



**H&R BLOCK®**  
NEVER SETTLE FOR LESS™

**FY 2012 Q3 Earnings Call**  
**March 7, 2012**

# Safe Harbor Statement



## **Forward Looking Statements**

This presentation and various comments made in connection with it may contain forward-looking statements within the meaning of the federal 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 such as “expects,” “anticipates,” “intends,” “plans,” “believes,” “seeks,” “estimates,” “would,” “should,” “could” or “may.” Forward-looking statements provide management's current expectations or predictions of future conditions, events or results. They may include estimates of revenues, income, earnings per share, capital expenditures, dividends, liquidity, capital structure or other financial items, descriptions of management's plans or objectives for future operations, products or services, or descriptions of assumptions underlying any of the above. All forward-looking statements speak only as of the date they are made and reflect the company's good faith beliefs, assumptions and expectations, but they are not guarantees of future performance. Furthermore, the company disclaims any obligation to publicly update or revise any forward-looking statement to reflect changes in underlying assumptions or factors, of new information, data or methods, future events or other changes, except as required by federal securities laws. By their nature, forward-looking statements are subject to risks and uncertainties. For a discussion of these and other factors that could cause the company's future results to differ materially from any forward-looking statements, see the section entitled “Risk Factors” in the company's 2011 Annual Report on Form 10-K and in other filings by the company with the Securities and Exchange Commission.

# Tax Season Results thru 2/28

- Top goal heading into this season was to serve more clients:
  - Aggressive marketing and promotional efforts
  - Initiatives to improve client service and retention
- Executing well against long-term strategy
  - Total U.S. returns up nearly 700,000 or 5.1%
  - Conclusion: we are achieving our top goal ----- growing clients
- Millions of returns yet to be filed; committed to finishing strong

# Industry Overview

- As expected, first half of the season was highly competitive
- First peak of season has shifted well into Feb. in recent years:
  - Congressional tax changes in late 2010 caused a delay at the IRS last year
  - HRB serves a significantly lower mix of Schedule A clients than the industry; effects on HRB have almost entirely normalized on our volumes thru 2/28
  - May take the balance of March for effects on industry filings to normalize
- Industry observers have estimated IRS returns are up ~5% thru Feb.
  - Most likely due to timing from industry normalization of Schedule A filers from March last year into Feb. this year
  - Non-farm employment (+1.3%\*) is generally best indicator of IRS growth
  - Anticipate total IRS filings will grow ~1.5% this tax season

# HRB Assisted

- Committed to aggressive growth plan to drive traffic and accelerate trial in first half and to retain millions of new clients from last year
- Targeted value offerings (Free 1040EZ, Free RAC and Free 2<sup>nd</sup> Look) required a material investment in national marketing
  - Programs are current and long-term initiatives to build brand strength, client acquisition/retention and overall competitiveness

# HRB Assisted – Free 1040EZ

- Free 1040EZ continues to exceed expectations in year two
  - Program targets 18-24 year olds to form a relationship with our tax professionals
  - Confident these clients will return as their lives become more complex
  - Program is revenue neutral in short-term as we monetize through state returns, other product offerings, and trade-ups to more complex forms
- Retention determines long-term success of the program; 55% of 1040EZ filers migrate to more complex forms within 3 years
  - Retention on last year's new 1040EZ clients up 500 bps
  - Monetization strong: >25% of last year's 1040EZ clients have migrated to more complex forms
- Powerful program that provides a pipeline of filers to our brand

# HRB Assisted – Free RAC

- Free RACs offered thru 2/4 to clients who deposited their refund on an H&R Block Emerald Prepaid MasterCard®
- Program was a bold step to level playing field among competitors with RALs
  - 55% of first half clients choose a settlement product vs. 14% in second half
  - With competitors aggressively marketing RALs, Free RAC was the right decision
  - Helped us retain first half clients at similar rates to last year
  - 22% increase in total Emerald Cards

# HRB Assisted – Free 2<sup>nd</sup> Look

- Attract clients from competitors by providing clients a risk free trial to experience the expertise of our tax professionals
- Program brings in new clients and retains them at significantly higher rates
  - 2<sup>nd</sup> Look reviews up 104% and 2<sup>nd</sup> Look returns up 49% thru 2/28
  - New client retention improves by 10 percentage pts when they benefit from a 2nd Look



# HRB Assisted – Service Initiatives

- Long-term success of client acquisition programs rests on ability to serve clients well
- Client satisfaction and retention are our benchmarks for success:
  - Client Satisfaction up >400 bps
  - Retention up ~40 bps despite 19% new client growth in prior year
  - These leading indicators suggest we're well positioned to grow clients

# HRB Digital

- Important on-ramp to our assisted tax services
- Gaining segment share in all categories – online, software, and Free File Alliance (“FFA”)
  - Marketing helped increase awareness by 13 pts
  - Simplified products, further enhanced website, and introduced new mobile and tablet solutions
- Online
  - Continuing to see strong demand for 2<sup>nd</sup> consecutive year; up 20% thru 2/28
  - Improved monetization through better paid Federal product mix
  - Online RACs up significantly
  - Retention and Net Promoter Scores up 150 and 400 bps, respectively

# HRB Digital

## ■ FFA

- Believe category is down slightly this year
- HRB FFA returns up 11%; added offers to additional State DOR sites

## ■ Software

- Strong promotion and enhanced display presence
- Returns essentially flat y/y despite negative industry trend in this category

## ■ Mobile

- Tablet, iPhone, Android, Block Live, Block Mobile and Emerald Card mobile bank apps are all live
- >350,0000 downloads; 90% of mobile tax filings are new H&R Block customers

## ■ Outpacing Turbo Tax's growth in all categories on a comparable day-to-day basis thru 2/18

# Block Live

- Block Live launched in January
- Block Live is a web-based service that provides virtualized access to assisted, real-time tax preparation
- As expected with most new products, adoption rate has been slow to date
- Actual user experience is working beyond expectations
- Block Live is well ahead of the curve
  - Innovation represents new distribution channel and allows us to serve clients how they want to be served
  - Fully committed to the long-term success of this program

# Committed Line of Credit (CLOC)

- Repurchased >4% of shares outstanding in Q2
- Announced a 33% increase to our annual dividend in Dec.
- Today, we announced an amendment to our CLOC:
  - Lowered minimum equity covenant by \$150 million to \$500 million
  - Allows more flexibility to return capital to shareholders
- Focused on executing against our long-term capital allocation strategy
  - Demonstrating sound capital stewardship and returning capital to shareholders remains a top priority
  - CLOC expires July 2013 – we'll continue to address long-term capital structure during negotiations with our banks next fiscal year

# Q3 Results

- Q3 results represent only a small portion of the tax season
- Loss from continuing ops of \$0.01 vs. \$0.04 loss in prior year

# Tax Services

- Revenues down \$17 million, or 2.5%
  - Tax preparation fees and related revenues up 10%, or \$49 million
  - Financial product revenues down ~\$70 million
    - Free RAC grew Emerald Cards by 22% but as expected, led to a \$30 million decline in quarterly RAC revenues
    - Emerald Advance revenues declined \$16 million; associated credit losses fell by \$37 million
    - Emerald Card revenues down \$7 million primarily due to IRS delays in processing refunds
    - \$16 million decline from non-recurring RAL revenue last year
- Pretax income improved to \$32 million vs. \$4 million in prior year
  - Lower credit losses and a decline in impairment and litigation related charges, partially offset by \$20 million of incremental marketing investment and lower revenues

# Corporate

- Pretax loss of \$33 million vs. prior year loss of \$30 million
- Net principal balance of mortgage loans held for investment at HRB Bank continues to wind down
  - Net principal balance down \$20 million to \$430 million at 1/31
  - Fiscal year-to-date loss provisions at HRB Bank down \$7 million vs. prior year



# Financial Position

- Balance sheet and liquidity remain strong
- ~\$231 million of commercial paper borrowings repaid in Feb.
- \$600 million of debt maturing in 2013 now classified as current
- 293 million shares outstanding at 1/31

# Discontinued Operations

- Net income of \$0.2 million compared to prior year loss of \$2 million
- RSM sale resulted in gain for tax purposes
  - Tax benefit of \$20 million from utilization of capital loss carry forwards
  - Net after-tax loss on sale of RSM was \$37 million

# Discontinued Operations

- SEC investigation of matters related to certain residential MBS transactions
  - SCC has offered to resolve with a ~\$28 million payment
  - SCC recorded a \$28 million pretax charge for legal reserves in Q3
  - Resolution requires SEC and U.S. District Court approval, which cannot be assured

# Discontinued Operations

- SCC received \$35 million of new claims for alleged breaches of reps and warranties
- \$399 million of claims remain subject to review at 1/31
- SCC reviewed \$220 million of claims in Q3
  - Claims found to be valid have estimated losses of \$1.2 million
  - Payments related to these valid claims remained pending at 1/31
  - Accrual for rep and warranty liabilities unchanged at \$143 million

# Closing Remarks

- Sharpened our strategy, taken steps to resolve outstanding litigation, and shed non-core assets, which have negatively impacted margins
  - RSM McGladrey
  - McGladrey Capital Markets
  - ExpressTax
- Running a much better business today and we are squarely focused on serving more clients
- Pleased with our 5.1% growth in U.S. returns prepared thru 2/28
  - Executing well and growth initiatives are performing to our expectations
- We like our current position and believe we'll continue that momentum in the second half of the season



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