

H&R Block Q2FY25

Financial Results Conference Call Transcript

February 4, 2025

[Introduction & Forward-Looking Statements]

Colby Brown, Treasurer & Interim Vice President, Investor Relations: Thank you, Lateef. Good afternoon, everyone, and welcome to H&R Block's fiscal 2025 second 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, February 4, 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.

[Opening Remarks]

Jeff Jones, President, and Chief Executive Officer: Thank you, Colby. Good afternoon, everyone, and thanks for joining us. I'll kick us off today with a recap of our results from the second quarter, provide an update on the progress we continue to make across each of our Block Horizons strategic imperatives, and then share more on the plans we are executing this tax season. Tiffany will then discuss our financials, including the ongoing strength of our capital allocation practices.

Starting with our performance, the first half of the year was in line with our expectations.

Overall, we are well prepared to deliver in the second half of the fiscal year, and I am pleased to reaffirm our fiscal 25 outlook.

In the second quarter, we successfully wrapped up the extension season and were pleased to see continued strength in various aspects of our business including Small Business services.

Total revenue, however, was flat year over year due to lower Emerald Advance® volume.

From a capital allocation perspective, we continued our disciplined practices, highlighted by our share repurchase program - buying back another 190 million dollars in the quarter, and bringing our total repurchases for the year to nearly 5% of the float.

Now let's turn to our Block Horizons strategic imperatives ...

[Small Business & Wave]

Starting with Small Business: Assisted Small Business Tax performed well again this quarter, delivering strong revenue growth

In DIY, we continue to improve the appeal of our small business SKU. Last season, we launched new custom experiences for clients tailored to their occupation, which drove a 7-point

increase in conversion. This year, we have increased the number of custom experiences from 5 to 20.

We also continued to see favorable trends in bookkeeping and payroll services, which all together delivered double-digit revenue growth year over year.

At Wave, our key priorities of accelerating revenue growth and driving profitability remain unchanged. To that end, I'm pleased that we achieved revenue growth of 15% in the quarter. Monetization trends are positive as we continue to see strong adoption of our high-margin subscription products, ProTier and Receipts. We continue to focus on doing what is right for the small business owner and I feel good about the changes we are implementing to better serve them.

Overall, I'm pleased with our Small Business performance and remain excited about the continued growth opportunities ahead.

[Financial Products]

Turning to Financial Products, we continue to provide clients with options to help them simplify their financial lives and look for ways to enhance their overall financial health.

Last month, we were pleased to raise the maximum amount of our Refund Advance loan, allowing filers to apply for a loan of up to 4 thousand dollars - making it one of the largest no-interest, no fee, refund advance loans among national brands.

Spruce, our mobile banking platform, continues to deliver on its mission to help people be better with money. Users and engagement have both grown at a healthy rate. As of December 31st, we had 491 thousand total signups, a 55% increase compared to the prior year, and customer deposits have more than doubled over the same period. In fact, more than half of the deposits over the past year came from non-tax sources, demonstrating the year-round engagement clients have with Spruce.

Recently, we introduced the 'Smart Tax Refund' feature that allows clients to automatically commit their tax refund to savings at the time of deposit. Clients can choose to set aside a portion of their refund to a specific savings goal, or simply as extra savings. And as we have done for the past two years; by electing to deposit their federal tax refund into their Spruce account, clients can get access to their refund up to 5 days early.

You'll also recall that last year we introduced a high-yield savings rate for Spruce clients to earn interest on their savings accounts. Despite the FDIC national savings rate averaging just 42 basis points, Spruce continues to offer 3.50% APY, with no minimum balance requirements

or monthly fees. We believe this is a very strong competitive advantage compared to others in the space.

[Block Experience]

Now let's move on to our third strategic imperative, Block Experience, which is all about blending digital tools with human expertise and care.

There's a reason why millions of taxpayers switched to H&R Block last year. We combine our innovative technology with human help to empower clients to get their maximum refund at tax time. Our pricing is transparent, without the additional or hidden fees others may charge.

Our teams have been hard at work making data-driven improvements for this tax season, and we're well positioned to serve clients however they want to be served – fully virtual to fully in person and every way in between. As we celebrate our 70th anniversary this year, we remain committed to our Purpose of providing help and inspiring confidence in our clients and communities everywhere.

[Assisted & DIY Tax]

In the DIY category, we continue to make significant improvements to the user experience, ensuring a smoother journey from start to finish. For new clients we've further simplified the

onboarding process to help them easily select a product that fits their needs, giving them confidence in their tax outcome.

We've also continued to improve the speed of our import capabilities, and switching to H&R Block from other competitors is now easier than ever - taking less than two minutes.

A key focus for us this year has been the enhancement of our genAI-powered AI Tax Assist tool, which is a strong competitive differentiator. We have significantly expanded its coverage across a broader range of tax topics to deliver higher confidence and improved outcomes for our clients. Importantly, we've seen greater conversion among new clients who leverage AI Tax Assist. The tool is designed to understand and respond to complex tax scenarios with greater precision, offering personalized guidance throughout the filing process.

We have also integrated advanced natural language processing capabilities to better understand and address client queries, making the experience more intuitive and user-friendly. Once again, AI Tax Assist will be offered free of charge in all DIY paid SKUs, giving consumers unlimited access to the tool as well as our tax professionals, ensuring our clients receive the expert help they want and need.

DIY clients also have the option for one of our expert tax pros to double check their completed return, along with source documents, and file on their behalf through our Tax Pro Review product - which has grown double digits annually for nearly a decade. This further demonstrates clients' desire for human help and underscores the product's distinct value.

Our marketing is aggressively promoting the product enhancements we've made this season, and we're continuing to emphasize the ease of switching and unlimited access to expert help. We are also introducing testimonials from clients who have switched to H&R Block and are more satisfied than they were with other brands.

Finally, we continue to work closely with the IRS to combat taxpayer identity fraud. This is an industry challenge, and we are committed to doing the right thing, which is at the core of being a trusted brand.

Overall, I'm excited about the plans we are executing in DIY and the progress we're making in this category.

In Assisted, we continue to provide our clients with transparent pricing, the ability to file however they choose, and genuine care and personalized advice from our expert tax pros - who, on average, have been with our brand for 10 years. This deep experience and continuity

underscore the trust and reliability we offer, and clients can feel confident they are getting every dollar they deserve.

Our strong local value proposition is amplified by our extensive retail footprint, with nearly 9 thousand H&R Block tax offices conveniently located within 5 miles of most Americans. This accessibility ensures that clients can easily find and visit our offices for in person support or access the same expertise virtually. Furthermore, Assisted clients can get their taxes done on the same day – most in as little as one hour – making our services both accessible and convenient. To capitalize on these strengths, we are increasing our local marketing to help ensure consumers understand this value.

This season, enhancing the experience for new clients is a top priority as we look to improve conversion with those who are coming to H&R Block. We are committed to optimizing and elevating the new client experience by reengineering how we introduce clients to our brand.

Our approach is designed to quickly and deeply understand our clients and their tax situations while clearly setting and managing expectations throughout the process. By providing clear guidance and communication from the onset, new clients will feel informed and confident about what to expect at each stage of the experience, making them more likely to file their return with H&R Block.

We have also made significant enhancements to our tax pro matching algorithm to better pair clients with the tax professional best suited to their specific needs. This personalized matching process benefits both clients and tax professionals – ensuring that clients receive the most relevant expertise and support tailored to their unique circumstances.

These strategic improvements—focused on personalized interactions, clear expectation management, and expert tax pro matching capabilities—are designed to enhance client satisfaction and drive higher conversion rates. Ultimately, our goal is to deliver a superior, tailored experience that instills confidence in our services, improves conversion, and importantly provides compelling value for clients to return year after year.

For those who believe the cost of Assisted tax preparation is a barrier to entry, we are taking price out of the equation. New clients can take advantage of our Price Match guarantee, which matches the price an individual paid to their previous tax preparer, up to 50% off H&R Block's price. This offer is designed to make our professional tax assistance more accessible, ensuring that a greater number of individuals can experience the value and expertise that we provide.

Another way we're demonstrating the value we deliver is through our Second Look service, in which we review the last three years of a new clients' tax returns to ensure they didn't leave

any refund dollars on the table. We are proud to offer this service to clients completely free and believe this represents a competitive advantage for us.

Second Look, along with Price Match guarantee, and the stronger Refund Advance offer I discussed earlier, are being aggressively marketed across all channels as we look to attract new clients to our brand.

In addition to our efforts around new clients, we have also rolled out several enhanced features within MyBlock, H&R Block's digital front door, to improve nearly every aspect of the user experience. Beyond uploading and storing tax documents, starting a DIY return, interacting with a tax professional, and reviewing, approving, and paying for a tax return, returning clients will now have a tailored start screen providing information on their tax professional and upcoming appointments. And all clients will see an outcome reveal screen, helping them understand their tax outcome, and giving them further confidence in our expertise.

In summary, we are well positioned to deliver this tax season and in the second half of the fiscal year. With that, I will now pass it over to Tiffany to share more about our financial results.

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

[HRB Investment Thesis]

After having been at H&R Block for 6 months now, I've had time to dig deeper and develop a greater understanding of the business and our financial position. This has only confirmed what I believed to be true when I joined – H&R Block is a great company, with an amazing Purpose, outstanding people, and strong financial profile.

H&R Block's investment thesis, which includes a resilient business, strong financial fundamentals, consistent cash flow generation, and a shareholder-friendly capital return practice, is what initially drew me to the company. This has been reinforced through my experience over the last several months. Let me share with you the key components:

- First, we operate in a very stable industry. Our business model is tied to essential tax preparation services – an annual need for millions of consumers and small businesses. The consumer tax industry has grown at a 1% CAGR for many decades – it is steadfast and resilient, and this is reflected in our performance.
- Second, we have scale on our side with nearly 9 thousand company and franchise offices across the country, 60 thousand expert tax pros, and a robust DIY offering - as well as strong brand recognition, with a name that has been trusted for 70 years. We have made strategic investments in our Block Horizons imperatives, which include financial

and small business services, and are leaning into our digital transformation and AI advancements – paving the way for consistent performance and sustainable growth.

- Third, our financial profile is compelling: we deliver healthy margins and have generated over \$650 million of free cash flow in each of the last three years. Our balance sheet is strong, providing liquidity to meet our seasonal needs, while maintaining an investment grade credit rating. And our disciplined capital allocation priorities have been consistently applied over the years as we balance investments in the business, growth in the dividend, and returning excess cash to shareholders through share repurchases.

In short, our investment thesis is compelling, and I have confidence in our ability to continue driving significant value for our shareholders.

[Q2FY25 Financial Results]

Now let's turn to our financial results for the second quarter. As a reminder, Q2 represents approximately 5% of our annual revenue.

For the quarter, we delivered total revenue of \$179 million, which was flat to the prior year.

Increases in revenue from Wave and international tax preparation were offset by lower interest and fee income on Emerald Advance® due to a decrease in loan volume.

Total operating expenses were \$472 million, an increase of 6%, primarily due to higher tax professional and corporate wages, increased healthcare costs, an increase in occupancy costs and the timing of marketing expenses versus the prior year. These increases were expected and have been contemplated in our outlook for the year.

Interest expense was \$22 million, flat to last year.

As a reminder, given the seasonality of our business, we typically operate at a loss in the first two quarters of our fiscal year.

Our pretax loss in the second quarter was \$312 million compared to \$283 million in the prior year, and our effective tax rate was 22.4% compared to 33.1% last year.

The EBITDA loss was \$261 million, compared to an EBITDA loss of \$231 million last year.

And the loss per share from continuing operations was \$1.79 compared to \$1.33 last year, while adjusted loss per share from continuing operations was \$1.73 compared to \$1.27 last year due to a higher net loss and fewer shares outstanding as a result of share repurchases.

You'll recall, in quarters with a loss, fewer shares outstanding increase the loss per share, but are accretive as we generate earnings for the full year.

[FY25 Outlook Reiterated]

Our performance in the first half of the fiscal year was in line with our expectations, and we believe we are well positioned to deliver strong results this tax season. As a result, we are reaffirming our Fiscal 25 outlook which was provided in today's earnings release.

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 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.

[Capital Allocation Remains Strong]

From a capital allocation perspective, our strong practices have yielded meaningful results.

In Q2, we repurchased a total of 3.2 million shares for \$190 million at an average price of \$58.65.

This brings our first half total share repurchases to \$400 million or about 5% of our float. This is a great use of capital and I am pleased about what we have accomplished.

As a reminder, given our narrow trading windows during tax season, we have historically executed our share repurchases in the first half of the year.

With that, I'll now turn the call back over to Jeff for closing remarks.

[Closing Remarks]

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

Before wrapping up the call, I want to acknowledge the devastating wildfires in the state of California. Our thoughts are with everyone who has been affected, including our associates, clients, and the broader community. We are steadfast in our commitment to providing aid and fostering hope during these difficult times. As the IRS has extended the tax filing deadline for those impacted, we remain well prepared and equipped to serve them this season.

In closing, I am pleased with our performance from the first half of the year and confident in our ability to drive value for shareholders through our business results and capital allocation

practices. I'm grateful to our franchisees, tax professionals, and associates for the tremendous work they've done in getting us ready for this tax season.

As a reminder, we will provide a full update on the tax season during our Q3 call in early May.

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.