

H&R Block Q1FY24

Financial Results Conference Call Transcript

November 7, 2023

[Introduction & Forward-Looking Statements]

Michaella Gallina, Vice President, Investor Relations: Thank you, Lateef. Good afternoon, everyone, and welcome to H&R Block's first quarter fiscal year 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, November 7, 2023. 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, Michaella. Good afternoon, everyone, and thanks for joining us. Today I will begin with a summary of our Q1 results and provide an update on our Block Horizons strategic imperatives. Then Tony will discuss our financials, including the strength of our capital allocation and balance sheet.

[Q1 Highlights]

While we are early in the year and Q1 is a relatively small portion of our results, we had a good start and are reaffirming our fiscal 24 outlook. We were pleased given we lapped a very strong extended season last year, and our share in both DIY and Assisted slightly improved throughout the year. With favorability in NAC we grew revenue, continued to manage our expenses well, and demonstrated ongoing progress on our Block Horizons strategy, which I'll share more about in a moment. We also continued our share repurchase program, buying 132 million dollars in the quarter.

[Small Business & Wave]

Let's go deeper into Block Horizons, beginning with Small Business, which includes Small Business tax and services, and Wave.

Assisted Small Business total revenue growth was 6% in the quarter, and we're pleased with the early signals we are seeing in bookkeeping and payroll services, which are growing double digits.

We see a long runway of opportunity and are focused on continuing our momentum, which includes growing clients in both tax and services, and driving business formations, which we launched last year. Overall, we feel good about the trajectory of Small Business.

Turning to Wave, revenue growth was 6% in Q1, which was in line with our expectations. As we've shared, we underwent a strategic review of the business when the new leader was put in place. We now have a plan to accelerate revenue growth and put us on a path to profitability. Before I share those plans, I want to recap Wave's current business model, which provides tremendous value for small business owners by offering free invoicing and accounting. Wave has monetized its platform primarily through payment processing as well as payroll and advisory services.

We are now beginning a strategic shift to solve customer pain points that will deliver value and monetize more premium features. In the payments space, customers are wanting additional options beyond credit cards, which Wave historically has not provided. Today, less than thirty percent of invoices sent by small businesses through Wave's platform are enabled for credit card or bank payments. Thus, there's a significant opportunity to unlock value as we enable our customers to be paid via alternative methods and expand our share of wallet.

We also see an opportunity to build other premium features that help our customers run their small business. Last quarter we launched the mobile receipts feature, which is a monthly or annual subscription that generates additional recurring revenue. This product's uptake has been better than expected and is a good example of where we're heading.

I'm excited about the shifts we're making and the opportunities we see in this business.

[Financial Products: Spruce]

Now I'll move on to Financial Products. Regarding Spruce, recall that tax season '23 was the first time the product was introduced in the Assisted channel. Our learnings have informed our actions for the next tax season, and we are continuing to drive innovation for the customer experience. We have made the account creation and sign-up process more seamless in all our channels, and deposit trends from customers utilizing Spruce to receive their payroll direct deposit continue to improve.

As of September 30, we surpassed 300 thousand signups and had almost 400 million dollars in customer deposits. In fiscal '24, we are focused on efficiently acquiring clients at tax time, which includes the DIY flow, and driving customer engagement within the app.

[Block Experience]

Now let's turn to Block Experience. This imperative is all about blending digital tools with human help to provide better experiences for clients while empowering them to be served however they choose – fully virtual to fully in person, and everything in between.

We have made a number of enhancements to MyBlock this year. Within the app, clients will now have visibility of where they are at in each stage of the tax prep process through a status tracker on their homepage. In addition, we'll be delivering a personalized checklist to help clients be better prepared for the forms they will need and how to upload them ahead of time. The app will provide help at each stage, with a 'call to action' that recommends clients' next step – whether uploading new documents, getting help from one of our expert tax professionals, or notifying them that it's time to review their return, which we've made easier and faster to approve and sign online. Clients also have the ability to access their tax documents and return digitally, which aligns with our new 'Print Less' strategy to reduce paper consumption in our offices. This is a benefit for our clients, results in cost savings, and is one of the many ways we live our commitment to environmental sustainability.

Another priority within Block Experience is leaning into genAI. As we've shared, we are initially focused on two areas: first, enhancing the customer experience, and second, reducing expenses and increasing productivity.

In the DIY channel, we are working on exciting innovation that will support our clients throughout the tax prep experience, and we are testing the ability to use AI to field customer calls.

Over time we believe these initiatives can result in meaningful cost savings, but we are not assuming any this fiscal year as we are in initial testing phases.

All in all, we are making tangible progress through our partnership with Microsoft; in fact, they recently highlighted our work to thought leaders and industry experts during the Envision Tour in New York.

As you can see, our team continues to make progress, and we are well positioned to deliver results this year.

[Annual ESG Report]

Before turning it to Tony, I want to mention that we recently published our fourth Annual Environmental, Social, and Governance Report for fiscal year 2023 reflecting our ongoing commitment to transparency, sustainability, and responsible business practices. I encourage you to visit our investor relations website to read it in full.

With that, I will now pass things over to Tony to share more about our financial results.

[Q1FY24 Financials]

Tony Bowen, Chief Financial Officer: Thanks, Jeff, and good afternoon everyone.

In Q1 we delivered 183.8 million dollars of revenue, an increase of 2% or 3.8 million dollars over the prior year. The increase was primarily due to higher U.S. Assisted tax preparation revenues driven by an increase in net average charge, partially offset by lower Emerald Card revenues.

Total operating expenses were approximately 390 million dollars, an increase of about 30 basis points or one million dollars. Corporate wages and bad debt were higher, and marketing and advertising, as well as consulting expenses were lower than last year.

EBITDA was a loss of approximately 166 million dollars, an improvement of 3%, or 6 million dollars from the prior year.

Interest expense was about 16 million dollars, which is essentially unchanged to last year.

Pretax loss decreased by 9 million dollars to 212.4 million dollars primarily due to higher revenues and interest income in the current year.

Our effective tax rate was 23.3% compared to 24.4% last year.

Loss per share from continuing operations was \$1.11 compared to \$1.05 last year, while adjusted loss per share from continuing operations was \$1.05 compared to 99 cents last year due to fewer shares outstanding. As a reminder, in quarters with a loss, fewer shares outstanding increases loss per share but is accretive as we generate earnings for the full year.

[FY24 Outlook Reaffirmed]

As Jeff shared, we had a good start to the year, and we are reaffirming our full year 2024 outlook and longer-term total shareholder return algorithm that calls for topline growth, EBITDA that outpaces revenue, and EPS that grows even faster.

[Robust Capital Allocation]

Turning to capital allocation, our practices remain robust. In Q1, we repurchased a total of 3.3 million shares for 132 million dollars at an average price of \$40.43. This retired another 2% of our float. Since 2016, we have reduced shares outstanding by over 38%.

Additionally, last week the Board of Directors declared our quarterly cash dividend. Since 2016, we have grown the dividend 60%, yet the total dollars paid out continues to decrease because of how quickly we are buying back shares.

[Strength of Balance Sheet]

Given the macro environment and the expectation of high interest rates for the foreseeable future, I'd also like to share more about the strength of our balance sheet.

We continue to feel great about our relatively low leverage with \$1.5 billion of long-term debt against our over \$900 million of EBITDA in the most recent year. Our next debt maturity of 350 million dollars isn't until October of 2025, which is our smallest tranche, and we don't have another tranche maturing after that until 2028. As we've shared before, as interest rates rise it benefits our P&L on a short-term basis as our interest income from our cash position will exceed our short-term borrowing interest expense for the full year. Overall, we feel very good about our balance sheet and how we are positioned in the current environment.

In summary, our financial story is positive: we drive topline growth, EBITDA that outpaces revenue, and EPS that grows even faster. We have strong capital allocation practices to reliably return value to shareholders, and our balance sheet positions us well for the macro trends.

With that, I will now hand it back to Jeff for some closing remarks.

[Closing Remarks]

Jeff Jones, President, and Chief Executive Officer: Thanks, Tony. I'm looking forward to all that we will accomplish this year. In closing, I would like to extend a sincere thank you to our associates, franchisees, and tax professionals for all they do year-round to deliver on our

Purpose of providing help and inspiring confidence in our clients and communities everywhere.

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

[Q&A Slide]

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.