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# Outline

- Executive Summary
- Industry Overview
- Company Overview
- Ratio Analysis
- DCF Valuation
- Key Valuation Metrics
- Recommendation



# Executive Summary



## Key Points

**\$39.75 per share market close today  
(2/13/23)**

**We are recommending to *buy***

**23% undervalued through DCF  
Valuation**

# Industry Overview

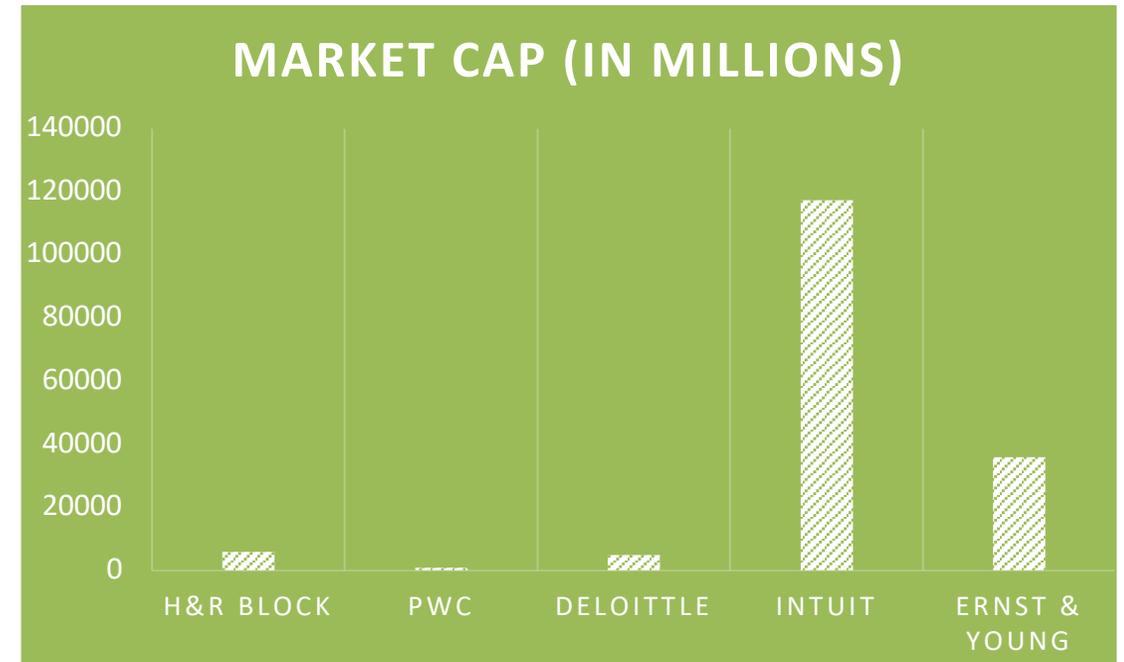
- Increased at a CAGR of 3.9% during the current period.

- 
- Typical Large Earnings During Tax Season

- 
- Reaching \$14.4B in revenue 2023

- 
- Dominated by Large-scale operators

- 
- Little to no inventory in tax prep industry
- 



# Industry SWOT Analysis

## Strengths

- Remote capabilities
- Always a necessity
- Relatively low operating expense and overhead  
(High profit margin)

## Weaknesses

- Seasonal nature
- Competition
- Saturated market

## Opportunities

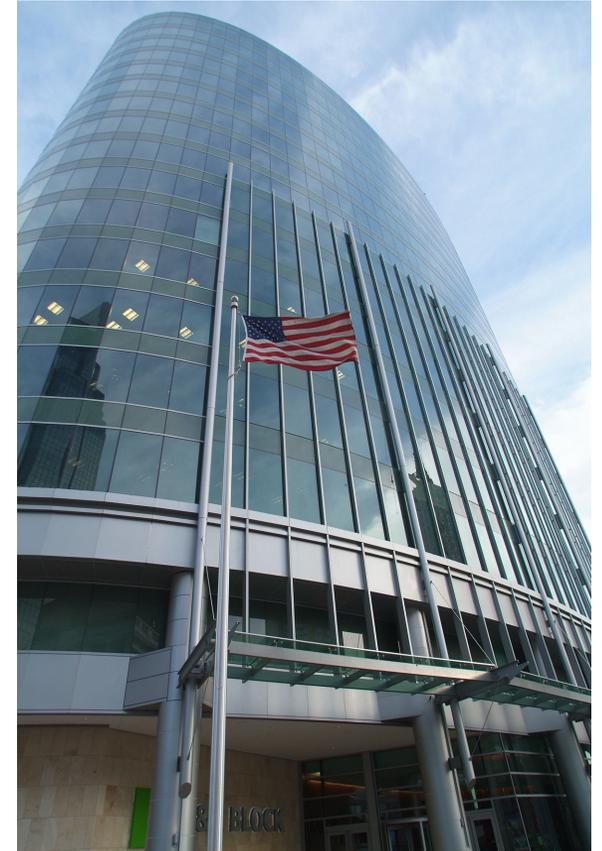
- Expansion for online sales
- Change in regulations
- -Online capabilities

## Threats

- Increasing competition
- Change in regulations
- Cyber/hackers
- Automation

# Company Overview

- Founded in 1955, was the first tax preparation company in the industry
- 
- Provides assisted income tax return preparation and do-it-yourself (DIY) tax return preparation services and products to the general public
- 
- As of 2018, H&R Block operates approximately 12,000 retail tax offices staffed by tax professionals worldwide
- 
- H&R Block has made 3 acquisitions in total and the latest one being the company Wave Financials



# Company SWOT Analysis

## Strengths

- Strong brand recognition and reputation
- Wide range of services including tax preparation, financial planning, investment services
- Extensive network of locations
- Strong investments in technology and innovation

## Weaknesses

- Dependence on tax preparation season
- Variety of competition
- Potential regulatory challenges

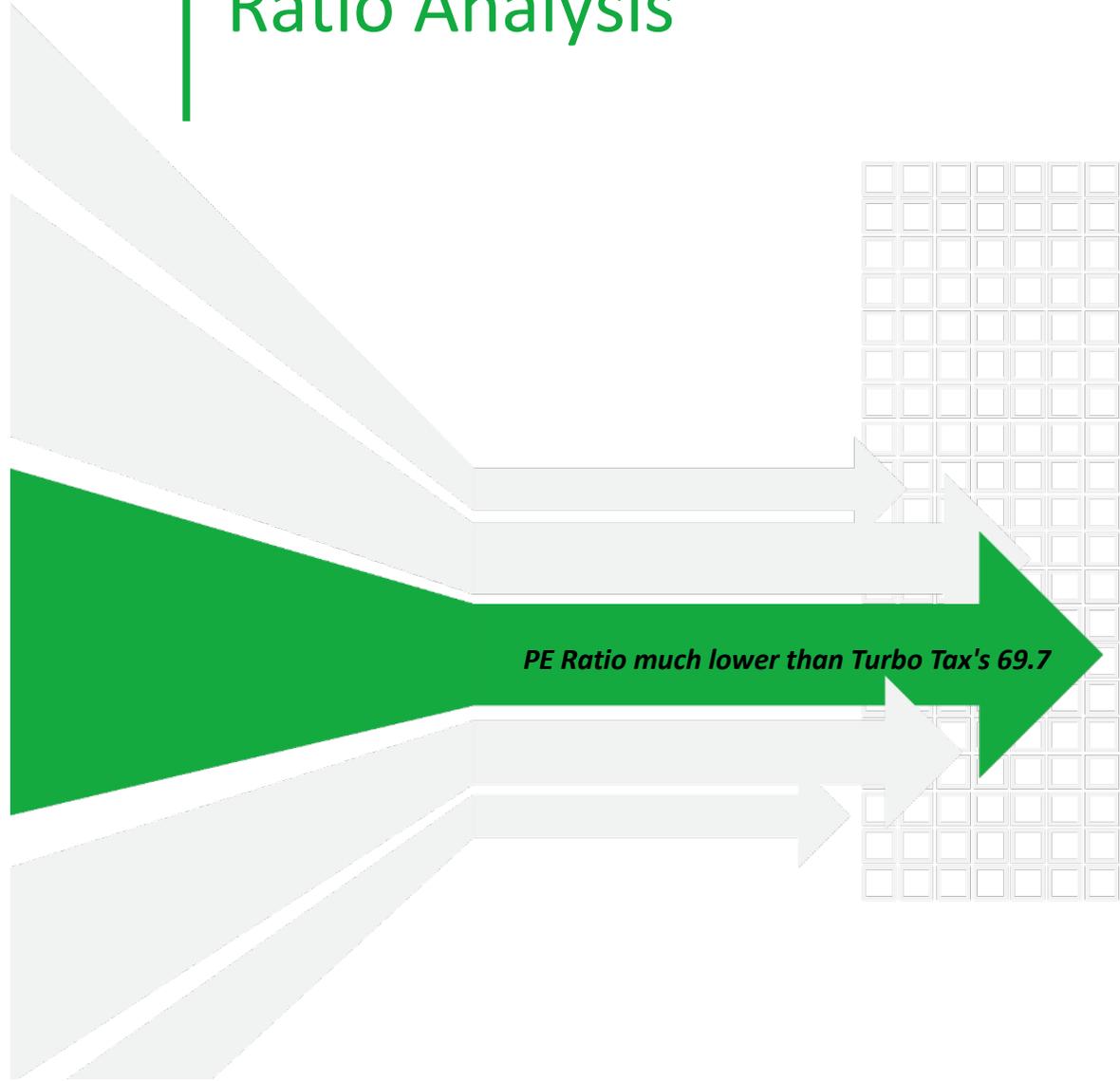
## Opportunities

- Expansion into new markets/services
- Increased demand for financial services, investment and retirement planning
- Growth in the online and mobile tax preparation services

## Threats

- Economic downturns
- Cybersecurity threats
- Increased competition

# Ratio Analysis



*PE Ratio much lower than Turbo Tax's 69.7*

## Liquidity:

- Current Ratio: 1.39

## Activity:

- 31.2 Days Payable
- 12.15 PE Ratio

## Leverage:

- Debt Ratio: .88

# DCF Valuation

## Long Term Growth Rate

**.62%**

**Net Reinvestment Rate**  
- Not a capital-intensive  
business model

**15%**

**Return on Invested  
Capital**

**.09%**

**Long Term Growth  
Rate**

# Key Valuation Metrics

**WACC**

6.36%

**Long Term Growth Rate**

.09%

21% Market Share

**Calculated Beta**

.68

Low risk investment

**23%**

**Undervalued  
Target Price:  
\$48.41**

# DCF Valuation

## Sensitivity Analysis

Long Term Growth	WACC						
	\$	4%	5%	6%	7%	8%	
	48.41						
-1%	66.00	53.37	41.70	37.59	32.33		
0%	83.36	64.46	48.43	43.07	36.43		
0.5%	92.69	70.02	51.60	45.60	38.28		
1%	107.53	78.35	56.14	49.17	40.83		
2%	159.44	103.33	68.32	58.43	47.21		

- No reason to believe the WACC will be increasing
- LTGR may be a cause for concern, however, even a negative rate maintaining WACC holds upside

# Recommendation

- *Buy* \$75,000 of HRB Shares
  - Undervalued (23%)
  - Low risk (.68 beta)
  - Exposure to the financial sector
    - Celani fund is currently at 6.7%
    - This purchase would increase us to 9.8%
    - S&P 500 has been historically above 10%

Questions?

# Appendix

Included in appendix:

- HRB Income Statement, Balance Sheet, and Cash Flow Statement projected 5Y
- HRB Discounted Cash Flow Valuation
- HRB Ratio Analysis compared to INTU

See HRB Excel Support For Further Analysis

[HRB Excel Support.xlsx](#)

Consolidated Statements Of Operations And Comprehensive Income (Loss) - USD (\$) \$ in Thousands								
	Apr. 30, 2020	Apr. 30, 2021	Jun. 30, 2022	2023	2024	2025	2026	2027
<b>EVENUES:</b>								
venues	\$ 2,639,720	\$ 3,413,987	\$ 3,463,270	3,497,903	3,532,882	3,568,211	3,603,893	3,639,932
<b>PERATING EXPENSES:</b>								
osts of revenues	1,712,276	1,842,092	1,881,262	1,900,075	1,919,075	1,938,266	1,957,649	1,977,225
mpairment of goodwill	106,000	0	0	-	-	-	-	-
elling, general and administrative	744,361	802,268	837,111	936,724	946,092	955,553	965,108	974,759
otal operating expenses	2,562,637	2,644,360	2,718,373	2,836,799	2,865,167	2,893,819	2,922,757	2,951,985
perating Margin				18.90%	18.90%	18.90%	18.90%	18.90%
ther income (expense), net	15,637	5,979	2,454	2,479	2,503	2,528	2,554	2,579
arnings before interest & Taxes			747,351	663,582	670,218	676,920	683,689	690,526
terest expense on borrowings	(96,094)	(106,870)	(88,282)	(29,534)	(1,499)	0	0	0
icome (loss) from continuing operations before income taxes (benefit)	(3,374)	668,736	659,069	634,048	668,719	676,920	683,689	690,526
icome taxes (benefit)	(9,530)		98,423	94,686	99,864	101,089	102,100	103,121
ax as a %			14.93%	14.93%	14.93%	14.93%	14.93%	14.93%
et income from continuing operations	6,156	590,212	560,646	539,361	568,855	575,831	581,590	587,406
et loss from discontinued operations, net of tax benefits of \$2,093, \$451, \$3,883 and	(13,682)	(6,421)	(6,972)	(6,972)	(6,972)	(6,972)	(6,972)	(6,972)
ET INCOME (LOSS)	\$ (7,526)	\$ 583,791	\$ 553,674	532,389	561,883	568,859	574,618	580,434
<b>ASIC EARNINGS (LOSS) PER SHARE:</b>								
ontinuing operations (in usd per share)	\$ 0.03	\$ 3.15	\$ 3.31					
iscontinued operations (in usd per share)	(0.07)	(0.04)	(0.04)					
onsolidated (in usd per share)	(0.04)	3.11	3.27					
<b>ILUTED EARNINGS (LOSS) PER SHARE:</b>								
ontinuing operations (in usd per share)	0.03	3.11	3.26					
iscontinued operations (in usd per share)	(0.07)	(0.03)	(0.04)					
onsolidated (in usd per share)	\$ (0.04)	\$ 3.08	\$ 3.22					
<b>OMPREHENSIVE INCOME (LOSS):</b>								
et income (loss)	\$ (7,526)	\$ 583,791	\$ 553,674					
hange in foreign currency translation adjustments	(31,160)	56,362	(21,733)					
ther comprehensive income (loss)	(31,160)	56,362	(21,733)					
omprehensive income (loss)	(38,686)	640,153	531,941					
<b>ERVICE REVENUES:</b>								
<b>EVENUES:</b>								
venues	2,327,323	3,067,223	3,134,686					
oyalty, product and other revenues								
<b>EVENUES:</b>								
venues	\$ 312,397	\$ 346,764	\$ 328,584					

Consolidated Balance Sheets (Parenthetical) - USD (\$) \$ in Thousands	Jun. 30, 2021	Jun. 30, 2022	2023	2024	2025	2026	2027
Cash and cash equivalents	1,434,381	885,015	885,015	1,371,511	1,944,511	2,523,310	3,107,967
Cash and cash equivalents - restricted	149,783	165,698	165,698	165,698	165,698	165,698	165,698
Receivables, less allowance for doubtful accounts of \$65,351, \$77,518 and \$70,689	88,932	58,447	59,031	59,622	60,218	60,820	61,428
Income taxes receivable	330,872	202,838	204,866	206,915	208,984	211,074	213,185
Prepaid expenses and other current assets	76,414	72,460	73,185	73,916	74,656	75,402	76,156
Assets, Current	2,080,382	1,384,458	1,387,795	1,877,662	2,454,067	3,036,304	3,624,434
Property and equipment, at cost, less accumulated depreciation and amortization of \$857,468, \$842,861 and \$832,885	139,276	123,912		125,151	126,403	127,667	128,943
Operating Lease, Right-of-Use Asset	445,847	427,783	427,783	427,783	427,783	427,783	427,783
Intangible assets, net	351,093	309,644	309,644	309,644	309,644	309,644	309,644
Goodwill	754,521	760,401	760,401	760,401	760,401	760,401	760,401
Deferred tax assets and income taxes receivable	181,996	208,948	208,948	208,948	208,948	208,948	208,948
Other noncurrent assets	61,273	54,012	54,012	54,012	54,012	54,012	54,012
Assets	4,014,388	3,269,158	3,273,735	3,764,853	4,342,521	4,926,036	5,515,455
Accounts payable and accrued expenses	164,269	160,929	162,538	164,164	165,805	167,463	169,138
Accrued salaries, wages and payroll taxes	168,989	154,764	154,764	154,764	154,764	154,764	154,764
Accrued income taxes and reserves for uncertain tax positions	238,863	280,115	282,916	285,745	288,603	291,489	294,404
Operating lease liabilities	214,190	206,898	206,898	206,898	206,898	206,898	206,898
Deferred revenue and other current liabilities	196,175	196,107	198,068	200,049	202,049	204,070	206,110
Liabilities, Current	982,486	998,813	1,005,185	1,011,620	1,018,119	1,024,684	1,031,314
Long-term debt	1,983,719	1,486,876	79,486	-	-	-	-
Deferred tax liabilities and reserves for uncertain tax positions	301,658	226,362	228,626	230,912	233,221	235,553	237,909
Operating lease liabilities	244,932	228,820	228,820	228,820	228,820	228,820	228,820
Deferred revenue and other noncurrent liabilities	113,535	116,656	116,656	116,656	116,656	116,656	116,656
Liabilities	3,626,330	3,057,527	1,658,772	1,588,008	1,596,816	1,605,713	1,614,699
Common stock, no par, stated value \$.01 per share, 800,000,000 shares authorized, shares issued of 193,571,309, 216,665,616 and 216,655,616	2,167	1,936		1,936	1,936	1,936	1,936
Additional paid-in capital	779,465	772,182	772,182	772,182	772,182	772,182	772,182
Accumulated other comprehensive income (loss)	88	(21,645)	(21,645)	(21,645)	(21,645)	(21,645)	(21,645)
Retained earnings	286,694	120,405	652,794	1,214,678	1,783,537	2,358,154	2,938,588
Treasury Stock, Value	(680,356)	(661,247)	1,403,331	1,965,215	2,534,074	3,108,691	3,689,125
Stockholders' Equity Attributable to Parent	388,058	211,631	211,631	211,631	211,631	211,631	211,631
Liabilities and Equity	\$ 4,014,388	\$ 3,269,158	3,273,735	3,764,853	4,342,521	4,926,036	5,515,455
Difference	0	0	0	(0)	0	0	0

Consolidated Statements Of Cash Flows - USD (\$) \$ in Thousands								
	Apr. 30, 2020	Apr. 30, 2021	Jun. 30, 2022	2023	2024	2025	2026	2027
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>								
Net income (loss)	\$ (7,526)	\$ 583,791	\$ 553,674	532,389	561,883	568,859	574,618	580,434
<b>Adjustments to reconcile net income (loss) to net cash provided by operating activities:</b>								
Depreciation and amortization	169,536	156,852	142,178	0	0	0	0	0
Provision for bad debt	76,621	73,451	66,807	-	-	-	-	-
Deferred taxes	(8,300)	(22,583)	(53,352)	(2,028)	(2,049)	(2,069)	(2,090)	(2,111)
Stock-based compensation	28,045	28,271	34,252	-	-	-	-	-
Impairment of goodwill	106,000	0	0	-	-	-	-	-
<b>Changes in assets and liabilities, net of acquisitions:</b>								
Receivables	(66,896)	(150,933)	(37,889)	(584)	(590)	(596)	(602)	(608)
Prepaid expenses, other current and noncurrent assets	39,377	(49,498)	(1,944)	(725)	(732)	(739)	(747)	(754)
Accounts payable, accrued expenses, salaries, wages and payroll taxes	(124,019)	150,635	(19,645)	1,609	1,625	1,642	1,658	1,675
Deferred revenue, other current and noncurrent liabilities	(9,096)	(1,160)	7,342	1,961	1,981	2,000	2,020	2,041
Income tax receivables, accrued income taxes and income tax reserves	(87,423)	(138,152)	118,713	-	-	-	-	-
Other, net	(7,358)	(4,746)	(1,599)	-	-	-	-	-
Net cash provided by operating activities	108,961	625,928	808,537	233	235	238	240	242
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>								
Capital expenditures	(81,685)	(52,792)	(61,955)	(1,239)	(1,252)	(1,264)	(1,277)	(1,289)
Payments made for business acquisitions, net of cash acquired	(450,242)	(15,576)	(35,920)	-	-	-	-	-
Franchise loans funded	(35,264)	(26,917)	(18,467)	-	-	-	-	-
Payments from franchisees	39,919	41,215	30,899	-	-	-	-	-
Other, net	57,041	8,547	8,902	-	-	-	-	-
Net cash provided by (used in) investing activities	(470,231)	(45,523)	(76,541)	(1,239)	(1,252)	(1,264)	(1,277)	(1,289)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>								
Repayments of line of credit borrowings	(1,335,000)	(3,275,000)	(705,000)	-	-	-	-	-
Proceeds from line of credit borrowings	3,335,000	1,275,000	705,000	-	-	-	-	-
Repayments of long-term debt	0	(650,000)	(500,000)	(1,407,390)	(79,486)	-	-	-
Proceeds from issuance of long-term debt	0	647,965	0	-	-	-	-	-
Dividends paid	(204,870)	(195,068)	(186,476)	-	-	-	-	-
Repurchase of common stock, including shares surrendered	(256,214)	(191,294)	(563,174)	-	-	-	-	-
Proceeds from exercise of stock options	2,075	2,140	6,334	-	-	-	-	-
Other, net	(9,143)	(22,566)	(14,030)	-	-	-	-	-
Net cash provided by (used in) financing activities	1,531,848	(2,408,823)	(1,257,346)	(1,407,390)	(79,486)	-	-	-
Effects of exchange rate changes on cash	(5,285)	18,318	(8,101)	-	-	-	-	-
Net increase (decrease) in cash and cash equivalents, including restricted balances	1,165,293	(1,810,100)	(533,451)	-	486,496	573,000	578,799	584,657
Cash, cash equivalents and restricted cash, beginning of the period	1,707,727	2,873,020	1,584,164	1,050,713	1,050,713	1,537,209	2,110,209	2,689,008
Cash, cash equivalents and restricted cash, end of the period	2,873,020	1,062,920	1,050,713	1,050,713	1,537,209	2,110,209	2,689,008	3,273,665
<b>Cash Per BS</b>				1,050,713	1,537,209	2,110,209	2,689,008	3,273,665
<b>Difference</b>				-	-	-	-	-

Long Term Growth Rate	
EBIT	690,526
Tax	103,121
NOPAT	587,406
Net Reinvestment Rate	
Capital Expenditures (CAPEX)	1,289
Total NWC	2,353
Net Reinvestment	3,643
NOPAT	587,406
Net Reinvestment Rate	0.62%
Return on Invested Capital (ROIC)	
NOPAT	587,406
Invested Capital	
BV of Equity	3,689,125
Short term debt	206,898
Long Term Debt	-
Invested Capital	3,896,023
ROIC	15.08%
Long Term Growth Rate	0.09%

Smooth TV Calculations	2023	2024	2025	2026	2027
EBIT	663,582	670,218	676,920	683,689	690,526
Tax	94,686	99,864	101,089	102,100	103,121
NOPAT	568,896	570,354	575,831	581,590	587,406
Add PPE Change	(1,239)	(1,252)	(1,264)	(1,277)	(1,289)
Working Capital					
A/R	(584)	(590)	(596)	(602)	(608)
Inventories	-	-	-	-	-
Other	(725)	(732)	(739)	(747)	(754)
A/P	1,609	1,625	1,642	1,658	1,675
Other	1,961	1,981	2,000	2,020	2,041
Total NWC	2,261	2,284	2,307	2,330	2,353
Free Cash Flows	569,918	571,386	576,874	582,643	588,469
WACC	6.36%				
NPV of First 5 Yrs	52,407,743				
Smooth Terminal Year					589,759

Terminal Value	
Numerator	590,310.03
Denominator	6.27%
Terminal Value	9,413,643
PV of TV	6,914,783
Enterprise Value	9,322,526
Less Net Debt	1,486,876
Equity Value	7,835,650
Shares Outstanding	161,852.79
Implied Share Price	\$ 48.41
Share Price 6/30/22	39.43
Undervalued	23%

Long Term Growth	WACC					
	\$ 48.41	4%	5%	6%	7%	8%
	-1%	66.00	53.37	41.70	37.59	32.33
	0%	83.36	64.46	48.43	43.07	36.43
	0.5%	92.69	70.02	51.60	45.60	38.28
	1%	107.53	78.35	56.14	49.17	40.83
	2%	159.44	103.33	68.32	58.43	47.21

HRB Returns vs. GSPC Returns							
Date	Adj	Close	Returns	Date	Adj	Close	Returns
2/1/2023	39.33	0.90%		2/1/2023	4,138.48	1.47%	
1/1/2023	38.98	7.50%		1/1/2023	4,076.00	6.18%	
12/1/2022	36.26	-16.47%		12/1/2022	3,839.80	-5.90%	
11/1/2022	43.41	6.22%		10/31/2022	4,080.11	5.38%	
10/1/2022	40.87	-2.63%		9/30/2022	3,871.98	7.99%	
9/1/2022	41.97	-5.47%		8/31/2022	3,685.82	-9.34%	
8/1/2022	44.40	12.61%		7/31/2022	3,955.00	-4.24%	
7/1/2022	39.43	14.00%		6/30/2022	4,130.29	9.11%	
6/1/2022	34.59	0.23%		5/31/2022	3,785.38	-8.39%	
5/1/2022	34.51	35.17%		4/30/2022	4,132.15	0.01%	
4/1/2022	25.53	1.18%		3/31/2022	4,131.93	-8.80%	
3/1/2022	25.23	4.96%		3/1/2022	4,630.41	3.58%	
2/1/2022	24.04	8.53%		2/1/2022	4,373.94	-3.14%	
1/1/2022	22.15	-1.85%		1/1/2022	4,615.65	-5.26%	
12/1/2021	22.57	-0.51%		12/1/2021	4,786.18	4.36%	
11/1/2021	22.68	2.64%		10/31/2021	4,687.00	-0.83%	
10/1/2021	22.10	-6.76%		9/30/2021	4,805.38	6.91%	
9/1/2021	23.70	-2.53%		8/31/2021	4,307.54	-4.76%	
8/1/2021	24.32	4.48%		7/31/2021	4,622.88	2.90%	
7/1/2021	23.27	5.73%		6/30/2021	4,395.28	2.27%	
6/1/2021	22.01	-5.40%		5/31/2021	4,297.50	2.22%	
5/1/2021	23.27	11.50%		4/30/2021	4,204.11	0.55%	
4/1/2021	20.87	3.38%		3/31/2021	4,181.17	5.24%	
3/1/2021	20.19	13.36%		3/1/2021	3,972.89	4.24%	
2/1/2021	17.81	11.61%		2/1/2021	3,811.15	2.61%	
1/1/2021	15.96	10.22%		1/1/2021	3,714.24	-1.11%	
12/1/2020	14.48	-15.64%		12/1/2020	3,766.07	3.71%	
11/1/2020	17.16	8.92%		10/31/2020	3,621.63	10.75%	
10/1/2020	15.75	7.78%		9/30/2020	3,289.96	-2.77%	
9/1/2020	14.62	12.34%		8/31/2020	3,383.00	-3.92%	
8/1/2020	13.01	0.00%		7/31/2020	3,500.31	7.01%	
7/1/2020	13.01	3.35%		6/30/2020	3,271.12	5.51%	
6/1/2020	12.59	-16.00%		5/31/2020	3,100.29	1.84%	
5/1/2020	14.99	2.10%		4/30/2020	3,044.31	4.53%	
4/1/2020	14.68	20.04%		3/31/2020	2,912.43	12.68%	
3/1/2020	12.23	-31.88%		3/1/2020	2,584.59	-12.51%	
2/1/2020	17.95	-10.91%		2/1/2020	2,954.22	-8.41%	
1/1/2020	20.15	-0.08%		1/1/2020	3,226.52	-0.16%	
12/1/2019	20.16	-3.69%		12/1/2019	3,230.78	2.86%	
11/1/2019	20.94	-2.44%		10/31/2019	3,140.98	3.40%	
10/1/2019	21.46	6.93%		9/30/2019	3,037.56	2.04%	
9/1/2019	20.07	-2.48%		8/31/2019	2,976.74	1.72%	
8/1/2019	20.58	-12.53%		7/31/2019	2,926.46	-1.81%	
7/1/2019	23.53	-4.63%		6/30/2019	2,980.38	1.31%	
6/1/2019	24.67	11.62%		5/31/2019	2,941.76	6.89%	
5/1/2019	22.10	-3.53%		4/30/2019	2,762.06	-6.58%	
4/1/2019	22.91	14.84%		3/31/2019	2,945.83	3.93%	
3/1/2019	19.95	-0.87%		3/1/2019	2,834.40	1.79%	
2/1/2019	20.12	2.37%		2/1/2019	2,784.49	2.97%	
1/1/2019	19.66	-7.02%		1/1/2019	2,704.10	7.87%	
12/1/2018	21.14	-5.23%		12/1/2018	2,608.85	-9.18%	
11/1/2018	22.31	1.77%		10/31/2018	2,760.17	1.79%	
10/1/2018	21.92	4.08%		9/30/2018	2,711.74	-6.94%	
9/1/2018	21.06	-4.84%		8/31/2018	2,913.98	0.43%	
8/1/2018	22.13	7.55%		7/31/2018	2,901.52	3.03%	
7/1/2018	20.58	11.61%		6/30/2018	2,816.29	3.60%	
6/1/2018	18.44	-17.01%		5/31/2018	2,718.37	0.48%	
5/1/2018	22.22	-0.72%		4/30/2018	2,705.27	2.16%	
4/1/2018	22.38	9.77%		3/31/2018	2,648.05	0.27%	
3/1/2018	20.39	0.00%		3/1/2018	2,640.87	0.00%	

WACC Calculation				
Covariance	0.001945057			
Variance	0.002860653			
Beta	0.679934781			
Market Risk Premium	5%	Geometric Mean		
Risk Free Rate	3.70%	30yr rate as of 2/8/23		
Cost of Equity	7.10%			
Interest Rate	3.77%			
Tax Rate	14.93%			
After Tax cost of debt	3.21%			
Weight Rate WACC				
Debt	1,486,876	18.90%	3.21%	0.61%
Equity	6,381,855.58	81.10%	7.10%	5.76%
Total	7,868,731.58			6.36%

Ratio Analysis					
Ticker:	HRB			INTU	
YEAR:	2021	2022		2021	2022
<b>Liquidity</b>					
Current Ratio	1.46	1.39		1.94	1.39
Quick Ratio	0.00	0.00			
<b>Activity</b>					
P/E Ratio	0.00	12.15		54.00	69.71
EPS					
Total Asset Turnover	0.93			0.62	0.46
Total Receivables Turnover	38.39	59.25		18.74	23.61
Days Sales Outstanding	9.51	6.16		19.48	15.46
Inventory Turnover	0.00	0.00		0.00	0.00
Days In Inventory	0.00	0.00		0.00	0.00
Days Payable Outstanding	32.55	31.22			
Cash Conversion Cycle	42.06	37.38			
<b>Leverage Ratios</b>					
Debt Ratio	0.81	0.88		0.17	0.28
Debt to Equity Ratio	4.23	7.03		0.21	0.42
Gross Profit Margin	46.04	45.68		82.53	81.09
Net Profit Margin	-0.74	0.16		21.41	16.23