

H&R Block Q2FY24

Financial Results Conference Call Transcript

February 6, 2024

[Forward-Looking Statements]

Michaella Gallina, Vice President, Investor Relations, ESG, & Productivity: Thank you, Lateef.

Good afternoon, everyone, and welcome to H&R Block's second quarter fiscal 2024 financial results conference call. Joining me today are Jeff Jones, our president and chief executive officer, and Tony Bowen, our chief financial officer.

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

Before we begin, I'd like to remind listeners that comments made by management may include forward-looking statements within the meaning of federal securities laws. These statements involve material risks and uncertainties, and actual results could differ from those projected in any forward-looking statement due to numerous factors. For a description of

these risks and uncertainties, please see H&R Block's Annual Report on Form 10-K and Quarterly Reports on Form 10-Q, as updated periodically with our other SEC filings.

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

Finally, the content of this call contains time-sensitive information accurate only as of today, February 6, 2024. H&R Block undertakes no obligation to revise or otherwise update any statements to reflect events or circumstances after the date of this call.

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

[Q2 Overview]

Jeff Jones, President, and Chief Executive Officer : Thank you, Michaella. Good afternoon everyone, and thanks for joining us. I'll begin today with a summary of Q2 results, provide an update on our Block Horizons progress, and share more on why we are well positioned for the tax season. Then I'll discuss the announcement today regarding Tony's decision to retire, and finally, he'll provide context on our financials, including the strength of our capital allocation and balance sheet.

Turning to Q2 results, performance continues to meet expectations and today we reaffirmed our fiscal year outlook. In the quarter, revenue grew 8% as we had a strong finish to the extended filing season. In addition, we saw consumers in need of cash, and many turned to H&R Block to meet their financial needs with our new Emerald Advance offering, which we believe bodes well for the tax season. We also continued our share repurchase program, buying back 218 million dollars in the quarter, or another 3% of shares outstanding. Overall, I feel very good about our results.

Now I'll provide an update on our Block Horizons strategy, where we continue to make progress.

[Small Business & Wave]

Starting with Small Business, revenue grew over 20% in the quarter. Assisted Small Business tax volumes finished the extended season with momentum, we had nearly a 4% increase in net average charge, and we continue to see favorable trends in bookkeeping and payroll.

While the second quarter only included two weeks of the filing season given the October 15th deadline, we feel great about the start of the year.

We've focused our marketing plan on the gig economy and specific industry segments we already do well in. Overall, I continue to be pleased with the growth we are seeing in small business.

Turning now to Wave, revenue growth was 5% in Q2. Last quarter I detailed the strategic shift in Wave's business model to build more premium features to meet the evolving needs of our customers.

This past week, we took another step forward by introducing a paid tier subscription service. This new tier incorporates features like automated bank transaction imports, preferred pricing on payments, and agent support, rather than self-service support. At the same time, Wave will continue to offer Payments and Payroll for an additional fee.

These recent moves reflect progress on our roadmap to accelerate revenue growth and drive long term profitability and aligns with our commitment to empower small business owners to start, survive, and thrive.

[Financial Products]

Moving to Financial Products, as I mentioned earlier, Emerald Advance performed well in the quarter. Although the name remains the same, significant changes were made to the product in collaboration with our bank partner, Pathward, to better meet client needs. A few of those include:

- Transitioning the product from a line of credit to a short-term loan with flexible repayment options;
- Eliminating the annual fee and streamlining the application process; and,
- Increasing the maximum available loan amount, which helped customers with their holiday spending needs.

In total, over 380 million dollars in Emerald Advance loans were originated, up 25% to the prior year, and we received positive feedback from clients and associates.

Regarding Spruce, as of December 31, we had 316 thousand sign ups and 456 million dollars in customer deposits. We continue to enhance the user experience, have seen improved App Store ratings, and feel good about the increase in new client accounts and engagement. Our savings features are delivering on Spruce's mission to help clients be better with money. In fact, 20% of users who set and achieved a savings goal did so to build emergency savings, and another 17% successfully saved for vacations.

In addition, this year is the first time we are cross selling Assisted and DIY tax offerings in the Spruce app. More than 30% of customers that signed up during last year's season were not H&R Block tax clients, which we see as an opportunity.

[Block Experience]

I'll now discuss our Block Experience imperative, which underpins our ability to win in both Assisted and DIY by creating personalized experiences. Clients are empowered to be served however they choose – fully virtually or fully in person, and every way in between – whether uploading documents from home, having virtual calls with tax pros, or signing their return online. We also recently launched our initial two generative AI products that focus on improving the client experience and reducing costs, which I'll share more about in a minute.

Our progress across this imperative is one of the reasons we feel well-positioned for this tax season. Let me share some more, starting with Assisted tax.

[Assisted]

To begin with, we achieved our hiring goals and saw continued strong trends in tax pro retention. We have heard positive feedback from our tax pros about the flexibility we offer. In

addition, our innovative fulfillment network will now be available to our entire network of tax pros, which can improve the speed of our service and help us better manage our capacity.

Last quarter, I shared some of the many enhancements to the MyBlock app that were made with the client experience in mind, including a status tracker to help clients understand where they are in the flow, when to take action, and to give them easier access to their digital documents and return.

Not only are we focused on the client experience, but we also see an opportunity to reduce expenses with AI. We have already launched the technology in our call center operations and continue to learn from its use. Early signs indicate that customers are able to help themselves, which reduces related call center volumes. This should also enable our agents to assist with more complex issues. While we are just getting started, we are pleased with the speed that we were able to deploy this innovation, and how it will help us better serve our clients.

All of these advancements, alongside our positive customer satisfaction metrics from last year including value for price paid, give us confidence to take modest price increases this year, which we have previously discussed.

[DIY]

Turning to DIY, we believe the formula for success continues to be:

- Offer an award-winning product that is continually innovated
- Make it easy for clients to switch, and
- Price competitively.

We executed this plan last year and returned to share gains. This year, we'll continue to build on that momentum.

As you may have seen, we're excited to have launched AI Tax Assist in all of our DIY paid SKUs. This innovation enables customers to get real time tax answers and information, leveraging knowledge from our world class Tax Institute and decades of fielding client inquiries. It's simple to use and clients can ask as many questions as they would like. If live help is preferred, H&R Block's tax professionals are there to assist. We believe this offers significant value for clients with AI Tax Assist and access to human help included at no extra charge.

We know that a critical barrier for clients to switch is the cumbersome process of transferring their data. Last year we actively marketed how simple it was to drag and drop a PDF of the prior year return into our flow, which automatically imported up to 150 data fields. This year,

we made it even easier for TurboTax customers to retrieve their prior year return, saving significant time and effort in switching.

In all, we feel really good about our DIY product and strategy. As discussed last quarter, we are taking modest price increases in this channel.

[Marketing: It's Better With Block]

Finally, our marketing is aggressively promoting the reasons to switch to H&R Block and messages the strong value proposition of both our Assisted and DIY offerings. This year's campaign, 'It's Better With Block', demonstrates just how easy it is to switch, and showcases the simplicity of our experiences, which empower clients to file however they prefer, from easy-to-use DIY software to full-service assistance through our extensive local network across every corner of America. It also highlights our refund advance product that helps clients get their money sooner, our transparent and competitive pricing, our accuracy and max refund guarantees, and the expertise of our global network of tax pros.

In summary, we are well prepared to execute this season.

[Tony Bowen's Decision to Retire Effective August 31, 2024]

Before handing it over, I want to share more about Tony's decision to retire and focus on personal interests after nearly 20 years of service to H&R Block, including the last eight as CFO. Tony has been instrumental in driving results and will be leaving us in a strong position financially. Some of his most meaningful contributions include the rollout of our upfront transparent pricing model, driving material earnings growth in the business, and achieving a notable track record of returning capital to shareholders.

As part of Tony's decision, he has committed to remaining CFO through the end of August to see us through tax season, complete the fiscal year, and participate in our full year 2024 earnings call. We are in the process of engaging a search firm to find his replacement and will share more at a later date.

I'm proud of all we've accomplished together, Tony, and I only wish you the best as you prepare to enter this next chapter of life.

Over to you.

Tony Bowen, Chief Financial Officer: Thanks, Jeff. My tenure at Block has been an incredible experience and I'm grateful for all I've learned and the opportunities I've been given. It's been an honor to be a part of this transformation journey and I'm confident about the path that H&R Block is on. I'd like to reiterate that this was my personal decision, and as Jeff mentioned, nothing will change about my role in the meantime. I'm committed to ensuring a smooth transition through the end of August, and my engagement as H&R Block's CFO will not change in the coming months.

[Q2FY24 Financial Results]

With that, I will now turn to our Q2 results. We delivered 179 million dollars of revenue, which increased 8% or 12.7 million dollars over the prior year. The increase was primarily due to higher volumes and net average charge in Assisted, combined with higher interest and fee income on Emerald Advance.

Total operating expenses of 446.5 million dollars decreased by 3 million dollars as a result of lower consulting and marketing expenses, partially offset by higher corporate wages in the current year.

EBITDA was a loss of 231 million dollars, an improvement of 6% or 15 million dollars to the prior year.

Interest expense was 21 million dollars, an increase of 2 million dollars, or 13%, due to higher draws on our line of credit coupled with higher interest rates compared to the prior year.

Pretax loss decreased by 15 million dollars to 283 million dollars, and our effective tax rate was 33.1% compared to 25.9% last year.

Loss per share from continuing operations improved from \$1.43 to \$1.33, while adjusted loss per share from continuing operations improved from \$1.37 to \$1.27. Both were driven by a lower loss, partially offset by fewer shares outstanding.

[Reaffirmed FY24 Outlook]

While the first half of the year is a small portion of our overall fiscal year, I am pleased with our performance. And as such, we are reaffirming our FY24 outlook.

[Capital Allocation]

Turning to capital allocation, our practice remains strong. In Q2 we bought a total of 4.8 million shares for \$218 million dollars, at an average price of \$45.88. This was another 3% of shares outstanding. In the first half of FY24, we repurchased a total of \$350 million dollars or five and a half percent of shares outstanding. As a reminder, given our narrow trading windows, we have historically executed most of our share repurchase in the first half of the fiscal year. I believe this is a great use of capital and am pleased with what we have accomplished.

Finally, as I shared on the last call, we continue to feel good about our balance sheet and how we are positioned in the current environment given our relatively low leverage.

All in all, I'm looking forward to the second half of the year. I'll now turn it back over to Jeff for closing remarks.

[Closing]

Jeff Jones, President, and Chief Executive Officer: Thanks, Tony. I am pleased with our performance and confident in our ability to drive value for shareholders through our business results and capital allocation.

As we end our prepared remarks, I would like to extend a sincere thank you to our team of tax professionals, associates, and franchisees, whose hard work, expertise, and collective spirit continue to deliver on our Purpose every day. Together, we provide help and inspire confidence in our clients and communities everywhere.

As a reminder, our next update on the tax season will be on our Q3 call in early May.

Now we will open the line for questions.

Forward-Looking Statements

These materials contain forward-looking statements within the meaning of the securities laws. Forward-looking statements can be identified by the fact that they do not relate strictly to historical or current facts. They often include words or variation of words such as "expects," "anticipates," "intends," "plans," "believes," "commits," "seeks," "estimates," "projects," "forecasts," "targets," "would," "will," "should," "goal," "could," "may," or other similar expressions. Forward-looking statements provide management's current expectations or predictions of future conditions, events or results. All statements that address operating performance, events or developments that we expect or anticipate will occur in the future are forward-looking statements. They may include estimates of revenues, client trajectory, income, effective tax rate, earnings per share, cost savings, capital expenditures, dividends, share repurchases, liquidity, capital structure, market share, industry volumes, or other financial items, descriptions of management's plans or objectives for future operations, products or services, or descriptions of assumptions underlying any of the above. They may also include the expected impact of external events beyond the Company's control, such as outbreaks of infectious disease (including the COVID-19 pandemic), severe weather events, natural or manmade disasters, or changes in the regulatory environment in which we operate. All forward-looking statements speak only as of the date they are made and reflect the Company's good faith beliefs, assumptions and expectations, but they are not guarantees of future performance or events. Furthermore, the Company disclaims any obligation to publicly update or revise any forward-looking statement to reflect changes in underlying assumptions, factors, or expectations, new information, data or methods, future events or other changes, except as required by law. By their nature, forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially from those suggested by the forward-looking statements. Factors that might cause such differences include, but are not limited to a variety of economic, competitive, and regulatory factors, many of which are beyond the Company's control, that are described in our Annual Report on Form 10-K for the most recently completed fiscal year in the section entitled "Risk Factors" and additional factors we may describe from time to time in other filings with the Securities and Exchange Commission. You may get such filings for free at our website at <http://investors.hrblock.com>. In addition, factors that may cause the Company's actual effective tax rate to differ from estimates include the Company's actual results from operations compared to current estimates, future discrete items, changes in interpretations and assumptions the Company has made, future actions of the Company, and increases in applicable tax rates in jurisdictions where the Company operates. You should understand that it is not possible to predict or identify all such factors and, consequently, you should not consider any such list to be a complete set of all potential risks or uncertainties.

Non-GAAP Measures

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

Market, Industry, and Operational Tax Data

The data included in these materials regarding the tax preparation services industry, including trends in the market and the Company's position and the position of its competitors within this industry, are based on the Company's estimates, which have been derived from management's knowledge and experience in the industry, and information obtained from customers, trade and business organizations, internal research, publicly available information, industry publications and surveys and other contacts in the industry. The Company has also cited information compiled by industry publications, governmental agencies and publicly available sources. Although the Company believes these third-party sources to be reliable, it has not independently verified the data obtained

from these sources and it cannot assure you of the accuracy or completeness of the data. Estimates of market size and relative positions in a market are difficult to develop and inherently uncertain and the Company cannot assure you that it is accurate. Accordingly, you should not place undue weight on the industry and market share data presented in these materials.