

H&R Block (HRB: NYSE)

Sector: Consumer Services



Target Price	Current Price	52w High	52w Low	P/E	Market Cap	Dividend Yield	Beta
\$25.00	\$22.00	\$29.62	\$21.98	11.02	\$4.36B	4.48%	.24

Business Description:

H&R Block, Inc. (HRB) provides assisted income tax return preparation, do-it-yourself (DIY) tax, and virtual tax preparation services and products to the general public primarily in the United States, Canada, and Australia. The company offers assisted income tax return preparation and related services through a system of over 9,000 retail offices operated directly by the company or by franchisees. In 2019 the firm completed over 23.6m tax returns globally. H&R Block is also expanding into the small-medium sized (SMB) space via its acquisition of Wave Financials along with recent partnerships with Walmart and Shopify.

Industry Trends:

The specialized consumer services market is generally a very “sticky” market with high percentages of stable recurring revenue. This is particularly true in the tax preparation service market as it is a government mandated process with high penalties for non-compliance and errors. As a result, most consumers will opt for professional assistance and generally stick to one tax preparation firm. While the addressable market is particularly large, it is constrained by several outside factors. Mainly, professional tax preparation services for everyday consumers is relatively novel and largely unique within the United States. The majority of developed countries provide these services at no visible cost to citizens.

Investment Thesis:

We believe that H&R Block is a strong buy because of its defensiveness through business cycles, provides a government mandated service, and its recent moves to capture larger shares of both new and existing businesses. HRB has historically maintained strong and consistent financials. Coupled with recent catalyst that have yet to fully unfold our analyst suggest that the current stock price does not reflect true value. The acquisition of Wave Financial is a bolt onto HRB’s current service profile and is an attractive new market for them. They have achieved early success and adding 900,00 new SMB customers. The SMB market is still underpenetrated by large players and HRB has a long runway for growth.

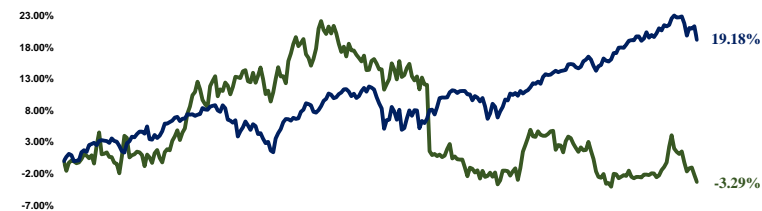
Valuation Assumptions:

WACC: 9.0%

Perpetuity Growth Rate: 2.0%

Margin of Safety: 7.0%

1-Year Share Performance vs. S&P 500:



Competitive Advantage and Analysis:

H&R Block’s maintains a strong foot hold in the tax preparation business through its long history with consumers and dedication to service. Once a tax preparation service has your financial information it becomes easier for the consumer to file again with the same platform. It is this way that switching costs for consumers can be thought of as relatively high. Additionally, HRB is able to leverage its brand name as a trusted low-cost adviser to win strategic partnerships as demonstrated earlier this year with Shopify and Walmart. On a market share basis, HRB sits behind Intuit largely due to their lack of speed entering the digital space. As HRB continues to invest more into its digital presence we believed that market value of the firm will appreciate to financial realities.

Risks:

A significant risk facing all industry players is the seasonality of revenue streams. The majority of all money made is during Q4-Q1 of the fiscal year as consumers file taxes. This is mitigated in part by HRB entering the SMB business that requires year-round service. Additionally, HRB has been slower to adopt a digital tax preparation model which makes it vulnerable to competitors such as Intuit. Despite heavily investing into digital they still lag behind the reach of an Intuit at the time of this report. Finally, changes to tax laws may have a negative impact on HRBs operating model.

Corporate Social Responsibility Highlights:

- Processes state and local taxes for military families free of charge
- Provides online and in person financial literacy programs year-round to teenagers
- Offers free tax preparation services to underserved communities

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Sources: NetAdantage