

H&R Block Q1FY25

Financial Results Conference Call Transcript

November 7, 2024

[Introduction & Forward-Looking Statements]

Michaella Gallina, Vice President, Investor Relations: Thank you, operator. Good afternoon, everyone, and welcome to H&R Block's fiscal 2025 first 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, November 7, 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.

[Opening Remarks]

Jeff Jones, President, and Chief Executive Officer: Good afternoon, everyone, and thank you for joining us. Today we will start with first quarter results for fiscal year 2025 and provide an update on each of our Block Horizons strategic imperatives. Then, Tiffany will discuss our financials and the strength of our capital allocation before opening the line for Q&A.

We had a good start to the year. I am pleased with our performance in the quarter and today we are reaffirming our fiscal '25 outlook. We delivered revenue growth of 5%, and successfully converted a higher percentage of Assisted extensions into filings in Q1. Our international

business also performed well, and we're continuing to make progress across all three of our Block Horizons imperatives, which I'll share more about in a moment. On the capital allocation front, we repurchased approximately 210 million dollars of shares in Q1.

Our team is focused on operational and technical enhancements to improve the client experience in office and online, and ultimately, helping our clients have greater confidence in their financial outcomes. Let's jump right in to Block Horizons for more detail.

[Small Business & Wave]

I'll begin with Small Business.

Assisted Small Business tax delivered double digit revenue growth in the quarter, and we continue to be pleased with the positive trends we are seeing in bookkeeping and payroll services. Entity clients continue to be a focus area, and our marketing message highlights that our small business bookkeeping expertise is offered to clients at up to 50% less than the average accountant, which is resonating with small business owners. All in all, we feel good about the trajectory of Small Business and the long runway of opportunity ahead.

Turning to Wave, revenue growth was 10% in Q1. Since launching our subscription products, ProTier and Receipts, earlier this year, we've seen positive monetization trends with these

higher margin products. Adoption among new and existing users has exceeded our initial expectations and our key priorities remain the same – accelerate revenue growth and drive towards profitability, and we are seeing progress in both areas.

[Financial Products: Spruce]

Moving on to Financial Products: our mobile banking platform, Spruce, was designed to help people be better with money, and it is delivering on that objective. Sign ups have continued to increase, and Spruce recently surpassed the milestone of one billion dollars in customer deposits. As we shared in August, nearly 50% of deposits came from non-tax sources in fiscal '24 and we have been pleased to see strong trends continue in the first quarter. We also know there are Spruce clients who are not currently using H&R Block for their tax preparation needs and believe this is an opportunity for conversion.

Looking forward, our focus remains on efficiently acquiring clients and driving year-round user engagement within the Spruce app.

[Block Experience]

Now let's turn to Block Experience, which is all about blending digital tools with human expertise and care. We are well positioned to serve clients however they want to be served – fully virtual to fully in person and every way in between.

We're driving our approach through the lens of our clients: how they choose to work with us, the desire they have for price transparency, and ultimately the confidence they are seeking in their tax outcome and financial stability.

We continue to believe that AI is additive to the tax preparation process and are building upon our use cases to enhance the client and tax pro experience and unlock cost savings. For example, in our DIY channel last season we launched our genAI powered AI Tax Assist tool for clients in all paid SKUs. It performed well and clients found it easy to use and helpful in their tax prep process. Importantly, we saw greater conversion among new paid clients who used the tool. With learnings from its first tax season, our team has continued to make significant enhancements by expanding the range of topics, deploying hybrid search and semantic ranking, and upgrading to Chat GPT4o to improve accuracy and deliver confidence for users. AI Tax Assist will be offered free of charge in all DIY online paid SKUs once again this season, giving clients unlimited access to the tool – as well as H&R Block tax pros – in order to receive the expert help they need and want. We believe that combination of AI along with the expertise of our H&R Block tax pros is a competitive advantage versus other players in the industry.

Clients also have the option for one of our expert tax professionals to double check their completed return, along with source documents, and file on their behalf with our Tax Pro Review product - which we have grown double digits for nearly a decade. As one of our highest converting - and highest retention products, Tax Pro Review combines the best of both worlds by giving clients control of preparing their own taxes, along with the confidence that a tax professional has thoroughly reviewed everything to maximize their outcome. We know clients desire help whether they are completing their taxes on their own or turning them over to a tax professional - and we are well-positioned to serve them however they need in order to ensure they get their maximum refund.

We have also made meaningful improvements in the core DIY user experience from start to finish. We've simplified the flow for new clients and streamlined onboarding to make it even easier for clients to start in the product best suited for their tax situation based on the information they provide, and to have confidence in their outcome before they file.

We are pleased that our continued commitment to user experience and innovation is recognized in the market. We have already won multiple product awards this year, including the 'most recommended tax software' in Kiplinger's Readers' Choice Awards, highlighting our leadership in the industry and the trust our clients place in us.

In the Assisted channel, our market share is about four times the next two largest branded competitors combined. We provide our clients with upfront, transparent pricing, the ability to file however they choose, and genuine care and advice from our expert tax professionals - who, on average, have been with our brand for 10 years; thousands of which are CPAs, enrolled agents, senior tax professionals, or are small business certified.

Our H&R Block offices are conveniently located within 5 miles of most Americans, and we will continue to reinforce our strong local value proposition.

While we've been matching clients with tax professionals to align with their needs for many decades, this year we are adding multiple new dimensions to our matching algorithms which we expect will not only enhance the overall client experience but also optimize the efficiency of our tax professionals and allow more experienced tax pros to handle more complex situations.

[MyBlock]

Another way we're improving the client experience is through MyBlock, which is H&R Block's digital front door. Through this authenticated experience, clients can accomplish many things from uploading and storing their tax documents to starting a DIY return, or working directly

with a tax pro via chat. Clients can also review, approve and pay for their return, track their refund, and manage their Emerald Card—all in one convenient place, year-round.

We are rolling out several new features to improve nearly every aspect of the user experience and new client flow. Returning clients will now have a tailored start screen that will display their assigned tax pro and indicate if they have an upcoming appointment or a DIY service started - building confidence that they will get the help they need.

Additionally, we heard from clients that they wanted a way to better understand their tax outcome so they can have confidence in the size of their refund or balance due. With our new 'Outcome Reveal' screen, clients will be able to see a summary of their tax calculation so they can better understand their outcome before discussing it with their tax pro and completing their return, all of which helps to reinforce our expertise. As clients increasingly seek a comprehensive solution that is easy to use, we believe MyBlock will play a crucial role in meeting their needs.

In summary, I am proud of the work being done and feel good about our ability to deliver results in fiscal '25.

Now, joining me today for her first earnings call at H&R Block, is our CFO Tiffany Mason. I've been thrilled to have her on board for the last three months, and I will now pass it over to her to share more about our financial results.

Tiffany Mason, Chief Financial Officer: Thank you, Jeff, and good afternoon, everyone. Since joining H&R Block in August, I have been impressed by the company's vision, culture, and commitment to innovation and excellence. I have enjoyed partnering with Jeff and our entire team to continue driving long-term value for our stakeholders. With that, let me share our Q1 financial results.

[Q1FY25 Financial Results]

We delivered \$194 million of revenue, an increase of \$10 million or 5% over the prior year.

The increase was primarily due to higher company-owned volumes and a higher net average charge in the Assisted category combined with higher international tax preparation revenues.

Total operating expenses were \$422 million, an increase of \$32 million or 8%, primarily due to higher tax professional wages as a result of higher tax return volume, higher corporate wages, and an increase in legal fees and settlements in the current year. Without the increase in legal costs, operating expenses would have grown in line with the increase in revenue.

Interest expense was \$16 million dollars in the quarter, flat to last year.

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 first quarter this year was \$232 million compared to \$212 million in the prior year, and our effective tax rate was 26.2% compared to 23.3% last year.

The EBITDA loss for the first quarter was \$188 million, compared to an EBITDA loss of \$166 million last year.

And the loss per share from continuing operations was \$1.23 compared to \$1.11 last year, while adjusted loss per share from continuing operations was \$1.17 compared to \$1.05 last year due to a higher pretax loss and fewer shares outstanding. As a reminder, 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 first quarter results were on track relative to our expectations, and we believe we are well positioned to deliver results for the full year. So, as Jeff shared, we are reiterating our fiscal year 2025 outlook which was provided in today's earnings release.

We continue to expect our full year 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. We expect this to provide a one-time benefit of approximately 50 cents to EPS this fiscal year. Beyond this year, we continue to expect the effective tax rate to return to the low twenties.

[Capital Allocation Remains Strong]

Turning now to capital allocation, our practices remain strong.

Last month we paid our regular quarterly dividend, which you'll recall reflected the 17% increase we announced in August. Since 2016, we have increased the dividend by 88%.

In the first quarter, we also repurchased a total of 3.3 million shares of stock for \$210 million dollars at an average price of \$63.51 per share. This retired another 2.4% of our shares outstanding.

With that, I will now turn things back over to Jeff for closing remarks.

[Closing Remarks]

Jeff Jones, President, and Chief Executive Officer: Thanks, Tiffany. Before opening it up for Q&A, I want to take a moment to acknowledge the communities, associates and franchisees that have been impacted by Hurricanes Helene and Milton. My thoughts are with those facing unfathomable challenges. As a company, we have donated to a number of organizations leading disaster relief efforts, bolstered our Associate Relief Fund, and we'll continue to evaluate the best ways to support these impacted communities.

With that, 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) and earnings before interest, taxes, depreciation, and amortization (EBITDA), 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.