

H&R Block Q3FY25

Financial Results Conference Call Transcript

May 7, 2025

[Introduction & Forward-Looking Statements]

Jordyn Eskijian, Program Manager, Investor Relations & ESG: Thank you, Lateef. Good afternoon, everyone, and welcome to H&R Block's fiscal 2025 third quarter financial results conference call. Joining me today are Jeff Jones, our president and chief executive officer, and Tiffany Mason, 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, May 7th, 2025. 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.

Jeff Jones, President, and Chief Executive Officer: Good afternoon, everyone, and thank you for joining us. Today I'm pleased to share the highlights of our performance this tax season and an update on our Block Horizons imperatives. Tiffany will then share the details of our third quarter financial results, and we'll open it up for Q&A.

For the third quarter, we delivered revenue growth of 4%, EBITDA growth of 5%, and EPS growth of 9%. We saw an increase in company-owned Assisted volume, higher overall net average charge (or NAC), and effective labor management. Based on these results, we are reiterating our Outlook for Fiscal '25, which Tiffany will talk about in more detail later in the

call. It was a strong quarter, and while we still have work to do, our transformation continues to gather momentum and deliver results.

Let me start with some commentary on the industry. While industry volume grew approximately 1% as anticipated, clients shifted from DIY to Assisted this season. As a result, the Assisted category delivered growth of 170 basis points compared to 90 basis points of growth in DIY. This shift underscores the importance of the Assisted category, and highlights clients' desire for human help and expertise — a domain where H&R Block is the category leader and has been delivering for 7 decades.

Over the last couple of years, we've also observed an industry shift in overall filing behavior during the season - with more clients waiting until closer to the deadline to complete their tax returns. This year there was an acceleration of this trend, and as a result, we experienced record-high volumes in our tax offices in the final two days of the season compared to recent history.

In uncertain times, we know it's even more important to provide expertise and value to our clients - and we did just that this tax season.

Now, taking a closer look at our own performance: Through April 30, I am pleased that we improved our volume and market share trends year-over-year in the Assisted channel.

This tax season, we redesigned the Assisted client experience with two important goals: to convert more clients who started tax prep with us, and to improve retention. To do this, we improved our tax pro matching algorithm, and introduced new steps in our process to ensure our tax pros better understood clients' needs and managed their expectations. We drove an increase in Assisted client conversion for the second consecutive year, demonstrating the benefits of the continued improvements we've made. We saw higher overall client satisfaction scores in the key experience pillars of Empathy, Ease, and Expertise. Importantly, we also increased the number of appointments set for next tax season versus this time last year. Setting future appointments is important for retention and engagement.

Additionally this season, we enhanced and automated our Second Look® service – where we review the last three years of a new client's tax returns to see if any refund dollars were left on the table. Through Second Look®, we consistently deliver meaningful value to clients by uncovering missed deductions and credits on prior year returns. We had a tenfold increase in new clients who participated in the service this season, and we identified noteworthy discrepancies in nearly a quarter of those reviews. This demonstrates the expertise and thoroughness of our tax professionals, and maximizes client refund dollars. Second Look® is

unique among nationwide tax preparers and offered free of charge to our clients, reinforcing our commitment to providing exceptional value and expert assistance.

Our trusted brand name is a competitive differentiator, and we remain the category leader in Assisted tax. Our local value proposition is strong, underpinned by our extensive retail footprint of nearly 9 thousand offices conveniently located within 5 miles of most Americans, in all 50 states. Our brand is well-known and more consumers are benefitting from our ability to handle all types of returns and financial situations as we are serving more complex clients, who have a higher lifetime value to Block.

For the third consecutive year, we have seen client growth in all segments above 80 thousand dollars in income, with our fastest growing segment again being clients with over 100 thousand dollars in income.

All in all, this year was another important step in demonstrating our leadership in the Assisted tax business, and the consumer shift toward the Assisted category further demonstrates that clients are increasingly seeking expert help and value – and we have a trusted brand and proven track record of serving those needs.

Shifting gears to DIY: For the quarter, we delivered DIY revenue growth of 8% year-over-year and saw customer satisfaction scores increase across all dimensions.

Through April 30, DIY paid NAC was strong at \$81.55, up 9% versus the prior year – with more than half of that growth coming from a mix shift to more complex SKUs, demonstrating the strength of our product. While online paid volume was essentially flat this season, we believe this is a reasonable outcome as we remained disciplined in what was an unprecedented promotional environment.

As you may recall, last year we began providing a breakout of free and paid DIY filing volume in the Appendix of our earnings presentation. We believe this transparency is important because while free DIY clients help our market share, they don't generate revenue, and consequently many have limited lifetime value to Block. We recognize that most free filers will likely always file for free and they are the least loyal to one provider. Others, such as young, college-educated consumers, have a greater potential to become paid filers in the future as their circumstances evolve. We continue to believe a strategic focus on paid filers and free filers who have potential to become paid filers over time is the best use of capital to deliver financial returns in the business.

We were once again very pleased with the performance of our AI Tax Assist tool in our DIY paid SKUs. We launched this tool to give clients easy access to our extensive body of tax knowledge along with expert help, at no extra charge. Building on last year's success, we expanded the knowledge base to cover more topics with a greater degree of accuracy. We continued to see higher user engagement and satisfaction among clients who used AI Tax Assist. In fact, conversion was 13 points higher among clients who used the tool than those who didn't, reinforcing the confidence it provided in their tax outcome by offering expert help. AI Tax Assist provides clients with more personalized guidance through the filing process. This, coupled with live expert help, is a powerful value proposition and competitive differentiator for Block - particularly as clients must pay more to receive the same level of expert help in competitors' products.

Additionally, we continue to see DIY clients upgrading to Tax Pro Review, which delivered another year of growth. Clients turning over their work for us to complete reaffirms the value and demand for our professional expertise.

And finally, we were pleased with the performance of MyBlock, H&R Block's mobile app and digital front door. We remain well-positioned to serve clients however they want to be served – fully virtual to fully in person and every way in between. This season, we increased the total number of clients served fully virtually by 24% – reflecting our clients' growing preference for

convenience blended with expert help. MyBlock underscores our commitment to adapting to client needs and delivering unmatched service and expertise, in-person and online.

Now let's move on to a quick update on our other Block Horizons strategic imperatives...

Starting with Small Business: Assisted Small Business Tax performed well again this quarter, delivering high single digit revenue growth. We saw positive trends in entity returns and other more complex filings, and our bold marketing messages – including our up to 30% price advantage over a typical CPA or accountant – resonated.

In DIY, we continue to improve the appeal of our small business SKUs and were pleased with the growth in top of funnel registrations. Last season, we launched new custom experiences for clients tailored to their occupation, which gained traction. We increased the number of custom experiences from 5 to 20, covering over 70% of clients and driving another year of improved conversion.

We also maintained momentum in our year-round bookkeeping and payroll services, which together delivered double-digit revenue growth year-over-year.

At Wave, our key priorities of accelerating revenue growth and driving profitability remain unchanged, and we continue to see momentum in Wave's high margin subscription product, ProTier. To that end, I'm pleased that we delivered revenue growth of 13% in the quarter.

Overall, I'm pleased with our performance as an increasing number of small businesses are choosing Block, and I am excited about the continued opportunity ahead.

Turning to Financial Products: Spruce, our mobile banking platform, continued to deliver on its mission of helping people improve their financial well-being.

Since launch through April 30, results showed over 700 thousand signups, a nearly 50% increase compared to the prior year. In addition, about half of all deposits over the last year continue to be non-tax related, highlighting the product's ability to engage users year-round.

Notably, our cross-selling efforts have been highly effective, as approximately 90% of our new Spruce clients also completed a tax return with H&R Block, and half of those clients were new to our brand.

And, by electing to deposit their federal tax refund into their Spruce account, clients were able to access their refund up to 5 days early. For the third consecutive year, clients using Spruce's

Smart Tax Refund feature saved an average of 26% of their tax refund, surpassing the recommended 15%. This demonstrates Spruce's ability to help clients better manage their finances and foster smart saving habits.

I'm proud of how our team has continued to deliver value to clients regardless of the broader market conditions, which speaks to the strength and resilience of our business model. Amid an evolving economic backdrop, one thing remains constant: consumers and small business owners want trusted support when it comes to their taxes and financial needs.

I will now turn it over to Tiffany to discuss our financial results.

Tiffany Mason, Chief Financial Officer: Thank you, Jeff, and good afternoon, everyone.

I want to begin by reiterating H&R Block's investment thesis, particularly in this market. We have a resilient business with strong financial fundamentals, consistent cash flow generation, and a shareholder-friendly capital return practice.

There are three key components:

- First, we operate in a very stable industry. Tax preparation ... the core of what we do ... is steadfast and resilient.

- Second, our national office footprint, robust DIY offering, and strong brand recognition are cornerstones and have paved the way for consistent performance and sustainable growth.
- Third, our financial profile is compelling. We deliver healthy margins, generate high free cash flow, have a strong balance sheet, and are disciplined in our capital allocation priorities.

All of this is why I remain confident in our ability to continue driving significant value for our shareholders, even in the current economic backdrop.

Now, turning to our results for the third quarter:

We delivered \$2.3 billion of revenue, an increase of 4.2%. The increase was the result of higher overall NAC in the U.S. and greater company-owned Assisted return volumes, partially offset by lower international revenues due to lower return volume and an unfavorable foreign exchange rate in Canada, and lower interest and fee income on Emerald Advance.

In the Assisted channel, we struck a healthy balance of price, volume, and mix in the quarter which is a testament to our redesigned client experience and our unwavering commitment to delivering value for our clients.

Total operating expenses in the quarter were \$1.3 billion, an increase of 3.4%, primarily due to higher tax professional wages and benefits as a result of the increase in company-owned Assisted return volume.

The industry continues to experience a shift in overall filing behavior later in the season, and I am pleased with how effectively we were able to manage labor throughout.

Our effective tax rate in the quarter was 24.6%.

And, net income from continuing operations was \$722.9 million, an increase of 4.5%.

EBITDA was \$1.0 billion, an increase of 5%.

Earnings per share from continuing operations increased 9.2% to \$5.32, while adjusted earnings per share from continuing operations increased 8.9% to \$5.38, due to higher net income and fewer shares outstanding from share repurchases.

From a capital allocation perspective, our priorities are unchanged: we invest in the business, grow the dividend, and return excess capital to shareholders through share repurchase. Our strong capital allocation practices continue to yield meaningful results.

We completed our share repurchase plans in the first two quarters of this fiscal year repurchasing \$400 million and retiring 6.5 million shares, or another 5% of our shares outstanding. We have approximately \$1.1 billion remaining on our \$1.5 billion share repurchase program.

We also continued to opportunistically repurchase franchise locations, buying back 123 offices so far this fiscal year. We continue to see strong interest from franchisees willing to sell to us, and we're pleased with how this strategy supports our long-term revenue and earnings growth.

Finally, we are reiterating our FY25 outlook.

We are on plan for revenue, and we expect EBITDA to be slightly below the midpoint of the range for the year due to higher than anticipated legal fees and settlements.

For the full fiscal year, we continue to expect:

- Revenue to be in the range of \$3.69 to \$3.75 billion.
- EBITDA to be in the range of \$975 million to \$1.02 billion.
- The effective tax rate to be approximately 13%, which is lower than historical levels due to the expected closure of various matters under examination and the expiration of certain statutes of limitation.
- And adjusted Diluted Earnings Per Share to be in the range of \$5.15 to \$5.35. The lower effective tax rate is expected to provide a one-time benefit of approximately \$0.50 to EPS this fiscal year.

We believe this will be another year of topline growth, strong cash flow generation, and double-digit EPS growth. We are committed to, and confident about, driving ongoing value for shareholders.

And with that, I will turn it back over to Jeff for closing remarks.

Jeff Jones, President, and Chief Executive Officer: Thank you, Tiffany.

As we conclude our prepared remarks, I'd like to take a moment to share a personal note of appreciation. In this milestone year, as we celebrate H&R Block's 70th anniversary, it's more important than ever to recognize the remarkable individuals who have contributed to our legacy. To the engineers, designers, and product leaders ... to all those behind the scenes ...

and to everyone on the frontline ... thank you for all you do, and here's to many more years of making a meaningful impact together.

From here, we are focused on finishing the year strong and I look forward to sharing more on our year-end call in August.

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

[Q&A]

Forward-Looking Statements

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

Non-GAAP Measures

We refer to certain Non-GAAP financial measures in these materials, including adjusted earnings per share (EPS), earnings before interest, taxes, depreciation, and amortization (EBITDA), and free cash flow, 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.

Unless otherwise noted, year-over-year comparisons of our operational tax metrics are calculated as July 1, 2024 – April 30, 2025 compared to the corresponding prior year.

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