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H&R Block, Inc. – low-risk idea with strong cash generation (LTM FCF Yield 16%, dividend yield >4%), financials growth and positive guidance, and upside to reach historical highs.

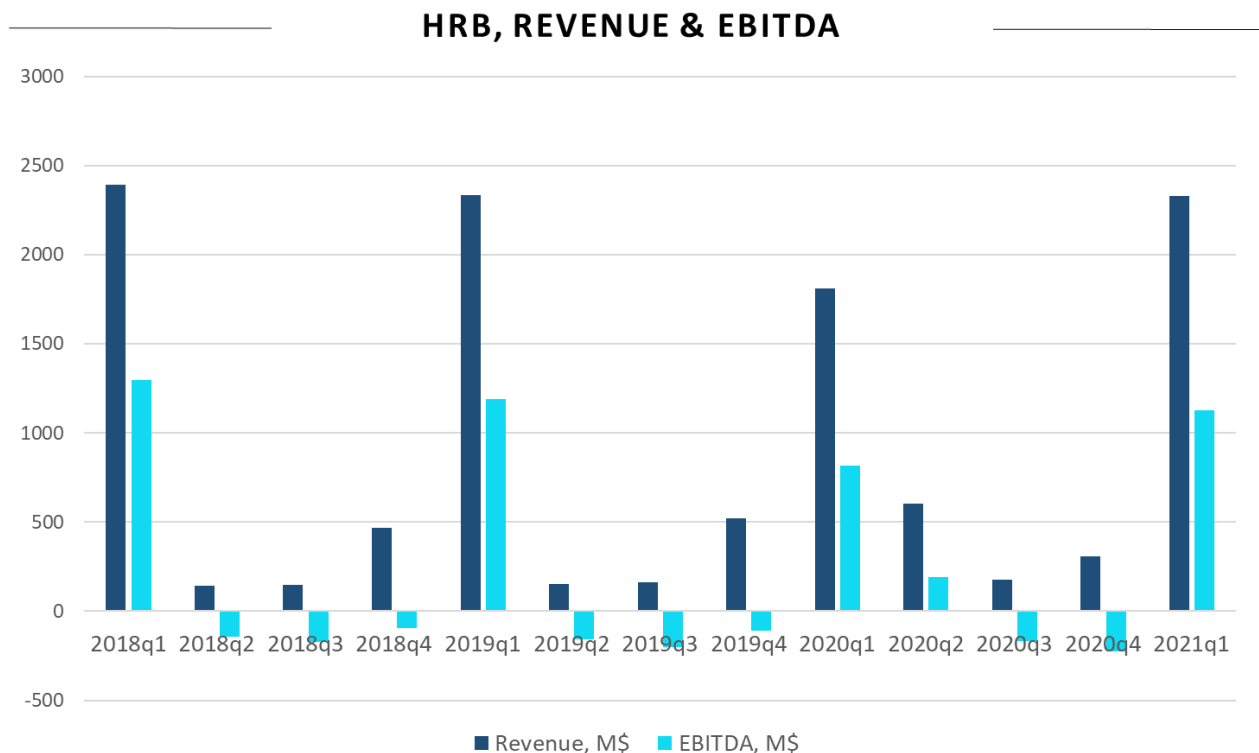
The company provides tax filing and deduction services, as well as DIY tax preparation services and products in the United States, Canada and Australia.

The company has three main lines **имеет три основных направления** – business development imperatives:

1. **Small business services** (more than 2,4 mln of active clients). Block Advisors – tax consultants service and Wave – CRM system + online banking with top banks deep integration.
Financial services, - Emerald Card, mobile solutions for underbanked companies.
2. **Block Experience** – high-tech mobile platform for tax filing and tax deductions.

H&R Block shows great revenue and EBITDA growth rates

Company reported revenue growth as **28.7% in latest quarter**, which is an acceleration to historical average growth rate as 16.8%.

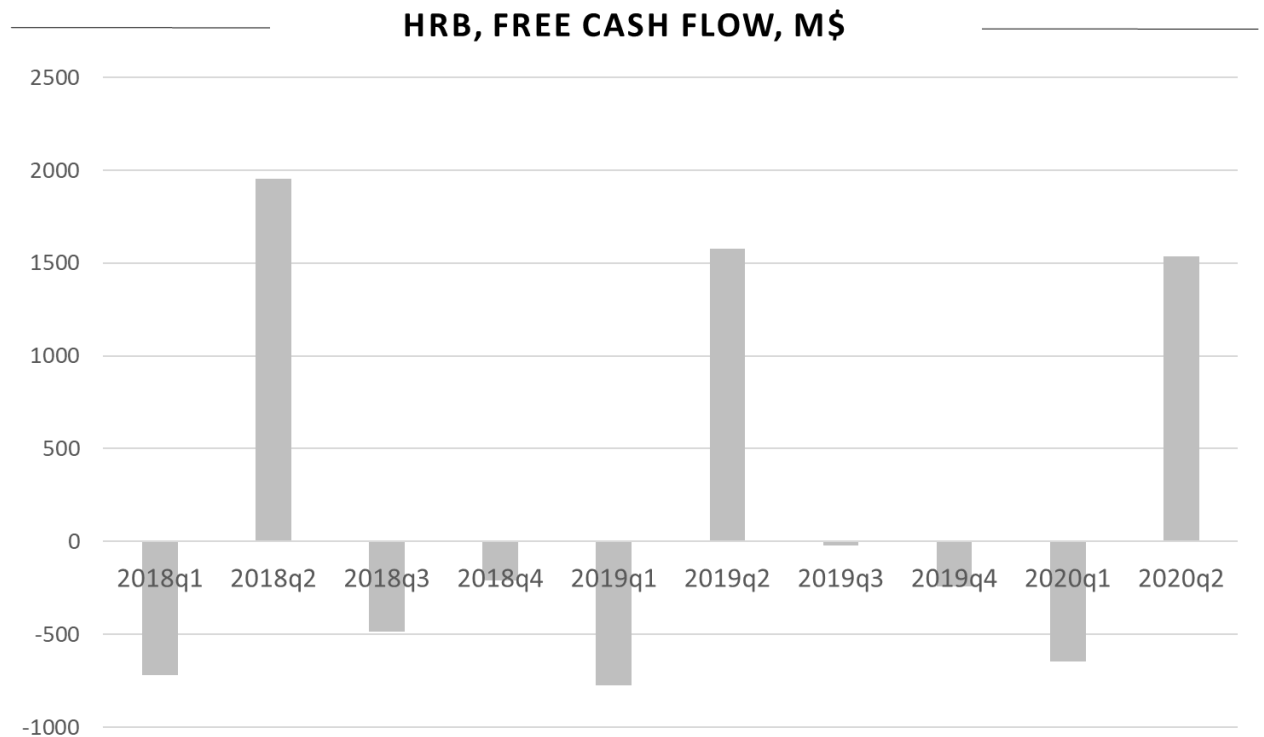


As one can observe, the company has strong revenues historically and extremely high revenues and EBITDA in every first quarter of the year. This fact can be explained by the payment method with most counterparties - most clients pay for services at the end of the year.

During the COVID-19 pandemic, the company has focused on improving mobile services and DIY solutions. Digital customer interaction increased by more than **50%**. The total number of **small businesses** using tax outsourcing is increasing by an average of **7% annually**.

H&R Block has no problems with cash flow generation

The company generates a moderately impressive free cash flow with a current **FCF yield of 16.5%**, which, in addition to dividends, is used for share buybacks (a buyback of **\$188 million** is planned for the current period).



The company pays **dividends** of more than **4%** and increases them annually. At the level of cash flow, HRB earns ~\$600 million with a capitalization of \$4.4 billion.

HRB's management provides good guidance

Revenue is expected as **\$3,25-\$3,35 bln**, **EBITDA** — at the level of **\$765-\$815 mln**. EBITDA grows faster than revenue, as economical efficiency of business model compensates operation expenses.

Long-term, the company expects 3-6% revenue growth and outstripping EBITDA growth.

Historically, the company has been rather ahead of its guidance.

Estimates (EPS — Earnings Per Share, USD)

Q	High	Low	EPS Estimate	EPS Actual	Surprise
2020 q2			2.61	3.01	+15.3%
2020 q3			0.50	0.55	+10.0%
2020 q4			-0.94	-1.09	
2021 q1			-1.29	-1.17	
2021 q2	5.26	4.97	5.13	5.16	+0.6%
2021 q3	-0.93	-0.93	-0.93		
2021 q4	-0.85	-0.85	-0.85		

The company has an undervaluation by multiples

The company costs only 5,8x EV/EBITDA (which is cheap) with historical average rate as 7,9x. H&R Block also has very low Beta for S&P500 (0,39) index and 10-years treasuries (0,23), which could be good news for investor that wouldn't like to risk.

HRB price and enter point



The share price is 19.7% below the maximum for the last 3 years, which gives us opportunities for growth.

Summarizing:

- the company has a high-quality economy and a recognizable business;
- offers a modern and affordable way of doing finance and tax reporting for a large number of small businesses;
- grows well and increases its FCF yield;
- pays high dividends (over 4%);
- undervalued in terms of EV/EBITDA;
- has a low Beta to the S&P500 and Treasuries - low-risk investments;
- there is a point to enter.

We do believe H&R Block, Inc. is worth for investing.

Kind regards,

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