76 million shares since I started in May of 2011. That's about 25% of our outstanding shares at an average share price of $26.38. I'm proud of these accomplishments, but I'm even more proud of the fact that we did what we said we would do.

As you can see, these changes have resulted in a fundamentally different company, one transformed from the unfocused financial supermarket of 2007, to the company of today; one focused entirely on tax preparation and related products. So, what is this transformation meant for our business results?

Company revenues have grown for three straight years after a multi-year revenue decline. Profitability has dramatically increased with EBITDA increasing a $136 million and EBITDA margins improving five points since fiscal 2012 to approximately 31%.

In digital, our revenue growth has outpaced the industry over the last four years as more and more consumers become aware of our DIY products. Our international operations generated revenues of $239 million in fiscal 2015.

Our established businesses in Canada and Australia saw a significant growth in local currency revenue, and we have the beginnings of solid businesses in new markets.

And we've invested back into the business where it's made sense. We've enhanced our retail stores inside and out, strengthened our systems and technology infrastructure, designed and implemented new tax preparation software, and as part of our growth strategy, we bought franchise in independent locations at compelling returns.

And the total impact of our actions and performance is that the market has responded very favorably. Our stock has outperformed the S&P 500 by greater than 50% over the last five years.

With that look back at our performance, I'd like to shift to the present. Based on how we've executed on our strategic vision, it should be crystal clear how committed H&R Block is to continuing to lead the industry we invented over 60 years ago.

As a leader, it's important that we take a view on important issues impacting the industry. While I will briefly comment on some of these issues, the presenters following me will go a bit deeper on each.

The first issue is tax fraud. For many of you here, you know this is the third investor conference in a row in which I've been talking about the need to address fraud in a holistic way through a public-private partnership.

Interestingly, a competitor who has been talking about its industry leadership on this matter began doing so only after I ran into a major problem in the middle of the last tax season, and that problem was SIRF, or stolen identity refund fraud, which reached new and especially alarming levels this past tax season, but this problem is not new.

As I discussed at last year's investor conference, from 2010 to the 2013 filing season, the most recent years for which stats are available, there have been over 2.9 million victims of tax identity theft. And as we saw in the last filing season, the problem became so extensive that it now threatens taxpayer confidence in the system.

And as a result, earlier this year, the IRS convened that public-private partnership, which includes H&R Block, other members of the industry and state tax authorities to develop solutions that will better protect taxpayers who use DIY methods.

I'm encouraged by the progress made so far, and Kathy Pickering will talk to you about that progress and what's still needs to be done. But it's important to remember that stolen identity refund fraud is just one part of the overall problems tax fraud. There are others, such as fraud, or improper payment associated with the earned income tax credit.

Simply put, DIY filers don't have to answer the same EITC eligibility questions as those who get help with their taxes and the result is a high level of fraud, or improper payments. It's our belief that this slight migration we're seeing from assisted to digital is primarily due to fraud committed by EITC filers and identity thieves.

Were not for fraud, we believe this slight migration wouldn't have occurred. In fact, excluding fraud, the percentage of filers getting assistance may have actually grown. Kathy Pickering will go deeper on this issue in the next presentation.

The final point, I'll cover on fraud is the lack of minimum standards for return preparers. In short, this lack of minimum standards is enabling fraud perpetuated by unscrupulous tax preparers.

Now, you've heard me say it before; all 50 states have minimum standards for barbers and hairdressers, yet only four states have minimum standards for those who perform one of the most important financial transactions of the year for millions of taxpayers. That makes no sense.

We need prudent common sense measures that include mandatory testing, continuing education, and background checks for all return preparers. The outcome of this problem is still to be determined, but we are seeing encouraging movement in legislative circles to address it.

H&R Block has been the clear industry leader in fighting tax fraud, and you won't have any trouble finding where we stand or what we've said about all these important issues. And we'll continue to lead and make our point of view abundantly clear to policymakers and administrators and you'll hear some of that later this morning.

Now, you may be wondering, why does H&R Block keep talking about fraud? It's actually very simple. The measures we advocate for will level the playing field across the industry, reduce fraud and better protect consumers. It's as simple as that.

Now, the next issue I'll discuss is complexity and the potential for tax code reform. It's been a topic of the current political campaign just like it's been a topic of campaigns over the last several decades.

The fact is, complexity in the tax code is a result of the government administering public policy programs through the tax code like the EITC, or buying a home, or saving for retirement. These are very important programs that impact virtually every American.

And complexity certainly impacts our business too. Remember, we have to thoroughly understand and follow the law, and so we have to train over 80,000 tax professionals every year to ensure they're ready to serve our clients.

An example is the increased training cost we incurred last year to prepare for the implementation of the Affordable Care Act. In fact, last season was the first time many Americans navigated the intersection between their health insurance and taxes.

The ACA directly affected over 3 million of our clients and this coming season, the ACA will impact even more as the number of people in the exchanges steadily grows. We said all along that the opportunity presented by the ACA will take several years to fully unfold.

But I remain very confident that H&R Block is particularly well positioned to serve our clients going forward. Mark Ciaramitaro will give you our update later this morning.

And regardless of where the progress to simplify the tax code actually happens, we know there are basic enduring truths to which tax filers subscribe. They want to pay only the taxes they owe, they want the maximum refund to which they are entitled, they want their tax return to be accurate, and they want to minimize the stress and hassle of filing their taxes.

Today in total, the U.S. tax code and supporting documents are over 74,000 pages long. But in 1955 when we first started, the tax code was much simpler. Still, clients came to us in droves, so much so that Henry & Richard Block were able to invent this industry.

And so, we believe by any logical conclusion as history has clearly shown, people want help with filing their taxes. But as you know, we are the largest tax preparer serving the entire landscape of filers. Whether clients want help from our highly trained skilled tax professionals, or to do it themselves using our best-in-class software, it doesn't matter. We serve clients however they want to be served.

So, to this point, you've heard me described the company's transformation, our new capital structure, and how we have led the industry during some tough challenges. And while we are proud of our accomplishments, we understand what matters most is the future and we couldn't be more excited about the future for both this industry and for H&R Block.

The tax preparation industry is steady and in many peoples' minds not very exciting. But I can tell you that nothing can be further from the truth whether it's the challenge of implementing complex new tax laws like the ACA, tackling big issues, affecting millions of Americans like fraud, or navigating the ever-changing landscape of the assisted and DIY categories.

There is much work to be done. And when you are committed to doing the right thing as H&R Block is, these challenges ultimately translate in opportunities. And so the tax preparation industry isn't just necessary, it's still an industry with opportunity.

For decades, people have needed and wanted help in preparing and filing their taxes. A 135 million individual tax returns were filed during the tax season and counting, and no one is better able to help these tax filers than H&R Block, the clear industry leader.

Virtually, everyone knows our brand. With our 10,000 retail offices, we have unmatched scale; our 80,000 tax pros are the best in the industry, and our innovation from our DIY offerings to our Tax Plus products, to our progress in global markets. These are just a few examples of how this company is leveraging the power of its brand to grow.

This growth opportunity is uniquely combined with the stability not often found in other sectors. We generate over $3 billion of revenues on an annual basis, and our profitability is growing.

Our return on invested capital is nearing the top decile of S&P 500 and our record of returning capital to shareholders is proven. So, even though we are in a steady, slow growing industry, H&R Block has room to run.

As you'll hear a little later, we're bringing new ideas to the table in our assisted business to better align our services with the dynamics of the tax season, to meet the challenge of growing early season clients, and to serve our clients who have more sophisticated tax situations.

In digital, we continue to grow revenue and awareness of our great DIY products. Our international business continues to be fast growing with exciting opportunities in India and our ex-pat services. And our innovative Tax Plus products continue to meet a growing need for more and more of our clients.

So, in conclusion, I've covered a lot of ground this morning, and for my comments, I think you're going to understand why we are excited to be in this industry, why we will continue leading it, and why we think H&R Block is a great investment. Thank you.

Kathy Pickering *- H&R Block Inc. - VP of Regulatory Affairs and the Executive Director of the H&R Block Tax Institute*

Hello. I'm Kathy Pickering. I've been with H&R Block for over 17 years and I've held a number of different roles during that time.

Today in my current role as Vice President of Regulatory Affairs and Executive Director of the Tax Institute at H&R Block, we're talking about the impact of fraud and the lack of standards on the tax industry.

You've heard the term fraud thrown around a lot, but I'm going to talk about three very different types of tax refund fraud; improper payments on the earned income tax credit, or EITC, return preparer standards, and Stolen Identity Refund Fraud, or SIRF.

On the surface, these types of fraud seem quite different, but there are two common themes; a lack of consistent minimum standards and the anonymity of the DIY product, which opens the door for tax refund fraud. But why should you care about these issues?

Well, as you will see later, we believe that fraud is distorting industry and competitor results and the solutions that are being implemented for next tax season and beyond will help level the playing field and Block will benefit because of this.

But, you should also care because the amount of fraud and the dollars represented are staggering. Of all the EITC payments, 22% to 26% a year are improper payments, or between $14 billion and $17 billion.

Of all the federal benefit programs including Medicare and Social Security, the percent of EITC improper payments is by far the worst. For comparison, Medicare has an 8.5% improper payment rate, and Social Security, it's less than 1%.

On return preparer standards, H&R Block has unique insight on competency across the industry. Over the last few years, our acquisitions team has screened thousands of independent tax firms who are interested in becoming H&R Block franchisees.

These potential acquisitions need to meet certain minimum criteria, such as number of returns, professional appearance, and adequate computer systems before we'll seriously take a look at them. One step in our evaluation process is to review the actual tax returns in order to assess the level of quality. The results are shocking.

We are finding that nearly one in every two prospects has some form of non-compliance and one in four is committing fraud such as falsely inflating refunds to attract new clients and this is where we're finding from the firms that have been pre-screened or qualified so supposedly we've weeded out the worst firms before we spend a lot of time on them.

Turning to stolen identity refund fraud, this problem is growing worse. Starting in 2010, there were roughly 400,000 incidents and it is growing to some 2.9 million incidents through 2013, the last year for which we have data.

Why is this problem growing worse? Because like this New Yorker Magazine cartoon of years ago, shows the internet allows anonymity. Simply put, current gaps and authentication allow criminal online filers to easily mask their identity, and remember, there's been no minimum standards in place.

And the problem of stolen identity refund fraud is reaching a tipping point, meaning it must be addressed effectively, or else it puts the entire tax administration process at risk. H&R Block is leading the way forward for this industry, and when this problem is effectively addressed, not only will government, industry, and consumers benefit, but H&R Block may benefit as well because we've led the way on developing solutions and it will tip the balance back to a level playing field.

With all that as a backdrop, now let's go a little deeper into each of these three fraud areas. Let's start with EITC. EITC is an anti-poverty program for low income working families. The maximum credit for next year will be about $6,200, that's a lot of money, especially for a low income family.

For most, it's the largest single financial payment of the year, and for working families, it can be a lifeline; they use that money to cover bills, often late bills, or pay for car repairs, rent, and just catching up.

The rules for EITC eligibility may seem fairly simple; the children must live with the taxpayer for at least six months and the taxpayer has to have earned income.

But it's never that simple, especially in complex family structures such as blended or multi-generational families. So, proving who cared for the children and where they lived can be difficult.

The government doesn't call it EITC fraud, but rather, improper payments because it's a mixture of things. Payments made to the right household, but the wrong person, lack of documentation, or actual fraud. And given the sensitivity around this program, there is no publicly available data that shows how treasury classifies the improper payments between unintentional mistakes and actual fraud.

We know that about 22% to 26% of EITC payments were improper in tax season 2015, and that amounts to $14 billion to $17 billion last years. And there is a history here of billions in fraud and improper payments each year, it's absolutely mindboggling.

That's why we're so passionate about driving change in this area; we need to implement practical measures to reduce the fraud, and in doing so, protect the EITC program for those it was meant to benefit.

I want to spend just a minute on the relationship between filing status, income, number of children, and how that impacts getting the maximum EITC credit. If you look at this chart, the X axis is for income and the Y axis is for the EITC credit amount.

For example, in 2014, if you were a single head of household with three children and you wanted to get the maximum credit of $6,143, you would see that you needed to have income between $13,650 and $17,850. If your income was more than that, or less, you would not get the maximum EITC amount.

For a fraudster filing an online tax return, it's quite similar to using the [sound for] function in a spreadsheet, and many EITC returns managed to fall exactly within that income range. Coincidently, these returns may also have a schedule C, which is the form for self-employment, small business profit or loss, which enables the fraudster to either increase income, or reduce it with expenses to stay right within that sweet spot without any additional documentation.

As we've discussed in previous investor conferences, since the increased due diligence was required when an EITC taxpayer chose to use a paid prepare, the EITC filings are migrating from paid preparer to DIY methods and the fraud problem is migrating with them.

In 2008, it was roughly 70% assisted and 30% DIY. In 2015, it has migrated to 55% assisted and 45% DIY. And during that same period of time, assisted returns, excluding EITC returns, actually grew at the same rate as the industry.

This really doesn't make sense. EITC returns can be complicated, and many families want help preparing that return. Thus, the shift to DIY is difficult to explain other than for the growth in fraud.

There are several reasons that DIY makes fraud easier. The increasing availability of online technology enables an anonymous transaction and doesn't require the signature of the third party preparer.

Access to online tax prep software facilitates that [solve for function] to maximize the claim. It's much less risky to do a what if analysis online versus sitting in front of preparer and saying, "Well, what if I claim another child, what will that get me?" And with online methods, you don't have to provide any documentation or answer intrusive questions.

In contrast, paid preparers are required to document additional, and sometimes, embarrassing information to verify the EITC claim. If they don't, the preparer can be penalized $500 per return, even if the tax return itself is correct, and the tax payer isn't being audited.

So, to avoid those penalties, some independent preparers become ghost preparers, which means they use DIY software to prepare the return and don't even sign it. Often, the taxpayer doesn't even know.

So to the IRS, it looks like a self-prepared return and, of course, with an aggressive DIY competitive offer for free federal and free state e-filing, fraudsters don't even need to have a credit card to pay the fees, which means they can dodge another point of verification.

But there is some good news; government and industry are making progress. For the upcoming 2016 filing season, H&R Block, along with three other software companies, is part of a DIY pilot test run by the Treasury Department.

This pilot will measure the impact of additional questions on DIY filers claiming the EITC, and IRS has retained their due diligence auditors, so that they will no longer be required to ask pay preparers to ask certain invasive questions.

And there's more to come for 2017; the IRS is expected to have consistent EITC eligibility requirements regardless of filing channel plus, the IRS has asked Congress for additional legislation, such as the ability to reduce the refund amount of EITC for claims that can't be substantiated.

Will this stop EITC fraud? In the short term, no. But, in conjunction with return preparer standards, all these SIRF fraud fighting initiatives and other legislation, we hope, and believe, that this will reduce EITC fraud and improper payments. It will get fixed, it's simply a question of when.

Now, let's shift gears for a quick update on minimum standards for return preparers. Currently, there are no federal minimum standards in the industry. The IRS's attempt to implement the return preparer program was overruled by the courts in 2014 despite stating in their opinion that they thought the program was needed.

Congress needs to give the IRS this authority and it just hasn't gotten done yet. In response to the IRS's inability to regulate at the federal level, the states are implementing their own state return preparer programs.

California and Oregon have had programs in place for a number of years and Maryland and New York have recently implemented programs. And we're aware that there are few other states, like Illinois, that are also looking at their own programs and we support that because there are no federal standards today.

Looking at the case of Oregon, it provides compelling evidence that establishing return preparer standards makes good sense. In the study done by the Government Accountability Office, they reported that paid preparers in Oregon were more likely to file an accurate tax return as compared to the rest of the country, and for Oregon's 1.6 million individual tax filers, this equated to over $390 million more paid in federal income taxes, more than had they been prepared by preparers in the rest of the country.

Right now, to be a paid tax preparer, all the IRS is able to require is a PTIN, or a preparer tax identification number. And in order to get a PTIN, all you need is a name, Social Security number, date of birth, and pay a $50 fee, and answer a couple of questions.

H&R Block has much higher standards. We've been in the business for 60 years and we understand what it takes to competently and ethically prepare and submit a federal or state tax return.

We set high standards for all 80,000 of our tax preparers. H&R Block requires each one to stay current on the tax law and comply with the rules through 60 hours of basic income tax training, a competency exam, and 18 hours of continuing education every year.

We also conduct background checks and have an internal compliance and ethics oversight program. Clearly, for taxpayers who choose to get assistance, competency and ethics should be table stakes.

Finally, I'd like to spend some time drilling down on stolen identity refund fraud. To commit SIRF, all the fraudster needs to create a false tax return is name, Social Security number and date of birth. That's it.

And with DIY software, it's an anonymous transaction; there is no identity or other validation required. The fraudster simply creates a fraudulent return, e-files it, and typically, funnels the stolen money to an account.

For anyone who does online banking, you're accustomed to having to validate your identity, but not so for tax filing. There are no minimum requirements for the tax industry to do any validation.

The nature and scale of refund fraud is changing. We have this example of an individual posting on Facebook that she was the Queen of IRS Tax Fraud and taunting the authorities. Well, she was arrested and sentenced to 21 years in prison.

Over the last few years, the fraudsters have evolved. There are now international and domestic organized crime rings with sophisticated IT capabilities. They have a good understanding of the tax code, especially the holes in the tax administration systems.

They have computer programmers who write scripts to submit returns in large volume, and based on what gets rejected versus accepted, they can methodically reverse engineer the IRS and state fraud filters. There have also been large-scale data breaches, ranging from Target and Home Depot to Anthem and the Office of Personnel Management.

Stolen data is widely available for sale on the dark web, where criminals can buy it in volume. And, with computer scripts that they write, they're able to submit hundreds, thousands, possibly millions of fraudulent returns through online methods.

Even if only a small percentage makes it through and pays out, it means a huge pay day for the fraudsters. This kind of fraud is almost a perfect crime. The probability of getting caught is relatively low, but the payoff is very high.

There are other reasons why SIRF has grown. There has been a rise in the availability of anonymous accounts, such as unauthenticated debit cards to make it faster and easier to negotiate the stolen funds.

And as we've discussed, millions of personal identities are available for exploitation and social media provides a platform to the fraudsters to share their best practices. Real-time learnings about what's working and what's not.

As you know, H&R Block has been an industry leader for years and that leadership includes the security protocols we've had in place. For example, we required an accepted federal return before filing a state return. We have a team of dedicated fraud analysts and we authenticated identity for our prepaid Emerald Card and many other things that we're not going into.

Clearly, to protect consumers against this growing threat, government and industry needed a cohesive and unified way forward. So, Bill Cobb called on Commissioner Koskinen to bring the industry together in a public-private partnership to fight fraud.

Commissioner Koskinen's background and experience as the Y2K czar uniquely positioned him to know how to bring together such different organizations as the tax industry, the IRS and the states, and all of us have different agendas, levels of technology sophistication, capability, and budgets. But everyone can agree that we have a common enemy; fraudsters, and a common goal, fighting fraud with a unified defense for 2016 and beyond.

All of industry has to implement a consistent set of standards, ensuring a level playing field is critical, or else the fraudsters will simply go after the weakest links. So, how our government and industry leveling the playing field?

Remember, one of the key reasons that SIRF has increased is because the DIY online filing process is virtually anonymous. In part, because the IRS and the states can't always see the tax filer behaviors, such as what device was used, which IP address the return was sent from. So, a number of measures are being implemented at the federal, state, and industry levels for the upcoming tax season.

Under authentication, there are number of tools being put in place to help verify the identity of online filers, and implement strong security protocols. Examples of these measures include requiring stronger passwords and asking security questions if something is different or appears suspicious.

For H&R Block, we already had most of these standards in place. So for us, our work is about refinement. For some of our competitors, this is a whole new way of doing business.

Another component that is critical for detecting and fighting fraud is appropriate information sharing, so government and industry are addressing that too for the coming tax season.

Tax preparation companies with more than 2,000 returns will be required to conduct fraud monitoring and analysis and share their findings, or report leads, to the IRS in a timely manner. It will be done through a secure infrastructure and process that will respect taxpayer rights and protect personal identifying information. Again, not a heavy lift for us, as we've had the fraud program in place for over three years.

For a government industry effort that is as interconnected as this, these are really important common sense steps. These changes will be in effect in January, just a month from now.

Looking to the future, there will be additional changes in 2017 and beyond in the areas of security technology, centralized information sharing and financial products. H&R Block is well positioned for these changes.

We believe our relationships with the IRS and the states are on solid ground, which better protects our programs and products. Simply put, our competitors have to catch up with us.

For the assisted independent competitors, many without an IT, fraud, or compliance staff, the risks become that much greater. For the smaller DIY competitors, many have not had centralized fraud detection and compliance capabilities, now they have to scramble to create this.

The potential consequences are great. We've seen states refuse to accept e-Filing from companies who have unacceptable levels of potentially fraudulent submissions. Again, H&R Block is well positioned.

The work to defeat the fraudsters is a good start, but more work needs to be done. This is a holistic problem and it can only be solved by all of us working on it together; the IRS, our competitors, and the states.

More work needs to be done in standards, technology, investment and legislation. None of the steps taken individually solve the problem, but all of these steps combined, in tandem with the IRS, the states, and industry, will make a positive difference. It's the right thing to do for taxpayers and it's the right thing to do for the tax industry. Thank you.

Laura Scobie - *H&R Block Inc. - VP, Client Insights*

Good morning. I'm Laura Scobie and I lead the client insight team here at H&R Block. I'm going to talk to you today about three things that focus on growing our assisted tax business.

First, I'll review our strategic foundation for growth, and that is consumer segmentation. Because the customer is the driving force behind all major business decisions, you will see it woven throughout other topics in today's discussion, starting with our plan for achieving growth in the assisted business early in the tax season and moving into a new brand launch that focuses on an important consumer segment that, until now, was only partially addressed with our current model.

Starting with segmentation, just a quick overview for you. We have decades of experience understanding tax filers and their needs. We constantly refine and deepen this knowledge-base.

This deep knowledge of the tax filing universe, some 135 million filers in the tax season shows us exactly what they want from tax preparation. This customer knowledge is a sustainable advantage for H&R Block.

We're able to group people with similar tax needs into distinct segments. This isn't data for data sake. Our understanding of the tax marketplace is deeper and better than anyone else in the category and we're leveraging that knowledge in every decision we make.

Today, we're talking about segments in terms of three broad groups. This is just to illustrate a point, it's actually much more complex than we'll discuss today.

There are defining attributes that surround each segment, and I can go into great detail, but I've summarized it into the key things I want you to know about each segment. First, for people in Segment A, these clients have needs that are all about the money. For these tax filers, the refund is likely their biggest payday of the year, and they want to maximize the refund each and every year.

Next, Segment B is a high touch tax segment that needs year -round service. They value assistance, but believe their tax situation is too complex for just any tax preparer to handle, so they're willing to pay for more expertise. Our research shows that 65% of tax filers fall into Segments A and B. This number has remained fairly constant overtime.

Finally, tax filers in Segment C believe they're capable of preparing their own return, so they want a DIY method. Jason Houseworth will talk more about our DIY business later today.

With the detailed understanding of how each of these segments wants to be served, we have a way forward for how to win all types of new clients based on what they want and need. To feel new client growth in our assisted tax business, I'd like you to meet Diane who represents Segment A.

She works 60 hours a week as a waitress, is a single mother of two and receives the earned income tax credit, because she is one of the 33 million whose economic situation allows her to qualify for this program. When it comes to tax spread, Diane wants all the deductions she's entitled too, and she wants to know her tax preparer did everything possible to help her.

The need for the refund is so great that most of Segment A files as quickly as they can. When we looked at Segment A's return count over our four-month tax season, January and February saw the highest volume of Segment A returns, with the spike at the end of the season.

January and February are what we referred to as the early season. The sooner they come in, the sooner they get their refund, which to many like Diane, is her annual bonus. I'd like to put this in context of our total tax season 2015 results.

Last year, we saw that our client loss came solely from the early season. We saw steady growth during the late season, which was encouraging. Our analysis of the early season showed that 1/3 of the client loss was driven by our decision to eliminate the free easy program.

But more importantly, the other 2/3 of the client loss was made up of EITC clients. Looking deeper, we found this isn't unique to H&R Block's assisted tax business. EITC clients were down across the assisted tax prep industry in total, but it was particularly concerning to us for a couple of reasons.

EITC clients are highly valuable and they're a group that historically H&R Block has done well with. We're a brand that is well known and respected by EITC clients, we have products that benefit them, and we're skilled at handling the complexity that comes from EITC forms. H&R Block does meet several needs of this EITC client.

To start to win them back, we had to craft an early season program that appealed to their hearts and their minds. To do this, we leveraged what we learned from talking to hundreds of clients first hand; sitting in their homes, having coffee with them, which I was doing in this photo taken just last Friday, talking very openly about their lives and the bottom line is we know what really matters to these folks.

We know what it takes to win them back and winning them back starts now. On January 9th, you will see, hear, and feel a powerful early season program from H&R Block that will make a positive difference in the lives of our clients. It will stand out in the marketplace. It will be impactful.

For competitive reasons, I'm not sharing this initiative with you today, but I can assure you that come tax season, you will be very aware of it. But I can tell you about the targeted marketing we used to reach these tax fillers.

Through our segmentation, we know for clients and non-clients alike, who switchers might be. These are people who are most likely to consider H&R Block and even those you may think about leaving us.

We can mingle directly to them with enticing offers that matter to each of them. Our customer relationship management is a capability we've invested in over the past two years. It allows us to expose groups to targeted products and messages that meet their needs and, of course, we can speak to them in their preferred language.

We also use W-2s to target customers with offers. We can purchase W-2s based on industry of employment and tailor our messages accordingly. This is just the first step in targeted multi-year, multi-dimensional plan to win back EITC clients.

We know this client loss happened over a number of years, not just last tax season, and we know it will take an investment of time and resources to get them back. We created a plan that will force consideration or reconsideration of H&R Block.

It's starts with targeted marketing and includes and improves the client experience that speaks to Segment A, as well as taking a stance through government relations in a way that benefits these consumers.

Let me say a little about each of these other items starting with the client experience. We continue to enhance our experience to make sure that we're delivering the right environment for this early season client.

We're hiring more tax pros, improving their training, and enhancing their skills. We'll have more bilingual associates to help Spanish-speaking clients maneuver through the system. It means continuing to leverage technology to personalize the experience.

That tax interview will be customized to the client sitting across the desk. This client experience gets them through the process and out the door with the maximum refund.

For government relations, which Kathy Pickering spoke to, this is about standing up for our clients and protecting them when they need our help. As Kathy explained, the three areas of interest are return preparer minimum standards, EITC fraud and improper payments, and stolen identity refund fraud.

These are the three pillars of our multi-year, multi-dimensional plan to win back EITC clients. We're excited about this comprehensive plan.

So, that's Segment A. Now let's shift to an equally exciting growth area, and that was Segment B. Segment B has a different and more complex set of tax means.

This client is looking for an added level of expertise when it comes to taxes, because they believe their tax situation is complicated, and they're probably right. They're looking for tax professional that's available year-round to answer questions and meet with them if they need it.

They expect to work with the same preparer every year, because they want their tax professional to get to know their personal situation. We have a portion of our offices that currently meets the needs of Segment B; that is H&R Block Premium.

Premium started in 1982 and we currently have around 300 offices across the country. Premium tax professionals are experts at navigating a wide variety of complex situation. They're capable of doing any one's taxes. In fact, these tax professionals have delivered for Segment B clients year after tear.

Historically, the Premium business lacked focus, but with our tax professionals' capabilities, our current footprint, and the under sourced Segment B audience, we decided to give it more attention, and we're closely aligning with the needs of Segment B.

With Premium as our starting point, we created a new brand and business model that's more intensely focused on serving Segment B. Happy and excited to introduce to you today Block Advisors; an ideal tax solution for the millions of Segment B clients that need real help with their complicated tax means.

Because this is a different consumer, we will meet their needs in different ways. Block Advisors gives clients a private office and a more intimate experience. The offices are more sophisticated, more CPA like, but still approachable.

Block Advisors will address your complex tax needs, as well as provide tax planning and year-round tax advice and in many cases, these Segment B clients have other needs as well.

For example, about one in five of them are small business owners. Block Advisors will offer them payroll, bookkeeping, business tax services, and, of course, we will be there to handle their personal taxes as well. What a perfect opportunity to deliver on a real need.

What we have, our two businesses, two types of clients, and two avenues for growth. To recap, H&R Block has served as well for 60 years and we'll do so for another 60.

Within that business model, tax is an annual financial event. It's about well-trained tax professionals who work hard to get their clients every dollar they deserve, and it's largely about the refund.

Block Advisors meets the needs of a different consumer segment. These clients have year-round tax needs, they're more complex, and have needs that may extend into planning and small business services, and importantly, tax is one part of their financial plan.

Different consumers, different needs, different value propositions. Block Advisors will launch with 287 offices nationally. Most of these are converted H&R Block Premium offices.

The cost associated with this fit within our ordinary capital expense plans, which Greg will outline later. We expect to grow the Block Advisors plan over the next few years building a larger footprint as we establish this value proposition.

I told you a lot about Block Advisors and the clients they will serve, but now I would like to show you a video that really brings this new brand to life.

(Video Playing)

Laura Scobie - *H&R Block Inc. - VP, Client Insights*

The Block Advisors website is now live, so we encourage you to go to the website for more information at blockadvisors.com.

In closing, we're excited about our plan for growth. It's based on understand and meeting client needs across all segments. H&R Block now has two distinct brands, and each is positioned to serve different types of clients.

These brands can literally sit side by side and prosper and grow, because they have two distinct value propositions. This focus allows us to build solutions that differentiate, rather than just trying to meet the basic needs for all. Thank you.

(Video Playing)

Jason Houseworth - *H&R Block Inc. - President of U.S. Product Strategy & Development*

Good morning. I'm Jason Houseworth, and as the President of Product Strategy and Development, my role is to create great experiences for all of our tax clients.

And today, I plan to share what we believe is a winning formula for DIY clients and discuss how this formula is designed to succeed going forward within the digital category given two key trends shaping as dynamic category, the material presence of fraud and the convergence of value and premium.

But, I'm going to start by outlining our winning formula in this competitive environment with a goal year in and year out to outpace the category in overall e-File growth and grow profitability as we do it.

As Laura just mentioned, at the highest level, we categorized tax filers into three general groupings. We look at these groupings aligned with the 60/40 split of assisting DIY users and believe strongly our DIY products should be designed for the roughly 40% of tax filers who choose to do it themselves.

These users have specific needs that they're looking to be fulfilled, or validated, within the tax software experience. They're confident in their ability to perform tax preparation. And in contrast to the assisted user, they want to control the process.

They love the flexibility and convenience of preparing taxes on their own schedule, and finally, they expect to trade off, that is to say, to be rewarded for the investment of their time with a lower price.

This is the do-it-yourself client, and these are the requirements that form the basis of our maniacal approach to build the best tax offer in the digital category. You should recognize our formula for this client from last year's investor conference.

It has three components; product innovation, or delivery to the consumer of intelligence as a service, a multi-screen focus to design first for the native device whether it's desktop, smartphone or tablet, and a brand that has awareness and can support the full set of integrated tax services that consumers expect.

Our focus, first and foremost, has been consistent product innovation. The result of which has been a dramatic set of changes that have completely redesigned the products since 2011, both on the surface and behind the scenes.

In tax season 2011, our product was primarily focused on conversion, or the rate at which registered users become completed or file returns with our tax interview, and this data-driven approach let us to recognize the key areas of opportunity within the product, but also let us to what was then a small, but exponentially growing number, of mobile users.

While we were able to optimize this flow from a conversion perspective, we recognize the opportunity to design first for the mobile user, or least a chance to start over, to rebuild the product from the grown up, beginning with this version in 2013. This was version one of a product designed to be optimal in every screen size.

But the focus of the redesign wasn't just on conversion and the need to design the interview for mobile screen. It was also to enhance the user's perception of value, especially from more complex tax users.

How can software deliver on this to the DIY user? By embedding logic to help anticipate what the user needs, like how our interview can begin by taking a picture of your W-2 to automatically pull name and address information, as opposed to asking you to manually enter on your phone.

Our ability to import tax form data, including the 1095-A import feature to auto populate your health coverage details. The way we pro-actively recognize things that you may have otherwise forgotten to take advantage of through a feature that we call Pro Tips, and giving you the desired confidence you expect, by demystifying things that don't make sense, like through our Refund Reveal.

Refund Reveal is a unique trademark feature release of our product for all users in tax season 2015, and it exemplifies how we deliver on the central expectation of the DIY user to understand how the software calculates the refund in a way that enhances value perception.

This feature is unique in the digital category and it differentiates H&R Block tax software, and our expertise, to the DIY user. All of these features that I've mentioned are now live in this year's product, and collectively, they represent like old version or year three of our redesign.

Another example of our consistent focus on product innovation is how we've iterated on MyBlock. MyBlock, for those of you who haven't already created your account, is the virtual account available for all H&R Block tax clients, DIY and assisted, to maintain a year-round relationship with our brand.

It also represents how the product innovation we developed in our tax offer area is adding value for assisted clients. Launched in tax season 2013, MyBLock has been used by over 8 million clients, more than half of which are assisted clients leveraging this tool to do things like review their tax history with H&R Block, to access prior year returns and other supporting documents, and to visualize the personal history that exists inside their tax data that's securely held in H&R Block.

Product innovation has propelled advancements for both the DIY and assisted H&R Block clients. But for the DIY business, the most important thing is how this translates to results.

Since Bill took over as CEO four years ago, and it empowered us to pursue this winning formula, we see the 7% tax return, or e-File growth and the 9% revenue growth, as validation of our innovation and testing process.

I'm especially pleased in the quality of our growth over this time period with new 1040, or complex clients, growing the fastest. We also know that we must be mobile first in our design thinking, so we create a responsive multi-screen product.

That is to say, our products must be seen to the mobile or table user as if the product was designed specifically for that device. Our focus in this area to design with the multi-screen mentality for all 6,000 of our federal and state product pages has improved our waterfall for all clients over the past four years.

But it's been more dramatic for mobile users as we've improved conversion by more than 30 points as a result of this effort. This helps us more efficiently convert the clients that our marketing efforts help add to the top of the funnel.

And speaking of marketing, we know that whether DIY users are value or premium consumers, they will demand that their software be built by a great and trusted brand. Over the past four years, we've seen awareness that H&R Block makes tax software grow 16 points from 51% to 67%; 67% is a number that both draws value competitors, because it has taken significant investment to achieve, but also has a lot of head room, and therefore, continues to represent the largest opportunity to challenge the category leader.

That's our winning formula, a formula that created unit and revenue shared gains in tax season 2015, and one that we see as a winning formula going forward -- with one update. We will continue to ensure we are the industry leader when it comes to proactively preventing fraud and providing a secure platform from which to file.

This has long been a consistent and continual focus for H&R Block, but a fight that we have waged alone, until this past tax season. Thanks to the leadership of Kathy Pickering, and others within H&R Block, we're pleased to see others in the industry adopt many of these standards that we've had in place for years, which leads me to the first of two trends shaping the digital category; fraud.

Many of you have asked me, how do I see fraud, or to quantify the amount of fraud in the digital industry. So, I thought I would share a few anomalies within the IRS' own data that point to the material effect of fraud and on the filing patterns and how this fraud is distorting competitor e-File growth.

Let's begin with Florida federal e-Files and some very concerning fluctuations over the past few years. Typically, we say that return growth should match non-farm employment, or conversely, unemployment.

And the gray bars that you see, they represent unemployment rate for tax seasons 2012, 2013, and 2014; rather steady. In Florida, the unemployment data varied slightly, but it generally follows the national unemployment averages.

Now let's see how closely IRS e-File and Florida e-File data match up. It's interesting to see that Florida did not follow the national trends in e-filing. Importantly, Florida has no state income tax requirement, so it's a good barometer to use to evaluate federal tax filings.

We would normally expect e-File rates to follow IRS filing data, given it match almost exactly with unemployment data. However, it not only varied in tax season 2013, it varied dramatically, given historical fluctuations typically fall within a low range.

What explains this? Is it because Florida return filing patterns changed unexpectedly, or because possibly, that fraud that was being generated from Florida shifted to originate from other states?

Our view is that is federal fraud filters shifted to scrutinize returns originated from Florida addresses that the fraud moved to originate from other states, something easily accomplished via online filings.

This is why the change, the category leader, made to allow its customers to file their state return absolutely free without the requirement of an approved federal return seemed more aligned like a quest for volume rather than "consistently leading the fights against potential refund fraud", which was a statement that served as a headline at the recent investor conference.

During an interview in the middle of the last tax season, their chief information security officer admitted that this unlinked state return practice had created 3 to 37-fold increases in state-only returns, returns that the company was convinced were fraudulent. The change to correct this was made in early February, a month after the launch of Absolute Zero, and past the first peak of the filing season.

Now, let's discuss IRS, or federal e-File rejects, and first in context, a federal e-File reject can be rejected by the IRS for a whole host of reasons and I would say many of these are valid, like when a DIY user bad fingers their Social Security number and it doesn't match the IRS database.

Easy files get rejected and then they return it to user to correct. However, if we assume that these mistakes are common across DIY users, then it would mean that generally, we would expect the rate of rejects to be consistent across all software providers, but what I'm going to show you is that it is not.

And so the question you should be asking yourself is, why would have been different? Now I want to show you a chart that demonstrates federal e-File reject rates, or the percentage of filings that were rejected by the IRS by provider over the last three tax seasons, and I'm going to start by showing our own reject rate, which has been the industry's lowest reject rate for the past three tax seasons and one that has continued to come down as we've improved our backend fraud monitoring and security controls.

So, next you see the category leader; they are the first example of how a higher reject rate can correspond to higher e-File growth. In tax season 2014, their e-File growth of 9% came with a five-point, or nearly 30% increase in rejected returns. This, by the way, was their largest e-File growth that they've had since 2011.

Here the reject rates of another major online competitor, which have continued to grow over time. But if you want more evidence regarding how the reject rate corresponds with e-File growth, here's an online competitor who saw strong 8% e-File growth in tax season 2013, but when their reject rate was cut in a half, their e-File growth halted.

Interestingly, another online competitor saw their own reject rates spike the next year, which corresponded with an increase in their e-File growth. In fact, it almost doubled in size.

My argument is that fraud exists within the system and it can likely be seen as it moves around the system. We continue to partner with the IRS in order to push for industry standards in order to prevent this.

And just one last note before I leave this page; I've included the reject rate of H&R Block assisted business on the right. Our rate is lower than all DIY competitors, half of retail competitor Liberty Tax, and one that is only marginally changed over time.

Let's continue discussing trend shaping the digital category by picking up on a topic that I covered in last year during our investor day. During that presentation, I previewed the season, noting that we should continue to expect a convergence of value and premium within DIY users.

Specifically, I outlined how small value competitors created through the Free File Alliance, or FFA, will lose their ability to compete on price alone. Our view is that even valued DIYers expect more than what I call pen and paper on a webpage, given the price is no longer differentiator.

I also noted how premium DIYers, the most complex and valuable clients, are seeing the category leader raise price on their software to level the playing field with these value competitors. I argued then, and continue to believe now, that H&R Block is well positioned to take advantage of both of these shifts.

Our online offering puts the expertise in tax services of the most trusted tax advisers together with innovative easy-to-use tax software that is built to lead for what's next in the evolution of the DIY category.

So, let's review what actually happened in tax season 2015. First, the category leader opened the season by offering its online product free for both federal and state filing. This offer both tightened the federal forms for free users and it relaxed the state price, making it $0.00 for 1040EZ and 1040A filers.

At H&R Block, we offer the value DIYer a free federal filing coupled with a promotional offer for $9.99 state filing. And despite the existence of a $0.00 state price, $9.99 was still the best value in DIY for 1040 filers, who were eligible for our free federal online product, but squeezed in the tightening by the category leader.

In contrast, the category leader raised price for complex users. Generally speaking, many of these users were asked to pay $40 more to use filing systems whether it's online or software or desktop software.

Let me give you an example. So, the tightening of the form's coverage within their online products meant that the user of last year's free federal addition, particularly the most common 1040 user who needs a schedule A to file basic itemization, was forced to pay $40 more to file federal and state perfectively the same return year-over-year.

We held price consistent for complex users. What happened? Well, the result was that the category leader gained volume of simple filers meaning 1040EZ filers. We gained ground with high value desktop and 1040 online clients.

In desktop, we gained an unprecedented three points of share in a single treatment season, demonstrating the impact the simple filer pricing has on previously loyal, high value DIY clients.

And when the final tally came from the IRS, we learned that we outpaced them in total e-File growth, and given each year, we strive for profitable growth at a rate faster than the digital category. We were very pleased with the 12% revenue growth that we saw.

We see this growth as sustainable growth compared to growth via price, whether it was to fund low quality volume by the category leader, or to mask a lack of growth.

To summarize, we believe our formula in DIY is winning. Product innovation delivered seamlessly to all devices while continually growing in awareness. A formula based on sustainable, profitable growth, and given the category dynamics, one we believe will continue to win in tax season 2016 and beyond.

Colby Brown - *H&R Block Inc. - VP of IR*

Hi, everyone. Thank you so much for taking your seats. Now I would like to introduce Mark Ciaramitaro, our Vice President of Taxes and Healthcare.

Mark Ciaramitaro - *H&R Block Inc. - VP of Taxes & Healthcare Services*

Good morning. As Colby said, I'm Mark Ciaramitaro, Vice President of Taxes and Healthcare Service at H&R Block.

And as Bill indicated earlier, I'm back again to provide an update on the Affordable Care Act both in terms of what happened this past tax season and what's to come.

The Affordable Care Act, along with introducing new health plan regulations, insurance marketplaces, and coverage mandates, effectively created a new and dynamic intersection between taxes and health insurance. This intersection exists because many of the ACA's key provisions are administered via the federal tax code.

You'll soon see that we expect the breadth and depth of the intersection will continue to grow as new mandates, new notice types, higher penalties and increased IRS enforcement begin to face in. You'll also here that we believe H&R Block is best positioned to take advantage with the opportunities tied to the growing impact of ACA on tax filers.

We can't talk about the impacts of Affordable Care Act without understanding its long-term goal, which, simply put, was to expand health insurance coverage among a large pool of historically uninsured households, and by doing so, reduce overall healthcare costs.

ACA sough to accomplish this by driving higher quality, improved affordability, and greater access. To achieve these themes, ACA regulations created a number of new mechanisms, including the individual and employer mandates, new federal and state-based insurance marketplaces, and expanded Medicaid.

So, with this ACA context, as an investor, you may reasonably ask, so why should I care, what does it have to do with H&R Block? Well, first, it's important to understand that because of this new intersection, ACA has brought significantly more complexity and confusion to the annual tax filing process.

We believe that this newly embedded tax impacts will create opportunities for the tax industry in terms of client growth, retention, and incremental revenue. We also believe, based upon our industry-leading investments and assets, that H&R Block is best positioned to capitalize in the consumer needs emerging from the tax code changes introduced by ACA.

That being said, we're still in the early stages of the ACA's impact, as 2015 was really the first year many of the laws tax revisions took effect. As we move in to 2016 and beyond, the opportunity for H&R Block will continue to evolve.

This morning session will be broken down into three primary sections. First, we're going to talk about what actually happened this past filing season starting at the category level and then moving into specific H&R Block results.

Next, we will share the ACA headlines for 2016, focusing on changes typical tax filers will experience. And finally, we will close with a short discussion around future implications and expectations for H&R Block.

Let's begin by reviewing the major outcomes from the 2015 tax season. While there's ongoing political controversy regarding many of the ACA's provisions, virtually everyone acknowledges that implementation has led to a significant reduction in the percent of uninsured households in America.

Gallup, one of the most widely referenced surveys, has closely tracked a material two-year decline at the fourth quarter 2013 from 18% to just under 12% in 2015, which has resulted in over 17 million people gaining insurance coverage.

Uninsured levels are expected to continue to decline, albeit that at reduced rate, and will like achieve historic lows in 2016. But beyond big higher coverage levels, one of the most tangible impacts of the Affordable Care Act was the new notices and forms required in the tax filing process.

Those that enrolled via state or federal marketplace received a new tax information document, the 1095A, which included critical information needed to reconcile their premium tax credits. Importantly, households that received advanced payments of the premium tax credit reported on the 1095A must file a tax return even if their income is below that usual filing threshold.

The tax form used to calculate the reconciliation of premium tax credits is the 8962. In frank terms, this is a complicated form requiring multiple steps to complete it and you'll see coming up that many households made the mistake of not including this form when they file last year but they didn't file at all.

Now, households who did not have insurance coverage for all or part of 2014, and who did not qualify for an exemption, confronted a new worksheet that calculated their shared responsibility payment. Filers made mistakes on these forms as well. In fact, according to the IRS, about 300,000 filers paid a penalty when they shouldn't have and another 75,000 made basic math errors.

Thankfully, ACA allows eligible non-covered households to receive an exemption from the penalty, but they needed to include a penalty exemption form 8965 in order to claim it.

Altogether, 2015 ACA filers experienced data complexity to a tax filing process that was already daunting for many. So, how many filers were directly impacted by ACA in 2015?

Well, according to the IRS, about 25 million returns either included in the ACA-related tax form or needed to. Beyond the 3 million that reconciled their premium tax credits, the 8 million that paid the penalty, and the 12 million that filed for an exemption, about 2 million households did not properly file, or didn't know they needed to file at all.

Historically, the relative percentage of assisted versus DIY tax returns has been in the range of 60% to 40%. But among reconciliation and penalty ACA impacted returns, filers tended to use assisted channels at that same or higher rate, while filers who submitted an exemption form tended more toward using DIY solutions.

This is an interesting outcome that may or may not tie to other fraud trends we are seeing in the category. It's too early to determine yet if filers are making different channel choice decisions based on their newly discovered complexity, but we're going to be keeping a close eye on those trends.

Beyond having to file new tax forms, perhaps the most significant impact faced by ACA filers was on their refund. Despite all the media focus this past tax season, many tax filers were caught off guard. This is a pretty emotional topic, because for many households, the tax refund is the single biggest financial transaction of the year that they count on to cover critical household expenses.

The first major refund impact concerned the shared responsibility payment. In 2015, about 7.5 million filers had to pay $1.5 billion in shared responsibility payments with an average penalty of over $200, which according to our figures, resulted in an average refund decline out of 7% to 10%. Over half of penalty payers had annual incomes below $30,000, which correlates closely with their lower employment and insurance coverage levels.

The penalties were not the only source of refund impacts. Premium tax credit reconciliation had an especially large and unexpected impact on refunds, primarily due to filers underestimated their household income when they enrolled in a marketplace plane.

In 2015, the IRS issued almost $10 billion in premium tax credits, with an average household credit of almost $3,000. However, of the 3 million filers who received these credits and reconciled, just over half had to pay backup portion of that credit. Our results indicated that these clients experienced a very significant impact amounted to over 30%, or $730 decrease, in their tax refund.

One of the signs of added tax complexity is the degree to which filers make mistakes. Based on IRS data, over 2 million households made tax filing mistakes related to ACA.

Beyond math errors, probably the most worrisome trend was connected to reconciliation, as about 40% of the households that enrolled via the marketplaces in 2013 and early 2014, simply got their reconciliation requirement wrong; they either didn't file or extend with an 8962, or they didn't know they needed to file at all.

The reality is, because of the added complexity, ACA impacted households that did not get qualified in the systems have a much higher likelihood of making mistakes, and those mistakes can have important ramifications even beyond the tax return such as losing future excess to premium tax credit assistance.

So, after talking about ACA trends and the overall tax category, let's hone in some specific H&R Block results from this past tax season. Let's start with one of the most important investments we made going in to 2015, which is ensuring our network of tax professionals with the most thoroughly equipped and trained ACA tax experts in the industry.

As we shared last year, our ACA certification training was comprehensive, averaging seven dedicated hours of tax theory, software practice and extensive case study work. We also deployed additional tools and support resources to assist tax professionals in handling specially complicated ACA scenarios.

In terms of 2015 tax results, we ended up investing over 600,000 of ACA specific training across 80,000 tax professional staff and 10,000 offices and clients who received the refund benefits of our ACA expertise gave our tax professionals higher Net Promoter Scores.

We believe this strategic investment in our people will continue to pay dividends, because it has insured our tax professionals' competency in handling the full range of ACA tax situations that their clients are likely to face both now and in the future.

In terms of describing what a typical ACA impacted client looks like based upon our year-end results; they tend to file earlier in the tax season; are substantially more likely to be lower income; tend toward being a single or head of household filer with the higher relative mix of Latino clients, have a higher probability of being a new retail client versus do-it-yourself, tend to file either an EZ or 1040A-based tax form, including clients applying for an earned income tax credit.

And finally, in terms of geography, have a higher propensity that reside in states that make up a large percentage of the historically uninsured population, such as California, Texas, and Florida.

According to the IRS, in 2015, about 16.6% of filers were directly impacted by ACA tax forms. The mix of ACA impacts, as you can see, was primarily driven by exemptions and penalty forms.

H&R Block's overall percent, and mix of ACA forms, was similar to the tax category. That being said, we did see that the proportion of our new retail clients impacted by ACA was materially higher than those that used our DIY products.

In terms of the shared responsibility payment, H&R Block clients paid slightly lower dollar amount than the category average. This is likely due to differences in our clients to every household size and income, which in turn impacts the average penalty amount.

But we expect these amounts to increase in the future as higher penalty rates go into effect. All told, after the first full year of implementation of the Affordable Care Act, we gained some important insights.

First, while significant number of overall tax filers was impacted by ACA, the impact was heavily concentrated on lower income segments who typically file earlier in the tax season and tend to use assisted channel solutions.

Next, the added form complexity led to tax filing issues. We have said all along that one of the major outcomes of ACA is higher complexity levels and corresponding client confusion, and the numbers bear this out.

While the total proportion of H&R Block clients whose returns were directly impacted by ACA was similar to the overall tax category, our retail clients sought assistance at a higher rate, which isn't surprising, as our historical experience is that higher tax complexity tends to drive demand for face-to-face professional expertise.

And lastly, despite all the ACA media attention and focus, many tax filers were surprised by the impact on their tax refund, which in some cases, was very significant. In fact, this refund impact actually altered client filing behavior. As on average, ACA households will need to file 7 to 10 days later than they had in prior years.

After taking a look back, now let's look forward and talk about the surprising number of changes filers would face as we go into the 2016 tax season. Let's start by talking about important changes in coverage verification notices.

As with last year, households who enrolled in a marketplace plan will receive a 1095-A notice in order to reconcile their premium tax credits. We consider this to be a must-have tax document because it's needed to complete the reconciliation process.

But probably the biggest change in 2016 for most covered households will be the emergence of a new tax notice, the 1095-B or C. Unlike the 1095-A, the essential purpose of the 1095-B or C is to provide qualified insurance verification with respect to the individual mandate coverage requirement.

Because of the added volume, virtually overnight these insurance coverage notices will become the most common tax related document households received and we expect there will be lots of questions about them.

The good news for preparers like H&R Block is that in the vast majority of cases, specific inputs from the 1095-B or C will not be required when a client actually files their tax return, provided all the household members are covered.

At this point, you might be asking, well, OK, but what's going to happen when a filing household doesn't accurately indicate their coverage status? Well, I have news for you. IRS enforcement is coming.

With the advent of 1095-B and C data matching, the IRS now has the ability to cross reference tax filers coverage claims. Simply put, if a filing household indicates coverage but the IRS has no matched record, the IRS has the ability to send out notices requesting verification of the claim. If no verification is provided, ACA penalties will be applied to the filer's tax account.

Additionally, as with last year, the IRS gets multi-data feeds from HHS for households who enrolled in a marketplace plan. This means that the IRS has the real-time ability to hold refunds for those who do not properly file and reconcile using form 8962.

Now, the IRS typically uses automated mail notices to inform taxpayers regarding filing inconsistencies and issues, and the same's going to be true for ACA-related notices. In fact, the IRS has provided drafts of over a dozen notices that they intend to send out to address the full range of potential ACA-related inconsistencies all the way from simple math errors to tax collection and refund offset protocols and we expect millions to be sent later in 2016. Filers will soon learn that the error of tax leniency with respect to ACA is coming to an end.

Moving on to penalty changes, last tax season, ACA penalties to the higher of $95 per adult, or 1% of household income, which as we saw translated into an average penalty amount of about $200. This coming tax year, penalties for non-coverage will increase to the higher of $325 per adult, or 2% of household income, which practically means that the average household without coverage could face $400 to $500 hit to their tax refund.

The implication of this penalty increase will play out in two key areas; enrollment and exemptions. As penalty rates increase, the expectations that households will have higher and higher incentives to get qualified coverage, but the open question is whether the impact of these higher tax penalties is enough to overcome premium and out-of-pocket affordability issues many households face.

But the other really important implication is that their relative value of tax expertise tied to determining a household's eligibility for exemptions will also increase. Now last year, H&R Block clients who secured an exemption saved an average of about $120.

In 2016, we expect the effective value of finding penalty exemptions for eligible clients to exceed the entire cost of an average tax return. Let me repeat that. The dollar value of a found ACA exemption alone will be more than what our filers will pay for a typical assisted tax refund and these penalties are going to continue to escalate.

For tax year 2016, non-covered filers will face the higher of 2.5% ,or almost $700 per adult. Now we are talking about really painful consequences.

We expect there to be more reconciliation clients impacted in 2016 as well. As we stated, marketplace enrolled clients who received premium tax credits must file using form 8962, and this complexity impact will be experienced by both prior 2014 year enrollees in a whole new group of 2015 marketplace customers.

In terms of volume, according to the IRS, about 4.5 million filers will require to reconcile last tax season. We expect that number to approximately double in 2016 because double the number of people enrolled this past year.

But you may ask, what's your longer-term forecast for marketplace enrollment? Well, the general answer is marketplace enrollment growth will continue but the rate of that growth is uncertain.

Recall 7 million initially enrolled in 2014, and that number climbed to over 11 million in 2015, with about 85% received in premium tax credit assistance. HHS' current enrollment estimate for 2016 is in the range of 11 million to 14 million, which reflects a significant slowing of the growth rate due to the combination of factors.

The general consensus is that it will now take up to five years to achieve the original CBO estimates of 21 million. And according to the Kaiser Foundation, the likely upward limit of marketplace enrollment is in the range of 20 million to 25 million with the key drivers being the combined effective higher penalties and IRS enforcement coupled with more targeted enrollment marketing.

But on the limiting side, there are factors at play that could end up reducing the cap, such as core affordability issues, increased premiums, high return rates, and just increased HHS compliance enforcement.

Last of the changes for 2016 concerns marketplace open enrollment dates, which are shifting yet again. For the 2016 calendar year coverage, open enrollment began on November 1st and will end on January 31st.

The biggest practical implication for filers who choose to stay uncovered is after January 31st, these clients will not only be faced with a shared responsibility payment for 2015, but they will be essentially locked in to the much higher penalty rates for 2016 as well.

And while healthcare.gov has made big strides, the enrollment process continues to be confusing for many in terms of selecting the right plan with the right coverage and deductible levels, as well as ensuring access to preferred doctors, providers, and prescription drugs. That's why we're continuing our enrollment services partnership with GoHealth to provide help for any H&R Block clients needing professional enrollment guidance.

So, what does this all mean as we head into 2016 tax season and beyond? I like to share some implications and expectations. Let's start with 2016.

With millions of new 1095 documents being sent out, we expect it to be lots of consumer confusion and our tax offices will be ready to address the full range of clients' questions and concerns.

Next, we think higher penalties will be a painful reminder to those who have not acquired qualified coverage, and when combined with increased IRS enforcement, would trigger increased interest and professional expertise around requiring exemptions, which is another area we are set up well to address client needs.

Many of our ACA clients will experience big tax refund surprises. This represents both a challenge and an opportunity. The challenge is to address our clients' emotional reaction to a reduced refund by clearly demonstrating our efforts to leave no stone unturned in trying to maximize their outcome.

The opportunity is to add value by providing personalized advice that puts our clients in a better position to make and form decisions going forward. In overall terms, we expect the value and magnitude of ACA will continue to broaden and deepen, which means their relative importance of ACA tax expertise will also grow.

Now looking further in the future, we expect the mix of ACA-related tax forms to shift over time. We expect instances of more complicated reconciliation and exemption forms to grow while the relative proportion of less complicated penalty worksheets decreases.

This will be driven by increasing marketplace enrollment, higher and higher penalties, bigger IRS compliance, and interest in exemption expertise. We also expect over time that our volume of ACA-impacted returns will continue to grow over the next two to four years from our current 16.4% to between 20% to 25%, depending on how the key drivers play out.

This combination of tax form volume and mix changes has the potential to possibly impact client growth, retention and revenue. We've covered a lot of ground in a short period of time today. We looked at our prior tax season's ACA-related results; we identified major changes for the upcoming tax season; and even shared our view of future drivers, impacts, and expectations.

But there's one thought I'd like to leave you with today is that we believe we are best positioned to take advantage of the opportunities presented by ACA because of our unique brand assets, our deep tax expertise, the unrivaled investments we've made in our network readiness, and the ACA profile of our clients and that these opportunities will continue to develop over time as the impact of the Affordable Care Act broadens and deepens.

Thanks for your time today.

Greg Macfarlane - *H&R Block Inc. - CFO*

Anyway, good morning. I'm Greg McFarlane and I'm really going to wrap things up here today. So, I'll conclude the presentation by providing a financial view on the strategy and topics that represented in more detail today.

Now, I'll do so by focusing H&R Block's unique role in this industry with a specific look at the company and the issues impacting our industry. I'll also provide some thoughts about our financial structure and our outlook.

Before those, however, I'd like to take a moment to review the past quarter. It's been a busy quarter and I'll provide some context around the recently completed bank divestiture and the changes to our capital structure.

First, a few words about our second quarter results, which we released yesterday. As you're likely aware, this is a seasonally slow quarter for us, one in which we report a loss. Revenues for the quarter decreased by 4.6% to $128 million. While we saw a slight improvement in our off-season result in the United States, these were more than offset by the negative impact of foreign currency rates in Australia, and to a lesser extent, Canada, as we translate those results into U.S. dollars for financial reporting purposes.

Total operating expenses increased by $43 million, or 13.5%. This increase was expected, resulting primarily from approximately from approximately $22 million in transaction costs related to the bank divestiture in capital structure actions, which I'll talk about shortly.

Additionally, occupancy costs and amortization expenses increased due to the annualized impact of acquisitions of independent tax preparations, prepares, and in particular, the franchise businesses last year. As a result, net loss for the quarter increased 26% to $143 million and a loss per share increased 32% to $0.54 per share.

While our losses were higher year-to-date, in a business as seasonal as ours, it's difficult to read too much into the offseason results. As many of you know, tax season performance during our fourth quarter represents substantial majority of our revenues entering for the year.

Turning to discontinued operations, Sand Canyon remains engaged in a bulk settlement discussions with the counterparties from which it has received a significant majority of its asserted claims. It's accrual for representation and warranting obligation increased modestly by $4 million to a total of $154 million as at October 31st 2015.

Though there is still work ahead, and while it will take time, Sand Canyon continues to make progress in its efforts to wind down its remaining obligations. With that, let's turn to the divestiture of H&R Block Bank and our capital structure changes.

There would be no conversation about the first half of H&R Block's year if we didn't talk about this more fully. So, let me take a few minutes to walk back through a bit of history just for the sake of completeness. As we stand here today, H&R Block is no longer in the banking system. We were simultaneously able to enter in a new bank relationship that allows us to offer our bank products going forward to our clients.

That then allowed us to go ahead and move forward with announcing our capital structure and making some very specific steps forward in realizing that.

Now, I'm not going to spend much time going through the history of the actual application but I do want to talk a little bit about why we were in the banking system and the value of these products offer for us. At the core basis of our relationship with tens of millions of our clients, is this basic financial transaction that they trust us with that information, and we know that over the years that if we have the right product, the right financial product available to them, we can add value to their lives and make some money too.

That need has not changed in this. To recognize that need, many years ago H&R Block decided to start a bank de Novo; we chartered the bank, capitalized the bank, and ran that bank very successfully for a number of years.

Unfortunately, the 2008 banking crisis, there were substantial amount of changes that affected all the banks in the banking system. And in particular for H&R Block, H&R Block Incorporated, the parent company, was deemed a savings loan holding company. The main implication of that was that we would been required to build up an additional, almost, billion dollars of capital supported overcapitalized bank.

We looked at a lot of alternative solutions for us to be able to continue to keep the bank, but be able to meet these compliance rules, but we're unable to. And so, the natural and formal conclusion we came to is we need to enter the banking system. 620 odd days later, we finally received regulatory approval, and I will not go through those 620 days with you because I'm through my counseling now.

But the point of it is on August the 5th, this summer, we received the go ahead to go ahead and formalize our transaction and we were able to, in less than a month, close that transaction successfully. The reality is there was a lot of work to get that done, and I'm quite proud of our team that we were able to do it as smoothly as possible.

As we stand here today, we are no longer savings loan holding company, and we have successfully transitioned all those operation requirements to our new bank partner, BofI. In fact, as we stand here today, if you went to one of our stores, you could apply for the Emerald Advance preseason loan offered by BofI, and things have gone well so far and we have great expectations for this season and seasons to come that this is a great relationship for ourselves and for our clients.

There is a cost, however, to this transaction and I need to just walk you through very specifically the cost numbers here so that your models are as accurate as possible as you think about H&R Block in the new world.

This chart shows you the annual impact, and I've broken it down both between revenue and expense, and on the far side, the EBITDA, or pretax net income side. In total, on a go-forward basis, you should expect about $36 million to $41 million of negative impact on our EBITDA to this transaction.

That is broken down to three subcomponents. The first and primary one of which is the amount of money that we will owe to our new bank partner every season for doing this transaction. The main basis for that economics is, really, one around transactions. The more cards we sell, the more the cards are used, the more Emerald Advances, the more refund transfers, they will make more money. We would estimate that between $30 million to $35 million of net cost per year to the company.

The second cost that we incurred is that during this time frame, we had accumulated a lot of cash and kept some of that money in marketable securities. Those have since been liquidated and sold and we no longer receive interest revenue of approximately $6 million per year.

The third and final piece is really more just an accounting thing, it's more of a technical point, as we're no longer sort of deemed of financial accounting model, we are now going to change the way we recognize some revenue and re-characterize as expenses. As you notice, there's no net impact of this, but it will decrease our revenue, but the offset will go to expenses.

In total for this tax season, we are guiding to you to say this will impact us by about one full point on revenue and one full point on EBITDA margins. It's important to please update your models.

This is the cost page. Let me move to the benefit side of this conversation. By selling and transacting our bank, we're now able to be back in control of our balance sheet.

And we outlined to you at the beginning of September what our new capital structure look like. The first step was actually redoing our line of credit. We were successfully able to renegotiate a larger line from $1.5 billion to $2 billion, and at the same time, renew it for a five-year time period.

The second step was really to go ahead and begin raising some long-term debt, and we actually executed it through tranche bond structure deal earlier this fall, as you can see the details here. To be honest, I was actually quite pleased with the execution of that and we're glad we got it done.

The third step was really the share repurchase program. Our Board authorized us over the next 4.5 years to purchase up to $3.5 billion of shares, this covers four full tax seasons. We made an initial down payment with the successful tender offer that we completed this fall, where we purchased $1.5 billion worth of our shares at an average price of $37, representing 40.5 million shares. And as you can see at the bottom of the page, as we stand here today, our average share outstanding are about $236 million.

Another important point, though, is more strategy. We have worked very hard to get back to this core business of tax preparation, and we talked about our strategy about being a leading global consumer tax company, our capital structure needs to reflect our business model. And as business people, when you look at this model, there are really, in my mind, three unique things to point out.

The first is just the cash flow nature that we enjoy here. We have a strong cash flow profile. In fact, from the time of which is transact from a clients' perspective and recognized it as revenue, the cash collection is either days or weeks. Secondarily, the amount of capital that we need to reinvest back in the business would be described as modest when you look at the comp group with the S&P 500.

We are a mature foot print. We have a scale DIY product. And typically, that requires about 3% to 4% of annual reinvestment to continue to make sure that it's fresh and contemporary.

The third thing, which is a very real issue for H&R Block, is this extreme seasonality that we have as a part of our model. We are the most seasonally company in the S&P 500 and our capital structure needs to reflect that. The CLOC that we renegotiate at $2 billion solves that problem.

Another important point that I want to talk to you about, a little bit more technical, and this is really about our debt capacity. As you know, we've been investment grade for 60 years. We've reaffirmed our commitment to being investment grade. For us, it's a technical matter right now. We're a BBB stable/Baa3 stable credit.

We have quantified what we think an investment grade looks for H&R Block, between 2.5 adjusted gross debt to adjusted EBITDA, to three times. And I want to spend a minute, actually, talking to you about the adjusted growth debt calculation just to make sure that you all have it straight. That calculation is made up of three subcomponents.

The first is the obvious debt that you can look up on the balance sheet any point in time. The second factor is following the [RADAG] convention, where they look at operating leases as a pseudo debt instrument and they factor that in to your debt. So, that needs to be taken care off in your calculations.

And the third step here is that we are seasonal, and while most of the year we don't have any money outstanding in our CLOC, or historically commercial paper, we do borrow quite heavily, for example this time of the year, and the proper way to model that is take the average for the year, which we're saying is about $400 million.

If you take those numbers, compare it to where we are right now in terms of our adjusted EBITDA, we stand somewhere between 2.2 to 2.5 times adjusted gross debt to adjusted EBITDA. So, please understand that as you do in your calculations.

Now, this needs to be put in a broader context. One of the key investment thesis that we have, that we think many of you are attracted to, is our ability to return cash in a very efficient way, and there are two primary ways that we do that. First, of course, is our dividends, and secondarily is through our share repurchases.

What you're seeing here is our track record since 2010 for those two components. What you might not be able to see at the bottom, actually, is we've taken that number in total, the total return of capital and compared it to what our net income is and what you're seeing there is in for the 2010 to 2013 timeframe, we were actually greater than our net income in terms of return to you.

You can also quite clearly see here in 2014 and 2015 the two-year time out that we had because during the savings and the holding period, we were prohibited from buying back more shares.

Now, that we've moved past that, we've been back on the train of being able to buy back shares, and you can see an up-to-date chart right here on the far right-hand side. This is the six months to day, by the way, just for the record.

And in particular, though, in this graph, I want to focus on, really, just the last four and a half years. And the reason that matters is that's really the time that Bill's been our CEO and our management team has been in place.

During that timeframe, since May of 2011, we have successfully bought back a quarter of the company. We've raised the dividend by 33% and we've been able to a total of $3 billion, which for a market capital, about $9 billion is not a bad track record. We, as a management team, have a good track record in this area.

So, with that, let me take a few minutes to reflect a little bit on some of the themes you heard today and try to put it more of a financial context for you. And I want to really start with what I think is the most important point overall is this is the business we have. We invented this industry 60 years ago. We have been here for the long-term and we're going to be here for the long time and we are 100% committed to being successful in the tax preparation industry.

We like this industry; it is slow growth, it is very mature, but it consistently grows somewhere between 1% and 2% of total returns per year and we understand that.

We also like the pricing power this industry has. At H&R Block, we have successfully been able to increase price per year, roughly double the rate of inflation for the last 10 years.

There are many reasons why pricing is inelastic in this industry, and I've listed a few here for you.

The first is taxes are nondiscretionary. I mean, sure, you don't have to file for a couple of years, that's a short-term strategy; you're going to get caught eventually. You have to file your taxes.

Secondarily, as an industry, we typically price noncomplexity. So, for those who either go to a CPA, the number of hours they spent on your account will correlate to how much they charge you, which is approximately for complexity. In our business, we typically look at the forms, we need to fill in for you and how complicated those forms are to actually train to execute and the risk that's involved in those.

The third, and perhaps the most important reason we have on pricing power is, the majority of Americans receive this very big refund; $2,500, $3,000, $3,500, and when you look at the average charge that we pay them in the 200 range, that's a good investment of their money to get it done right, to make sure they have peace of mind. We like the pricing in this industry.

We also, importantly, know more about this industry than anybody. If you actually think about the years that we've been around, the amount of data that we've collected, the number of experiences that we've been involved in, we have this knowledge base that is a very powerful way for us to understand things, and as we move forward here strategically, we're going to take more and more advantage of that, and you saw some examples of that today through Laure Scobie's presentation.

The other implicit part of our strategy is now that we're back to this basic tax preparation company is this is all we've got; we have no distractions with other industries. We are only about tax and we are going to live and die based on how successful we are in this industry.

Importantly, we're the only company that says if you want to do your taxes your way, we are here for you. If you want to sit at home in your pajamas late at night and just do it yourself, we're going to have a great product for you.

If, on the other hand, you want somebody to sit next to you and go line by line and explain every aspect of your taxes with you, we've got people for you, too. And as you can imagine, there's many shades of gray between those two extremes, and H&R Block is really the only company that can deliver that.

This is a large industry; it's $20 billion in total, and as you can see here from the graph, we're the largest participant in the industry. But you can also see that we have room to grow here.

What you've seen from us today is an articulation of a strategy that says we now have an answer and a plan to deal with independents. We also now have a plan and an approach to CPAs. And, of course, we always worry about our assistant competitors and our DIY branded competitors. We believe over the next several years that we will continue to grow a larger share of this market.

The other important part of our model is we are a medium and long-term thinking management team. We are here for the long-term. This is the way we make decisions.

The average American starts filing at age 18, 19 or 20. They then file for an additional 60 years or so, and H&R Block wants to be considered every year along that journey. That's an important part of our strategy.

Now, with that, let me spend a few minutes talking more about what we at Block think of our some competitive differentiators and a sustainable competitive advantages, and that really starts with our brand.

If you think about H&R Block, this is a ubiquitous term; it means taxes. In fact, 96% of Americans know exactly who we are, and when you ask them who we are, they would say things like taxes, trust, and expertise; exactly what we want.

And that's a direct result of decades of experience doing hundred millions of returns and spending hundreds of millions of dollars in our brand. Any competitor that comes in the tax space is going to have to fight this brand. And if you think about this, in fact, you heard Jason talk about it, this is going to be a source for growth in the DIY because awareness is still at the 96% there. And there's a strong correlation between awareness and DIY and our ability to grow successfully in the future.

The next advantage is we have money to make things happen. Our first priority, of course, is to make sure that we invest from a CapEx and expense basis back into this core profitable business. And we're doing that.

The second priority for us, of course, is to invest in what we call strategy initiatives. And you saw some examples of that today with our DIY investment; you saw that with our Block Advisors, you saw that with our healthcare ACA investments. This is an important part of our ability to be more relevant and to grow market share overtime.

Now, the nice thing about H&R Block is even after we finish investing these two areas, we always have cash left over in terms of supporting the dividend and at times, of course, being able to return additional capital to you. This is a nice business model.

Next is our distribution. We are pervasive. You cannot go on to the internet; you cannot go in to a distribution in terms of where software is available. You cannot go anywhere in the country where you won't be able to find H&R Block. This is a very real competitive issue in this industry because you're always going to have to compete against H&R Block.

Today, you heard a new expression of this distribution strategy really around Block Advisors. The clients that we're focusing on here are clients that we've got familiarity with and they've got familiarity with you, with us. So, our H&R Block premium experience.

The reality is that we did not pay as much attention to this over that last several years, that's changed, and you heard Laura talk very specifically about some of the exciting ideas that are going on there. We are focused on winning here in the median and long term.

Importantly, from my perspective, in terms of financial model, the cost that we will be incurring for CapEx and expenses to support this program are in all of our current guidance for you, so there will be no additional expenses, or CapEx required to help this transition.

But, also importantly, this is not a one-year solution for us. We are committed to this, and success, for this case, will be measured over the medium and long term.

Next, I want to spend a few minutes talking more broadly about the industry and some of our thoughts on them, on these issues. First of all, we talked to you about three different forms of fraud happening in this industry at a great level of detail. We think it's important as investors in this company to understand this very macro issue.

Our view is that there's a lot of overlap between them, quality and fraud are a growing issue in this industry and it's distorting the results. It's also creating unlevel playing field for companies like Block that play by the rules.

Our view is that this will be fixed overtime. Standards are inevitable, it's just common sense. I cannot, however, look at you and say this will be fixed in one year. But if you're a medium and long-term investor and you look at the realities and the facts of the situation, I hope that you conclude as we have that this is inevitably going to be fixed and Block will be a key part of getting that done.

The next major thing we talked about, really, is the strategic change in the DIY space. As many of you know, historically, there's been a value segment that has a value product and value price. There has been on contrast to that, a premium segment that has a premium product and a premium price.

And what's happened here in the last two years is the premium product provider has basically pushed pricing down to the point where the value players who don't have a good number of product will no longer be able to compete for those value people. And we think as time goes on here in the next few years, the smaller competitors in the DIY space will get squeezed out of the industry.

Their product will not be able to keep up with what's being offered by the market leaders here, and we believe that H&R Block is very well positioned to take advantage in this change.

The next topic, really, is one of healthcare, and we've talked to you a lot about healthcare. We're very interested in healthcare. The ACA was the biggest change to the tax code since Ronald Reagan was president in the 1980s.

This is a big deal for our industry and what I want you to take away from this is that, in particular, at Block, we feel like we're the best people to provide solutions for taxpayers. We have a lot of strengths in this area and it's an area that we're investing money in and we'll continue to invest money in but make no mistake about it, this is not a one-year opportunity.

This is a multi-year opportunity, and the reason why is because it deals with people's behavior and the reality is that's hard to understand how people's behavior's going to change. Things are changing already, there'll be more this year and it will be more in the years to come.

One question I do get a lot from you is can you help me to quantify this? I don't have all the answers for you, but I want to provide you a bit more of a instruction to think about as you continue to reflect on ACA and H&R Block. When we talk about client being impacted by ACA, there's only one of three ways they get impacted from our perspective.

The first is they actually chose through the healthcare exchange to buy a policy. At the end of that year, they now have to do a new reconciliation form. OK, that's the premium tax credit reconciliation on this chart.

The second situation is an individual who should have gotten healthcare chose not to, and they now have to pay a penalty. Those people, when they do their taxes, have to fill in a new worksheet or series of worksheets.

The third category is that person who'll be subject to a penalty, but because of their circumstances, may be eligible for a partial, or full, exemption. They also have new forms to fill in during the tax event.

This bar chart that's on this page is actually proportionally accurate for how those three categories broke down last year using IRS data. As we go forward in the future, these things will change. What we'll find is less people will be subject to the penalty, more people will be applying or getting exemption for part of all the year and, of course, more people will get healthcare, and therefore, then have to fill in the Premium Tax Credit Reconciliation.

Why does this matter? Well, this is mixed. And if you remember the way we charge is based on complexity. The more complex the work we do, the more we charge, and from bottom to top, we charge more money. This is a mix-based pricing opportunity for us.

The proportions on the right-hand side are directional, by the way, not completely forecasting accurate.

The next phenomena that I would say is working in our favor, is really what I would call the unit side of things. Last year, 16.4% of our clients were impacted of the one of the three ways that we talked about in the previous page and we expect over the next few years, that member will be the 20% to 25% representing more economic opportunity for H&R Block to make money.

There are other economic opportunities available, but these are two primary ones that we talk about. So, hopefully, that's a little bit help for you.

Moving on, I do want to talk a little bit more financially for you, and that conversation, for me, always starts in the top line, really about revenue. A successful H&R Block is a block that actually is showing growth in the four primary drivers of revenue.

We're seeing price, we're getting reasonable volume, we're seeing at it at a reasonable mix and we're able to attach products on to that.

So, let me spend a few minutes giving you my perspective, really, on last year and some of our thoughts going forward. Price is a very real opportunity in this industry. I talked to you about the fact that we have low elasticity. We spent a lot of time understanding the data behind that and turning price into more of a tactical historical solution for Block into one that's more strategic and we're very pleased with our results on pricing and expect pricing opportunities to continue to be available to us.

In terms of volume, we are not happy with our volume results. What we have, though, done is clarify what the issue is. We are not winning the early season ACA client and we're embarked on a multiyear journey to fix that problem and you heard some of our plans today from Laura; it's an overall theme as a management group that we're very focused on.

If you set that aside, however, we are actually OK with our volume results, can always do more, but that reality is that if it wasn't for that one group of people, we would be OK with our volume.

In terms of mix as a company and as an industry, we have done a bad job educating you as investors and what mix matters, OK. Let me give you a simple example.

We know with a high degree of probability that the EZ filer will continue to be an EZ filer for the next several years. We present value that relationship back, include the additional product we might sell them, include their propensity to take ACA, we look at them as a lifetime value.

Then you do that same type of math with someone who has a more of a 1040, like many of you people in the audience. The difference in lifetime value between those two clients are magnitudes differently. We're talking more than 10X, and we at Block has spent a lot more time to understand what that math looks like to understand what we can do and where our strengths are and to change some of the way we communicate and hold people in terms of behavior in the field. We're doing OK in the mix in our perspective.

The fourth category, really, is one of attach. We talk about this as our tax Plus strategy, and here are the two main variables, of course, are getting more products available. As an example, last year, we offered Tax Identity Shield, which is a new product to the industry; an example of H&R Block's innovation.

And frankly, we're very pleased with first year results and expect that product to continue to be more and more relevant. The second thing we focus on attach, of course, is our existing five products that we have, can we sell them to more clients?

And if you look over the last three years, we had a good track record of being more and more relevant for more clients and we expect these trends to continue.

Next, I want to talk a little bit about EBITDA. At H&R Block, we start with approximately $3 billion of revenue per year and we turn that into almost $1 billion of EBITDA. It's a fairly remarkable business model.

On a percentage basis, you can see over the last several years that we've operated in the low 30% range. As a matter of guidance, we basically indicate we expect Block to continue to be in the 28% to 32% range.

Just for contrast and comparison's sake, I'm showing you here what the average S&P 500 company is. We're a very profitable company.

The next I really want to talk about is capital. Now, we talk about a CapEx range of being somewhere between 3% to 4% of revenues per year, and as you can see, you may not be able see, but that last thought is what our guidance is for this year. At the end, I'll confirm all of that for you, but we expect to be within that 3% to 4% range.

We were elevated for one year in 2014, which was really making up for some previous years prior to 2011, and so, where we're under investing the business model.

This is the cash view. When you now turn to more of an accounting view and talk about depreciation and amortization, there's normal time lag. So, what I'm showing you here at the top of the page now is how depreciation and amortization is behaving.

As expected, as you increase from 12, 13, and 14-year CapEx, that then takes time to come through depreciation and amortization line, which is kind of what you're seeing here. But I want to be clear with you, it's not the only reason depreciation and amortization is going up.

So, what I'm going to do for you now is breakdown depreciation and amortization into the subcomponent parts.

As you would expect, the main driver of depreciation and amortization is CapEx, which is the bottom larger part. Normally, we have a program where we have 50 people whose jobs it is is to go out and actually look at independents to buy them.

And the way that gets accounted for is part of the purchase price we pay for them, it capitalized and then amortized overtime. And if you notice that middle, that green bar; independent acquisitions, and that reflects a normal $35 million to $45 million of investment that we make in those. Very stable, doesn't change too much.

The one thing you'll notice in 2014, and very pronounced in 2015 and here will be in 2016, is this one-time opportunity we had to buy back a bunch of our franchises that had been sold several years back. That program is going to actually wrap up this share, and I'll be a bit more specific on that later on.

While I'm talking here about independents and franchises, let me reflect a bit more strategically on this. We do have a team of people whose job is to go out and find competitors that may make sense to common H&R Block family. Several years ago, management's decision was to sell a number of prime H&R Block territories to become franchise territories.

The two basic strategies behind that were one; we think they can actually operate the stores better than Block can. There's no evidence to support that before, after, and during that time frame.

The second strategy, of course, was to generate a quick gain on sale. We went back and looked at that program and made a strategic decision to go back after those 600 stores, which we started last year and we'll complete this year. Last year, in fact, we bought back 340 stores. This year, it'll be about 260. At the end of this year, we're pretty much finished of that program.

Once we finish that program, however, we will continue to do what we've always done, which look for a quality independents to bring them into the H&R Block family to the tune of $35 million to $45 million per year.

Importantly, in both cases, when we do the math on it, I'll give you a simple example, we're able to buy them at compelling financial returns. H&R Block trades at roughly 10 times EBITDA, ballpark. When I buy back these independents, when I buy back these franchisees, I'm typically paying somewhere between two to three times earnings. The moment which that transaction closes, I'm able to create financial arbitrage that benefits you as an investor.

Next, I want to talk about our efficiency of investment. The reality is if we used return on equity, given our recapitalization, we're now pretty much at infinity, so we prefer to talk of opportune and invested capital.

This is a number, or this is a metric, that we think is actually very relevant. And now, as you can see, our history was one that we weren't paying attention to up until a few years ago. We've been successfully able to move our return of invested capital to mid-20s. What I'm not showing you here, though, is under the new world with the recapitalization and things to come, what it will look like, but I will tell you you'll find us go to the mid-30s here very quickly.

What's even more impressive when you compare that to our cost of capital, the line at the bottom, for every dollar of equity and debt that we're given, we're able to basically generate a two to three times return on that. So, very strong ROIC.

Next, income taxes. Now, for those of you that have been here multi-years, the normal conversation for income taxes is we give you what we think the tax rate will be for this year. Well, this year, we're going to do it differently. We're actually giving you forward-looking guidance on tax rates.

I joined H&R Block in 2012, and when you look back what our tax rate for many years before that, what you saw was effectively Block paying at the high end of the corporate tax rate at approximately 40%. The other thing that many of you may not know is that we at Block actually had real issues with how we accounted for.

We had controllership and compliance issues in our income tax area. If you roll the clock forward to today, what you've seen is we've been able to materially drop our tax rate a full five points as well as fix all the compliance and controllership issues.

This changed, itself, just the tax rate over the last three years has generated a $100 million of cash savings for the company, which is part of what was refunded back to you through the share repurchase program early this year.

Now, going forward as we look through our next several years and what we think we're going to be at, I want to provide you guidance that we think are expected base tax rate will be 35% to 36%. So, please update your models to reflect that.

So moving on, I now want to give you actually a bit more specifics on the outlook, these are more modeling-type questions many of you are looking forward to.

So, starting with, really, just the broader view we think returns will be. No news, we think it will continue to be about 1% to 2% growth in total returns in the United States, both for this year and as we look at over the next three years.

There will be some differences between assisted and DIY. Really, what the DIY continuing to benefit from, really, the tail end of the pen and paper filers that are converting over to DIY. That will moderate and we would expect the DIY to actually slow down.

Now, specific to H&R Block, I went through a slide before with you but I want to reinforce this very important impact from the bank divestiture that we completed early this year. This year, our revenues will be impacted by negative 1% because of the bank transaction. It will also impact EBITDA by one full point and because that's an annual cost, that will go forward for the foreseeable future.

Next, we have incurred one-time cost as you would expect to transact both the bank and our recapitalization. Most of that cost, by the way, was recognized in the second quarter, there'll be a small amount here for the rest of the year, but in total, we expect those one-time costs to be about $22 million. They're one time, they will not reoccur next year and the years out.

Next is foreign exchange. The reality that every company with international operations is facing right now. As it stands here today, when we look at the Canadian dollar and the Australian dollar, it will impact my reported revenues by 1% this year and we'll have a much smaller impact on earnings but it will be about a cent of earnings this year.

We do not forecast foreign exchange rates and so, therefore, I'm not going to be able to give you a three-year expectation what that looks like. This is just accounting but it's a real issue.

Next is compensation and benefits expenses. As many of you know, last year, we actually increased our compensation and benefit specifically training to include the cost for rolling out the ACA, the healthcare strategy that you heard from Mark and we also, last year, incurred some costs because we introduced a new system in our tax stores that actually drives the tax interview. That was successfully completed.

And so those cost reduction come back down this year than they are. Offsetting that, however, is with us buying back a lot of these franchisees or bringing those staff now full time year round and therefore, our C&B cost or compensation and benefits cost will be up. if you put that aside, all you're going to see there for this year and year's out, really is more inflationary and we've done a good job controlling our C&B cost over the last several years.

Next is our adjusted EBITDA margins. Our margins this year are expected to be 29% to 30%, really exclusively because of the things that were listed about here.

As we go out in the future, we'll continue to guide the 28% to 32%. That is not a forever statement, that's a short-term and medium term guidance and we think EBITDA margins should be for H&R Block.

Next is interest expense. We successfully completed a billion dollar bond deal early this year. We're also now utilizing our CLOC so that would be an interest expense between $66 million to $69 million this year. There is not forward-looking guidance in here or for the three years about when and how much we would do additional debt raises. This is simply reflective of the debt that we've done the year as well as our seasonal liquidity interest costs.

Moving on, in terms of CapEx, we'll continue to guide between 3% to 4% of revenues for this year and for the next three years. In terms of A&D/franchise buybacks, the program that we embarked last year in buying back, our franchise partners is basically winding down, so that program will finish. But this year, with the completion of additional 260 of those offices, plus our normal level of independent acquisitions, we expect to spend somewhere between $90 million and $100 million and then we would typically then go back to a more normal range which would be $35 million to $45 million in the years following.

Next, in terms of depreciation and amortization, we're expecting to incur somewhere between $175 million and $180 million this year and as you can see, I've broken it down into the subcomponents, I'm not going to get to that right now, however.

In terms of the next three years, really, because of the way that D&A lags the cash expenditure, we would expect it to continue to be elevated at $180 million to $195 million.

Next, in terms of our tax rate, I did give you the three-year plus expectation where the base rate were between 35% and 36%, but for this year, because of continued one-time opportunities, we expect taxes to be somewhere between 33% and 34% so that may be something else you want to adjust in your models.

And then next, in terms of our average diluted shares outstanding, right now, we're expecting $250 million to [$250] million weighted shares outstanding for the year. But as you know, as a primary practice of ours, we don't give forward-looking guidance and share repurchases so we're not saying whether we will or we won't but this is kind of what we stand right now. So, hopefully, that's helpful.

This is really the summary of our presentation for you. Many of you are familiar with the overall investment thesis but what you've seen today, hopefully, is an articulation at a more level of detail about the excitement and the opportunities the H&R Block has available to us.

We think that H&R Block represents both greater growth opportunity as well as very compelling value opportunity for you.

So, thank you all for coming. Thank you for your time today. Give us a few minutes then we'll be able to do a Q&A session with you all. Thank you.

QUESTIONS AND ANSWERS

Colby Brown - *H&R Block Inc. - VP of IR*

Before we take questions, one quick ask, if you all could please state your name and your company, just for the transcript purposes when we get the mike to you. We have a couple of runners with mikes and please state your question into the microphone. That would be great.

So, let's start there with George.

George Tong - *Piper Jaffray - Analyst*

Hi, Good morning. George Tong with Piper Jaffray. I want to start with EITC fraud. It accounted for about two-thirds of the volume decline last year in the assisted balance, so clearly an important part of the business. Bill, can you talk about how the conversations are going with legislators, with the IRS, in terms of addressing the fraud? How much you expect the fraud to slow in the coming years and what additional steps need to be taken?

Bill Cobb - *H&R Block Inc. - CEO*

Yes, so -- and then, Kathy, if you want to add anything after I try to answer George's question. The conversations, I mean, there is clear recognition that for this program to sustain and there is support for the EITC program generally on both sides of the aisle.

But that $14 billion to $17 billion in the last year, call it, as Kathy said improper payment or fraud, is not sustainable when you have 25% of the payments going out that are improper, something needs to be done about that. So, there's great recognition on that. There's clearly understanding now that the disparity between the documentation requirements between DIY and assisted is not doesn't make sense.

That's why for this year, the number of questions has been reduced for paid preparers. And then as Kathy indicated, there's a pilot going on which ourselves and a few other DIY prepares are participating in with the intent that in '17, the following tax season, we would have parity along that lines.

That is proceeding quite well. Again, we're working with the -- you know, there's always a misbelief that the IRS controls everything. IRS, basically, takes their direction from Treasury. So, there's real understanding with the Treasury and I've talked with the highest levels of the treasury and the IRS that this is -- this is the way forward this.

I'm very pleased -- you know, sometimes, people will say, why are you guys -- you never get anything done with the government, etcetera., well, Kathy and Marie van Luling and the whole GR team works really hard on this. So, we have made some real progress on that.

How this translates to how much of the fraud will decline? Hard to say. It's difficult for us to really forecast that that will lead to X, Y, or Z. You know, the public private partnership that Kathy referenced where we're doing a lot of things which is more around SIRF but really impacts the EITC because all of this stuff is tied together our ways forward.

We've got real change on the documentation requirements. We have a public/private partner. We've all signed a memorandum of understanding all the -- all the names you know in the DIY space. So, I do think the ball is being advanced but I think Kathy said at the end is it going to saw -- is it going to stop? No. But I think we're moving along. So, I'm pleased that we're making this is -- this is part of the job is really, to try to impact this.

Is there anything else you want to add?

Kathy Pickering - *H&R Block Inc. - VP of Regulatory Affairs and the Executive Director of the H&R Block Tax Institute*

I think you really captured it. We're in great shape for the progress that we've made for 2016, really pleased with the pilot and the changes in the audit questions. And then for 2017, we're really looking to see those form changes for consistency across the filing channels and then the additional legislation that the IRS is pushing for and with all that, I think, we'll definitely see more progress in that area.

George Tong - *Piper Jaffray - Analyst*

Thank you.

Bill Cobb - *H&R Block Inc. - CEO*

OK. Scott?

Scott Schneeberger - *Oppenheimer - Analyst*

First, I'd like to start. You guys typically do not provide a revenue guidance and there's a lot of guidance here and it's appreciated. Could you just speak to the top line a little bit outside of these puts and takes? But how you think about it, perhaps in this year, if you want to share and then again on a longer term? Thanks.

Bill Cobb - *H&R Block Inc. - CEO*

Yes. I'll let Greg address that. And again, Scott, I think Greg will, I think, reiterate what he said earlier about the four components of revenue. Go ahead, Greg.

Greg Macfarlane - *H&R Block Inc. - CFO*

Yes. We try to brought you things that we think are meaningful for you. I mean, I know there's a always a question where people want more but the reality is when you go with tax season, when you look at even our internal models, we've got, sort of, lots of champion challenger models. There's still a fair amount of even coming down with the last week. And so, that's partly why we don't do it.

There's also a portion why we don't do it because the reality is that we are the industry leaders and a lot of our competitor strategies copy what we do and so we don't want to make it easy for them. But in terms of our ideas about revenue, it really is those four drivers. It's price, it's volume, it's mixed and it's attached. We feel good about three out of four but the reality is for us to be successful, it's got to be four, the four moving together.

There are things that take time, these are things we're optimistic about. we're continuing to make investments smartly into a number of programs that will drive that but we only really have a chance to do business once a year, progress is measured over time and that's just the reality for our business, that's kind of our high level thoughts on it, Scott.

Scott Schneeberger - *Oppenheimer - Analyst*

thanks, I appreciate that. And then just similar question, different category, in return of capital, just your thoughts on what you're going to do with the dividend, longer term, and also have you been buying back stock since the tender and I know you're not going to forecast that and I haven't done the math of what's implied in this year's share comp guidance, but just thoughts on those two dividend and then what's the ongoing plan with purchases?

THOMSON REUTERS

Greg Macfarlane - *H&R Block Inc. - CFO*

Yes. So, let me start with the dividend. I mean, as you all know, we've been paying a dividend for 50 plus years. It's something we take very seriously. We did increase it but the increase is actually three plus years ago.

We were prohibited also during the time we were a savings and loan holding company from increasing the dividend we did ask but we are prohibited from doing that. We've chosen not to yet clarify dividend policy for a number of reasons, the main one is that we had a lot of things we wanted to get out of the way, we understand, as a company this is one of the things that we can do to create value for us so you'd expect sometime in the near future for us to have a more specific articulation of dividend policy.

As it relates to the share repurchase, we bought back a billion and a half shares. It was a very material execution for us --

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Bill Cobb - *H&R Block Inc. - CEO*

$1.5 billion.

Greg Macfarlane - *H&R Block Inc. - CFO*

Sorry. A billion and a half. Thank you, Bill.

Greg Macfarlane - *H&R Block Inc. - CFO*

So soon, I forget. So, we've completed, successfully, a $1.5 billion and the reality was that was a very big step forward. There were a lot of things that were moving. Since then, we've not bought back shares. To be very clear, we're very happy buying them back at $37 but the way we think about share repurchase is opportunistic and we think about creating median to long term value and we want the historic record to reflect that we were very smart and how we bought those shares back in your behalf.

Part of which you heard from us in articulation is over the years, we think we've done a good job at that, so let us do our jobs here for you. We have two billion of remaining authorization. We have some time to work with but we're also going to be smart about how we do that.

Colby Brown - *H&R Block Inc. - VP of IR*

OK. Let's go with Anj and then Gil and then Kartik.

Anjeneya Singh - *Credit Suisse - Analyst*

Hi, Anj Singh from Credit Suisse. Really, appreciate all the color and transparency that you guys gave around ACA, EITC, fraud, and even the financial outlook. I wanted to get a little bit more color on the ACA opportunity as we think about it longer term. You guys said 16.4% of your clients were impacted, 16.6% for the overall market.

Could you, I guess, get into why are you still trailing the market in that category? And also I'd be interested to see how much of your ACA impacted mix is DIY versus assisted and do you have a sense of how much of the market is DIY versus assisted in that ACA impacted category?

Bill Cobb - *H&R Block Inc. - CEO*

So, let me just understand. When you say trailing the market, I just want to understand what you mean by that.

Anjeneya Singh - *Credit Suisse - Analyst*

So, you have slightly lower ...

Bill Cobb - *H&R Block Inc. - CEO*

OK.

Anjeneya Singh - *Credit Suisse - Analyst*

Slightly lower.

Bill Cobb - *H&R Block Inc. - CEO*

OK. You guys want to take that?

Greg Macfarlane - *H&R Block Inc. - CFO*

Go ahead, Mark.

Mark Ciaramitaro - *H&R Block Inc. - VP of Taxes & Healthcare Services*

So, first of all, I'm just going to say, generally, this is going to take time to play out. We don't believe that there's a material different between ourselves in the category. One of the, probably, I want to account for that biggest change is this year is you saw a lot of exemptions for being done in the DIY space. And so, that's part of the explanation of what's going on, at least in this current year results, if not for that, we would be at or above.

I also indicated that on our assisted side, a significantly larger percentage of our retail clients are really ACA impacted and that's going to begin to play out at a greater degree going forward. But it's going to be a long term kind of -- we gave you a little bit of a sense of where we think we're headed ultimately but it's going to take a number of years for this to play out, we've always said that and we believe that overtime, as Greg said, that the mix of that impact will change overtime, more complicated reconciliation and exemption clients, fewer penalty clients will be impacted. So, there's both a volume and a mix impact.

Greg Macfarlane - *H&R Block Inc. - CFO*

I will say that from last season, more sort of broadly as management, we were very pleased with how ACA went from a Block's perspective. We were really looking at the client experience because the reality is it was a lot of education that we had to provide to our tax professionals. There were a lot of changes who are DIY experienced and we look very carefully at the client experience from that and we also compared ourselves to a lot of the competition out there.

And the reality is there was a lot of very poor execution by other companies out there, and we think overtime, that will matter because this is a very real issue for people. As Mark said, the penalties are very real here. The notices are going to start coming. People will have to sit down and account for their decisions as it relates to their taxes but also for their healthcare and that's why for us, it wasn't so much about the numbers last year, it was about our execution and we were very pleased with that.

Colby Brown - *H&R Block Inc. - VP of IR*

OK. Gil?

Gil Luria - *Wedbush Securities - Analyst*

You had a very interesting discussion about ...

Bill Cobb - *H&R Block Inc. - CEO*

Just say -- I know who you are but just say your name, first.

Gil Luria - *Wedbush Securities - Analyst*

Gil Luria, Wedbush Securities. We had a very instant conversation about identity fraud and you don't have the numbers for this last season but based on [known] evidence, it went from $3 million a couple of years ago, maybe double in the last couple of years. That's a very big number.

Assuming that's all online and digital and assuming there's very little of that happening in the stores, do you think the steps this year will be effective enough to either reduce that number of reduce those growth rates? And then if it does, per the charts that you put up there, there's still a gap between the rejection that you file, rejection rates online versus in store, so wouldn't that impact your digital business somewhat?

Your competitor from Mountain View has talked about the fact that, yes, it would impact them if there was less fraud but it would impact everybody. Wouldn't you be concern that if that particular line that you'd have some impact from the fraud declining?

Bill Cobb - *H&R Block Inc. - CEO*

So, you asked about three questions in there. So, let me try to carve it up.

One is you're correct. The IRS commissioner himself acknowledges that stolen identify refund fraud is virtually all DIY. So, it is not an assisted issue for any assisted preparer. It's really a digital prepare.

Now, when it comes to the volume piece, I guess, Jason, you should take that and then your middle question was, I think, more for Kathy was you wanted to know would that affect our volume if everything went down?

Gil Luria - *Wedbush Securities - Analyst*

Do you expect it to decline or just slow growth and then if it does decline or slow growth, wouldn't that impact the digital line?

Bill Cobb - *H&R Block Inc. - CEO*

Jason, you want to take that?

Jason Houseworth - *H&R Block Inc. - President of U.S. Product Strategy & Development*

Well, so what I showed as far as our own reject rates, there is a difference between assist and DIY because for a do it yourself user, I mentioned, they're really confident in their preparation skills but that does mean that they very good at it. So, we would always expect the difference between assisted and DIY to there to be a gap or potentially double.

Our rates, when we look at it, we're always trying to improve our reject rate and I think that we're -- we're making progress but as I mentioned, there's wide disparity in the reject rates among competitors in the tax offering industry and I think that you see those rates and how they correlate to e-File growth.

As those come down, what I think that you'll see is competitors in the industry looking more like H&R Block tax software, I think our own tax software, I think we have opportunity but I do think that it will affect other competitors going forward.

Gil Luria - *Wedbush Securities - Analyst*

And then a question on Block Advisors. Do you feel you have the appropriate staffing or are you going to need higher CPAs or fold in other CPA practices in order to deliver the Block Advisors and extend the brand?

And then Bill and Greg have worked really hard over the last few years to get out of all the ancillary business and you put up a slide that says you're getting into payroll and bookkeeping, is there a slippery slope there that extends you into far field businesses that after all that hard work of getting into a company 600 and how many days, Greg?

Bill Cobb - *H&R Block Inc. - CEO*

All right, so let me take both of those, and then, Laura, if you want to add anything.

So, for this year, it's essentially a transition translation of what was formerly H&R Block premium to Block Advisors. So, we have staff in place already and these are, as part of H&R Block Premium, these are among our most experienced, knowledgeable, the H&R Block Premium team has always dealt with more sophisticated tax clients.

We think that we can build a brand here that would involve having to train and potentially be able to absorb more CPA. So that, in the long run, you're in the right zone. But in terms of -- for this particular tax season, we feel very confident that we have the staff to handle that and we have, obviously, recruited more and we think that we're going to be able to attract more people to a brand like this that might be more for CPAs or independent serving that kind of clientele to really impact that who do you want to seek to be part of Block Advisors. So we feel good about that.

Now, with regard to the payroll in that regard, I would caution you not to go too far because we have a business services package today. You know, we have an ability to serve clients on their business returns at both tax, etcetera. This is a small movement out. We're testing it.

I don't see it as a slippery slope at all. I see it as a natural extension of what a more sophisticated client I would want. As Laura said earlier about one in five in our research, our small business owners, so we want to be able to serve them on what I would call, and this is small -- when we're talking small business, we're talking everyone from self employed to a few employees. I think it's in pretty close year. It's more of a bookkeeping play, that's what I would say.

Greg Macfarlane - *H&R Block Inc. - CFO*

Just keep in mind, Gil, offering doesn't meant that we're actually do it, right, so we typically are leveraging partnerships to a lot of that.

Gil Luria - *Wedbush Securities - Analyst*

So, then last one for you Greg, you talked about the cost of the bank transition in one point, you've done margins and that's the extent of reduction in EBITDA that you have from last year to this year, what about operating leverage to the extent that you get revenue and you're getting very high incremental rates, when do we start seeing the operating leverage on that?

Greg Macfarlane - *H&R Block Inc. - CFO*

So, if you think tops down about our business model and the way our cost behave, we tend to be kind of a mix between fixed cost and variable cost. The main variable cost we incur, there's really two forms. One is on the assisted side, the tax professionals variable comp, OK, but that represents for the next dollar of revenue about a third of that goes in their pocket and after that, once you paid for fixed costs margin, the DIY side, it's really the reaction to marketing dollars because those, actually, are quite variable when we push those up, so there's also the next dollar of revenue, there's something less than 50% that goes up to our variable cost.

When we model all that out, you include things like wage inflation and rent inflation and that we would typically hit our fixed costs, inflection point of about 3.5% of revenue growth. There's some -- it depends on what the revenue is but for all intents and purposes. So as we're able to get to 4%, you then would have a natural impact on your margin percentage expansion.

So, as I've said to many of you over the years, Block is able to successfully get to 4% plus of revenue will naturally the EBITDA margin expansion. And so that's what we're focused on as getting to that fixed cost of leverage point.

Colby Brown - *H&R Block Inc. - VP of IR*

Let's go to Kartik in the third row.

Bill Cobb - *H&R Block Inc. - CEO*

Kartik on the aisle.

Kartik Mehta - *Northcoast Research - Analyst*

Thanks, Bill. You talked a lot about EITC and maybe the process is that you're going to take place over the next couple of years but as you look at this tax season, is there another headwind you're anticipating but because of the EITC, at least for the retail business? And if so what would you -- how would you quantify that?

Bill Cobb - *H&R Block Inc. - CEO*

Another I don't ...

Greg Macfarlane - *H&R Block Inc. - CFO*

No, I mean, for example, two years ago, we decided to eliminate the free ez program and that had initial one year impact last year with sort of the echo effect, that's not going to recur this year. But really, there's nothing that I would -- that jumped to my mind unless Bill's got something I've forgotten about.

Bill Cobb - *H&R Block Inc. - CEO*

No.

Kartik Mehta - *Northcoast Research - Analyst*

Well, I thought last year, you said two-thirds of the clients that you didn't retain were because of the EITC that migrated away from retail to digital so you don't expect that to happen this year, you don't expect any type of migration from retail to digital on the EITC side?

Bill Cobb - *H&R Block Inc. - CEO*

No, I don't think we -- I thought you meant for a new -- I think until we get real parity, real I think that that -- that possibility and we're going to work hard, we got a lot of programs, again, set, but that the trend on that would, at this point, probably continue. The question is how deep, will it be as extensive this past seasons I'm not going to forecast any of that.

But that would be a continuing issue because we don't have eligibility, documentation or requirements at parity. There's still all the stuff that Kathy talked about with regard to the fraud piece, there's still 25% but that doesn't flip in a year. You know, I think we're making some strides, so that will be, I guess, you could term that a continuation.

Greg Macfarlane - *H&R Block Inc. - CFO*

And just to be clear, Kartik, we never said that all of them went to digital. Some of them went to digital, some of them went to other assisted competitors, but yes.

Kartik Mehta - *Northcoast Research - Analyst*

And then, Jason, just for you, you showed the products you're going to have on digital and what your competitors are doing, does this mean you don't anticipate having an absolute zero product or product that has no cost for federal and no cost for save and no cost for a financial product?

Jason Houseworth - *H&R Block Inc. - President of U.S. Product Strategy & Development*

Thanks for your question, Kartik, but I'm not going to comment on any -- any pricing or promotion that we might offer in the upcoming season.

Bill Cobb - *H&R Block Inc. - CEO*

You'll find out soon.

Colby Brown - *H&R Block Inc. - VP of IR*

Can we go back to Thomas Allen? Right there.

Bill Cobb - *H&R Block Inc. - CEO*

Thomas, we'll try to get you a better seat next year. OK.

Colby Brown - *H&R Block Inc. - VP of IR*

If you guys can please just say your name and company.

Thomas Allen - *Morgan Stanley - Analyst*

Yes. Thomas Allen, Morgan Stanley. So, three initiatives you guys are doing by buying back their franchisees and buying independents as the first. Second one is, obviously, all your investments are under the Affordably Care Act. Third one is switching from the premium to Block Advisors.

Can you just talk about kind of the investment period, for example, I think you invested heavily in ACA last year and then when you start to see these big tailwinds rather than headwinds?

Bill Cobb - *H&R Block Inc. - CEO*

Yes, so let's take it one at a time. I think as Greg said we've made a big investment on the A&D side especially on the franchise buybacks, we have completed 600 in two years 600 buybacks. It has moved the mix to 65-35.

As Greg said and I said in my opening, compelling returns, we're buying these really well, but they do increase our expense bases, especially in off quarter, like you saw here. So, I think that that -- we're near the end of the runway or at the end of the runway on the franchise buybacks. We'll continue to look at independents.

So that and we, obviously, when we look at independents with the stuff that Kathy talked about, we have to make sure we're buying somebody that we think can fit our ethics, our accuracy, etcetera.

Then on ACA, big increase last or big investment last year in training and marketing. We think we're going to be able to realize that. We think we did a great job with our tax pros, the refresher training is much more limited as Greg pointed out. So, we actually think we're going to start to reap the benefits of that investment from last year and being the place to go for ACA. The third area was ...

Thomas Allen - *Morgan Stanley - Analyst*

Premium to Block Advisors.

Bill Cobb - *H&R Block Inc. - CEO*

Block Advisors. OK. So, I think that -- we're going to see how this plays out. We did convert 300 offices. We want to see how this plays out. Our plans are, in a longer term, that this fits within our capital structure and our expense structure as we said. The offices are -- will be profitable this year because they are essentially going concerns so I think we'll be able to realize that. We're not indicating levels or amounts or anything like that but we feel good about the transition.

I know our tax pros in the office is very excited about it. You know, in various markets, you can stop in and see them. There's a couple of them here in New York that are almost finished. So, I think we feel pretty good about that's obviously an investment we did but I think we'll start to reap the benefits of that. I don't know, Greg, if you ...

Greg Macfarlane - *H&R Block Inc. - CFO*

Yes. If you just -- and just to kind of get summarized answer, basically three to five years is when we would say pays back, if you want to go down to an IRR perspective. The reality is that we have more good ideas to invest in then we have the resources, the people to be able to execute.

We continue to, I think, most of these -- we're not solving for three to five years which typically these IRRs are the best benchmark but we continue to see good opportunities out there and it's really just a matter of how much the system can handle with the number of good people we've got available to d these things.

Thomas Allen - *Morgan Stanley - Analyst*

Great. And then since you closed on the bank sell, there's been some scrutiny around your bank partner stocks down decent amount. Can you just talk about the diligence you did before you picked a partner kind of assuage some of the fears around -- around what's going on there? Thanks.

Bill Cobb - *H&R Block Inc. - CEO*

Yes, I mean, I'm not going to comment on that issue that's another company but the diligence was extensive. We're very comfortable with the execution and the integration that's happened over the past few months. We're off to a good start with EA in terms of the integration we looked forward to the tax season, thus executing incent.

Thomas Allen - *Morgan Stanley - Analyst*

Thank you.

Colby Brown - *H&R Block Inc. - VP of IR*

There's been a question on this side of the room and then we're going to Michael after that.

Herb Buchbinder - *Wells Fargo - Analyst*

Hi, this is Herb Buchbinder, Wells Fargo. Years ago, you had executive tax which didn't really take off and then become premium and now Block Advisors, but isn't that the problem that the market perceives Block is serving the lower income taxpayer and you never really were able to do that well with the middle or upper income taxpayer? So who can Block Advisors overcome that and succeed this year in longer term?

Bill Cobb - *H&R Block Inc. - CEO*

You know, we'll find out. You know, we believe that we've done extensive research on this. Laura has led the team in terms of looking at the segment. I think we kind of rolled the ball under the court before and said let's see who wants to pick that up.

I think now we have a much more focus, marketing effort. I think we have a much more focus, value proposition and we think we're going to be able to both, in terms of the real estate, we pick the services we provide, be able to offer a very compelling service.

World's different now. I don't worry about what executive tax service was. We think we have the right proposition. And by the way, H&R Block Premium was doing fine. We just think we can accelerate.

Herb Buchbinder - *Wells Fargo - Analyst*

You don't have any regrets that you get rid of RSM McGladrey?

Bill Cobb - *H&R Block Inc. - CEO*

No, I do not. No. I think it was a good deal for H&R Block and it was a good deal for the partners at our assembly line.

Herb Buchbinder - *Wells Fargo - Analyst*

The other thing is it's a simple deal but the fact that your clients got a less refund last year, might that have a negative influence on them coming back or them looking for help somewhere else because they may not understand why their refund was down?

Bill Cobb - *H&R Block Inc. - CEO*

No. I think all of our indications from the offices were people understood this was the law of the land, this was -- I don't recall one instance where anyone blamed the -- the tax preparers. I don't view that as a threat at all.

Colby Brown - *H&R Block Inc. - VP of IR*

OK. Let's go to Michael and then we'll go in the back with Paul.

Michael Millman - *Millman Research Associates - Analyst*

Thank you. Michael Millman, Millman Research Associates. Just following up on the BofI question. Is there a plan B if that blows up? Couple other questions on investment grade, can you quantify the cost and the risk of being off investment grade and maybe discuss as why investment grade is so wonderful? And on Sand Canyon, can you give us kind of a (inaudible) between what you're offering and what's asked and if indeed you are able to close it out at this level, how much cash could you free up? Thank you.

Bill Cobb - *H&R Block Inc. - CEO*

OK. So, on BofI, there's not plan B. We have a seven-year deal. We signed with BofI and we're confident that that will be executed. With regard to investment grade, quantifying the cost and, I don't know ...

Greg Macfarlane - *H&R Block Inc. - CFO*

Yes, I mean, what we've said consistently is we have an investment grade for 60 years and we have now publicly said that we're committing to that. We've not said these are the 16 reasons, we don't think that's a valuable exercise to go through. We're comfortable being at the low end of investment grade. We've now quantified what that looks like and that's who we are.

Michael Millman - *Millman Research Associates - Analyst*

And with regard to Sand Canyon?

Greg Macfarlane - *H&R Block Inc. - CFO*

Yes. So, the way I would best answer this always is look at the 10-Ks, look at the Qs because there's lots of great disclosure in there. The representation and warranty reserve is the best estimate of the expect liability so that is the best estimate. That reserve, as you looked at over the last several years has changed very modestly, really just reflect kind of real-time negotiation the Sand Canyon management team is in.

We've had some successful settlements through that process. They continue to be in a limited number of engagements to go through that. I get frustrated with the time person, I'm a business person and likely, she's moved on with life but the reality is you're dealing with fair complex legal issues with a number of counterparties and so it just takes time, it's frustratingly slow.

In addition to the $154 million reserve, of course, they've got additional equity which I think, Mike, you're asking about to the tune of $200 million plus of additional equity. Our view at Block, I think, if we talk to the Sand Canyon management team, they'd say it's going to take multiple years to unwind. And frankly, our case that we think is most likely as it comes down to zero, so I'm not expecting any cash back in the future. I'd be happy at a zero outcome.

Michael Millman - *Millman Research Associates - Analyst*

When you say zero, you're talking about the equity as well?

Greg Macfarlane - *H&R Block Inc. - CFO*

Correct.

Michael Millman - *Millman Research Associates - Analyst*

And why have all these banks, and obviously, there's a good reason but why have they been able to settle some years ago and Sand Canyon still working this out?

Greg Macfarlane - *H&R Block Inc. - CFO*

Yes. It's actually a good question, Mike. I mean, the broadest answer is they have ongoing relationships with the GSCs. They have ongoing relationships with the regulators and they have motivation to settle that and move on so they can continue to do business.

Sand Canyon's perspective is we don't do mortgage anymore. We're not in the banking system and realistically, the best strategy that Sand Canyon's Board of Directors and its management has said this is just something that we think will take time and we're going to do a properly and thoroughly, there's no rush to a simple to answer because of all the reasons.

Michael Millman - *Millman Research Associates - Analyst*

Thank you.

Colby Brown - *H&R Block Inc. - VP of IR*

OK. So, we go to Paul in the back and then Jeff right next to Michael.

Paul Hamilos - *RS Investments - Analyst*

Hi, Paul Hamilos from RS Investments. You guys make a compelling case about eliminating EITC fraud and identity fraud and as a taxpayer, I'm outraged by it and I'd love to see that effort succeed. But how does that actually drive revenue for H&R Block?

I can see how it might change the market share statistics to look more favorable but how would that -- how would eliminating fraudulent returns actually drive more revenue?

Bill Cobb - *H&R Block Inc. - CEO*

So, let me take an attempt and then, Greg, if you want to add anything.

First of all, as a principle, I don't want to make money on fraudulent returns. As a CEO of this company, as a company that's been in business for 60 years, if we eliminate fraud and I don't want to make money on fraudulent returns.

I think taxpayer confidence, I think that overall, fraud is not a good thing for an industry. So, the first thing is I think, as an industry, we have to concentrate on -- on trying to have as much integrity in the system as we can. So, that's part of -- part of the reason why I push on this -- this issue so much. I think, though, as we can get to better compliance, getting fraudsters out of there, I think -- I think the net benefit as an industry leader is that we will -- we will benefit.

I can't quantify what that amount is but that's probably the right answer. I don't know, Greg, if you have anything to add?

Greg Macfarlane - *H&R Block Inc. - CFO*

Yes, I mean, Paul, I can go on for an hour here but couple ones have come to mind. 40% of all returns in the United States are done by independents and independent can be defined as a lot of things, half of those half or 20% of all returns are people that do less than [100 returns], half of the half or 20% of all returns are done by people that do over a 100% returns and the reality is that the quality of work that gets done there is awful and it's increasingly where most of the fraud is.

Now, a lot of those people have no business doing tax returns and the event that there's minimal standards in place, they're going to have difficulty meeting those and will likely, to some extent, some of them will exit the system. That return still have to get done somewhere. We would be a natural place for that, we would think. So, that's one example.

And just to be clear, there are a number of independents that do a very fine job and we see those as well but when you actually look and we shared some statistics when we go on diligence and we're actually reunderwriting tax returns from better quality people and we're signing one and four have an issue and of those, like, half of them are basically committing fraud, it's shocking, OK?

The DIY side, I mean that is one of those ones that, I think, Bill's point is when a brand is if you've got a product that people have believed in, that you see yourself as a safe harbor, as people are impact personally by fraud or as fraud is fixed in the system, those people who have their taxes done will naturally gravitate to we think to companies like Block.

There are other examples but those are just some.

Jeff Silber - *BMO Capital Markets - Analyst*

Jeff Silber with BMO Capital Markets. I actually wanted to go back to the DIY products and I'm not going to ask you about pricing, don't worry about that.

But maybe we can talk just about overall marketing. Maybe I'm not target market but I'm just surprised that we don't see more marketing specifically for your DIY product. Can you talk about the strategy and how you think you can increase awareness on it?

Bill Cobb - *H&R Block Inc. - CEO*

Let me try that first and then, Jason, you can -- there are a lot of marketing on the DIY. You know, the large majority of our spend is online which we think that is the most effective and the most payout but we -- we spend very competitively with -- as Jason terms them the market leader. That is a real grinded out, day by day, hour by hour. So, we spend a large majority of our spend online which maybe you don't see or whatever.

We also have historically and again, we're not going to comment on this ever on over the year television advertising and other broad market advertising. We're not going to comment on whether we will or we will not do that but I as Greg said earlier the real variable cost we have with DIY is the marketing line. We don't break it out specifically. I don't think the market leader does either, but I'm satisfied that we have sufficient way behind DIY.

I don't know if there's anything you want to add, Jason?

Jason Houseworth - *H&R Block Inc. - President of U.S. Product Strategy & Development*

You know, I appreciate the question, Jeff, and as I mentioned, we've increased awareness by 16 points in the last four seasons and I haven't seen tax -- tax awareness numbers but I don't think that they've come anywhere close to that.

That's the first thing I would say. But to me, the best way to ultimately market the product is by having a great product and I think that's where regardless of how much we market it and how much we've seen the awareness grow, I think our product is what's really changed over the last four years and I outlined some of that. But even coming off last tax season, we saw a retention increase over 200 basis points and coming off last tax season, we feel really good about the changes that we have in place for the product this year.

You know, I mentioned that we've done a lot of work to make the product responsive or multiscreen but this year, really behind the scenes, we've completely rewritten the beginning, the middle, the topic transitions which is really where the client looks for the software to tell me what's next and what should I expect, what do I need to do and the logic we put in there is brand new. And then we've completely rewritten the ending experience where what we really close are the client and then we proactively used our analytics team in order to put what we call pro tips to look at specific clients and figure out what's something we can tell them proactively throughout the interview in order to help them explain something and use our expertise that otherwise they might have missed?

And so, those are just some of the changes that we put in place this season but I'm really excited about the product that we released and it just went live last Friday.

Colby Brown - *H&R Block Inc. - VP of IR*

Any other questions? Scott. Yes.

Scott Schneeberger - *Oppenheimer - Analyst*

Thanks. Hi, Scott Schneeberger, Oppenheimer, again. Greg, going over the all the pieces of guidance for this year, it looks like there's going to be a significant reduction once everyone updates their models for EPS. Could you speak to the first two points? The bank divestiture, that's incremental to what we've had modeled for the transaction for a couple of years, correct?

Greg Macfarlane - *H&R Block Inc. - CFO*

So, the numbers that we outlined should be consistent with prior numbers that we've shared with you.

Bill Cobb - *H&R Block Inc. - CEO*

We've said $0.08 to $0.10 all along.

Scott Schneeberger - *Oppenheimer - Analyst*

Yes. And that's -- what you provide today was just a reiteration of that?

Greg Macfarlane - *H&R Block Inc. - CFO*

It's details to make sure that you're all up to date and squared away with that.

Bill Cobb - *H&R Block Inc. - CEO*

And it was also to break out between revenue and expense. We had generally given a large -- Greg and the accounting team have worked through that piece so that's what -- Greg was trying to give you a real specific details so that you could build those models.

Scott Schneeberger - *Oppenheimer - Analyst*

Got it. Thanks. That's helpful. And then the $22 million, that's one time and we wouldn't -- that's not in the 29% to 30% EBITDA margin, correct?

Greg Macfarlane - *H&R Block Inc. - CFO*

That's one time. So, that was adjusted EBITDA number we gave you, yes, [that's suggested out].

Scott Schneeberger - *Oppenheimer - Analyst*

OK. Thanks. And then lastly, I know the maintained long-term guidance is 28% to 32%, just a bit of feel from the 29% to 30% EBITDA margin this year, how are we going to have a nice rebound directionally thereafter?

Greg Macfarlane - *H&R Block Inc. - CFO*

Yes, I mean, we -- 28% to 32% is just -- is kind of what we think is the right margin for now. Our goal is not to increase margin percentage other than if it's a buy product of revenue growth which is the question that Gil had asked earlier. The way to create real, sustainable value for shareholders is to get revenue growing greater than 4%. We then get natural margin expansion.

If we don't get that, then, so what my point is, we're going to take cost through the system but we're reinvesting it in future revenue opportunities that we believe that will happen. If, under some hypothesis, that doesn't happen, we can talk cost out of the business and move margin percentage up like we've done. I mean, it wasn't that long ago that we were 26% EBITDA margin.

The 28% to 32% is really reflective of a short term, the sort of short term to median term, we may revise it, but it really is going to be mostly a function of our revenue performance.

Bill Cobb - *H&R Block Inc. - CEO*

And, Scott, I think what we're trying to do because we want to -- we want to be clear that from the highest level, we're very excited, very -- we're finally, if you will, running the company we wanted to run, focused on core tax preparation. This is a transition year so we have to go through the one-timer of the BofI piece we just talked about.

We have the literal one time transaction cost which also are not only BofI, but include all the capital structure stuff that we did effectively one-timer. And then with really the number being higher than what we had probably anticipated a couple of years ago that 600 franchise locations coming back in some success on the independent piece, that there are expenses associate with especially on the franchise just we're paying for the payroll now and the rent and everything else and the revenue will catch up.

That what we'll find is what Greg was trying to lay out is take those to the side here. Beyond that, we think we've controlled the expenses pretty well in this company. Greg has put a terrific productivity team together that stamped on everyone's head, so I wouldn't assume that we're trying to set a new a new course in terms of spending or whatever. I think you can count on us being within executing the way we have in the past and when there are investments we have to make like last year's training piece and we think that's going to pay out, we'll do that as a one-timer.

But for the most part, setting those three things aside, we're sort of within the bounds of what we've been doing.

Scott Schneeberger - *Oppenheimer - Analyst*

Thanks, Bill. And I agree and it has been a good job of expense control.

One final question, financial in nature, the -- I think it's 240 locations bought in this year, about $100 million. I think you spent about the same last year for more locations. Is this just going up higher on the tree to pick the fruit and I understand you're getting great margins for what you're acquiring. And if you could elaborate a little bit more on strategically where are these locations. Is this Latino market targeted or just an elaboration there? Thank you very much.

Greg Macfarlane - *H&R Block Inc. - CFO*

Yes, we'll clarify with you offline. But the numbers are not. There were more difference. It was reflected of - the average purchase price per store is really not that different year to year so I think that's maybe just how you wrote your notes or something. We can get you the exact numbers.

The markets themselves typically were, I would call them middle-sized cities, around the country. I wouldn't point out that was heavily Latino or not, but these are sort of secondary, third, sort of states like Springfield, Missouri; Lansing, Michigan; you know, places like that.

Bill Cobb - *H&R Block Inc. - CEO*

And it's 260 for this year, not 240. Last year was 340.

Colby Brown - *H&R Block Inc. - VP of IR*

Can we do one last question with Herb?

Herb Buchbinder - *Wells Fargo - Analyst*

Can you just comment briefly about the focus of your thank you advertising this year and how much you'll hit on the ACA issues on television?

Bill Cobb - *H&R Block Inc. - CEO*

I'm not going to talk about marketing. I never do with these meetings.

Greg Macfarlane - *H&R Block Inc. - CFO*

You'll like it.

Bill Cobb - *H&R Block Inc. - CEO*

Well, thank you all very much for coming and thank you for those of you listening online and here's to a great tax season.