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**FY13 Earnings Conference Call**  
**June 12, 2013**

## Forward-Looking Statements

This presentation and various comments made in connection with it will 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,” “seeks,” “estimates,” “projects,” “forecasts,” “targets,” “would,” “will,” “should,” “could” or “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, income, earnings per share, capital expenditures, dividends, liquidity, capital structure 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. 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 and which are described in our Annual Report on Form 10-K for the fiscal year ended April 30, 2012 in the section entitled “Risk Factors,” as well as additional factors we may describe from time to time in other filings with the Securities and Exchange Commission. 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.



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**Bill Cobb**  
**President and Chief Executive Officer**

1. The challenges faced by the U.S. tax industry this year were unprecedented, resulting from late tax legislation, filing delays, and an overall decrease in returns filed with the IRS
  - Adapted to unique environment and executed on our plans, serving over 25 mm clients worldwide
  - Our unmatched presence and expertise give us a competitive advantage in 2014 and beyond
2. While we executed well on many of our initiatives, there is room for improvement
  - Difficult decisions were made this year with a focus on growing profitably
  - Achieved better financial results in fiscal 2013, achieving our margin expansion goals
  - Grew clients and gained share from Intuit for the 3<sup>rd</sup> consecutive year in the digital online category
3. We remain confident in our long-term strategy to be a global, year-round, tax plus company
  - Optimistic about our ability to expand our business profitably and serve clients better
  - The value of assistance is getting stronger, with changes in legislation and economic conditions adding to complexity of Americans' tax returns
  - Percentage of filers who choose to seek assistance has remained at close to 60% for 12 years; growth in digital do-it-yourself category continues to moderate



- Significant legislative changes in early January prompted the IRS to delay the opening of e-file to January 30th. Additionally, certain forms issued by federal, state, and various other taxing jurisdictions remained unable to be filed as late as early March.
  - Delays presented challenges to our industry to update systems and plan for operational needs throughout the season
  - Caused confusion and frustrated many taxpayers, significantly impacting the timing of filings during the season
  
- HRB expected that delays would impact the timing of filings, but that ultimately the season would normalize to historical growth rates of 1-2 percent by the end of April
  - Non-farm employment, historically the best leading indicator for tax filing growth, was up 1.7 percent in calendar year 2012
  - HRB had little reason to believe that growth levels this year would be different than average historical levels
  
- At season's end, IRS returns were unexpectedly down approximately 1 percent

## **What drove the decline? Does this mean we've set a new expectation for growth?**

- We're still analyzing IRS and other industry data; it's going to take a few months to fully understand

### 3 Possible Factors:

1. The delays may have caused confusion or a delayed sense of urgency for taxpayers; greater returns in the offseason are possible
  2. Taxpayers on average received lower refunds, and higher balances due; may have created less incentive for some filers to file by mid-April
  3. IRS has been more rigorous in addressing inaccurate or fraudulent tax filings (e.g., EITC)
- Considering long-term trends in IRS filings, there isn't enough evidence to suggest this was anything more than just an abnormal season
    - The IRS's annual growth in tax filings of 1-2 percent is supported by 50 years of data

- Estimates on market share largely unchanged from volume results announced in April
  - Estimate total IRS returns were down about 1 percent; HRB maintained share of the U.S. market
  
- Key decisions were made in FY13 to improve overall profitability:
  1. Assisted: Shortened time period for Free Federal 1040EZ promotion, along with various systematic changes to optimize rebate and referral programs
  2. Digital: Exited certain unprofitable retailers; impacted desktop return volume by approximately 3 pts
  3. Financial Services: Discontinued Free Refund Anticipation Check (RAC) promotion
  4. Canada & Australia: Enhanced promotional offerings to focus on high-value clients
  
- While past focus on client volume and related market share gains was appropriate, our current focus is on improving mix and profits over time
  - Initiatives to gain share will be balanced with the associated costs

## Assisted

- Total assisted returns fell 2.7% to 14.5 mm
  - Believe overall assisted category was down approximately 1% industry wide; HRB lost 30 bps of share
  - Will continue focus on driving better mix of high-value clients
  - Focus on better integration with our adjacent financial products to deliver more value for clients
  
- HRB exceeded aggressive client satisfaction targets
  - Retained clients at a significantly higher rate than nationally branded assisted competitors
  
- Assisted volume was not significantly impacted by decision to exit Sears
  - Previous Sears clients were retained in line with our expectations
  
- Discontinued relationship with Wal-Mart in the U.S.
  - Economic and operational decision; results did not meet our expectations
  - Believe we can serve clients better in other 10,000 convenient neighborhood locations
  - Do not expect decision to significantly impact results going forward

## Digital

- H&R Block At Home returns increased 3.1% to 7.7 mm
  - Online returns grew 10.7%, leading to 50 bps gain in share
  - Marketing strategy was well designed and executed; investments were better timed and more efficient than our competitors
  - Growth in online was offset slightly by the decline in desktop and Free File Alliance (FFA) returns
  - Mix of digital clients continues to improve, positioning us well as we continue to gain momentum

## Financial Services

- Discontinuation of Free RAC promotion increased RAC fees, offset by lower RAC volume
  - Also resulted in fewer Emerald Cards, with 2.5 million cards and \$8.7 billion in total deposits
  - FY13 Emerald Cards issued were 9% higher than FY11, the last comparable year in which Free RAC was not offered
  - Strong initial progress in usage, though it will take time to assess our true performance

## International

- Continue to see solid growth; revenues grew 7 percent to \$249 mm
  - Strong management teams have executed well to drive consistent growth over the past few years
  - HRB remains under-penetrated in international markets compared to the U.S.; opportunity to broaden global presence



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**Bill Cobb**  
**President and Chief Executive Officer**



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**Greg Macfarlane**  
**Chief Financial Officer**

- Pretax earnings increased \$126 mm to \$702 mm
  - Exceeded targeted cost reduction initiatives, contributing to \$118 mm decline in total expenses
  - Savings primarily driven by lower compensation and occupancy costs

in millions, except EPS	Actual		Adjusted*	
	Fiscal Year 2013	Fiscal Year 2012	Fiscal Year 2013	Fiscal Year 2012
<b>Revenue</b>	\$2,906	\$2,894	\$2,906	\$2,894
<b>EBITDA*</b>	\$874	\$757	\$883	\$808
<b>Pretax Income</b>	\$702	\$576	\$710	\$626
<b>Net Income</b>	\$465	\$346	\$437	\$380
<b>Weighted Avg. Shares - Diluted</b>	274.4	298.6	274.4	298.6
<b>EPS</b>	\$1.69	\$1.16	\$1.59	\$1.27

\*Adjusted amounts and EBITDA (earnings before interest, taxes, depreciation and amortization) are non-GAAP financial measures. See "About Non-GAAP Financial Measures" later in this presentation for more information regarding financial measures not prepared in accordance with generally accepted accounting principles (GAAP).

- Net income from continuing operations increased \$119 mm to \$465 mm
- With share repurchases, EPS from continuing operations increased 46% to \$1.69
- Adjusted non-GAAP EPS from continuing operations increased 25% to \$1.59
  - Non-GAAP results exclude after-tax adjustments of \$28 mm, or \$0.10 cents per share, primarily related to tax benefit received in 3Q
- EBITDA of \$874 mm resulted in 30% margin on revenues; up 4 pts from prior year
- Total revenues increased modestly to more than \$2.9 B

(\$ in millions)

**Non-GAAP Pretax Results - Tax Services**
**Twelve months ended April 30,**
**2013**
**2012**
**Revenues**

\$ 2,877,967

\$ 2,862,378

**Expenses**

2,056,824

2,158,376

**Pretax income - as reported**

\$ 821,143

\$ 704,002

**Add back :**

Loss contingencies - litigation

(4,829)

23,137

Impairment of goodwill and intangible assets

3,581

11,389

Severance

4,261

31,125

Gains on sales of tax offices

(1,272)

(16,601)

1,741

49,050

**Pretax income - as adjusted**

\$ 822,884

\$ 753,052

1. Total expenses declined 5% to \$2.1 B
  - Largely driven by exceeding targeted cost reduction initiatives
2. Assisted tax prep fees and royalties were down 1% to \$2.0 B
  - 2.7% decline in Assisted volumes were offset by 1.7% increase in price
3. Core Financial Service revenues increased \$21 mm overall
  - Discontinuation of Free RAC promotion resulted in \$26 mm increase in RAC revenues to \$158 mm; offset by \$5 mm decline in Emerald Card revenues to \$99 mm
  - Interest income on Emerald Advance was essentially flat at \$60 mm

(\$ in millions)

<b>Pretax Results - Corporate</b>	<b>Twelve months ended April 30,</b>	
	<b>2013</b>	<b>2012</b>
<b>Revenues</b>	\$ 27,976	\$ 31,393
<b>Expenses</b>	147,108	159,325
<b>Pretax income - as reported</b>	<u>\$ (119,132)</u>	<u>\$ (127,932)</u>

- Pretax loss improved by 7% to \$119 mm
- Corporate expenses declined \$12 mm
  - Lower interest expense from refinancing of MTN
  - Decline in provisions on mortgage loans held for investment



- Balance sheet and liquidity remain strong
  - \$1.7 B unrestricted cash; \$907 mm total debt as of April 30, 2013
  
- Approximately 273 mm shares are outstanding at April 30, compared to 292 mm last year
  - During FY13, the company repurchased and retired 21.3 mm shares at an average price of \$14.82 per share, or \$315 mm; represents an 8% reduction in shares outstanding
  
- Effective tax rate improved 6 pts to approximately 34%, primarily related to tax benefit received in settling outstanding issues with IRS on 1999 – 2007 corporate tax returns
  
- Capital Expenditures
  - Fiscal year 2013 depreciation & amortization: \$92 mm
  - Fiscal year 2013 capital expenditures: \$113 mm
  - Expect capital expenditures of approximately 4% of revenue in fiscal year 2014; 3% thereafter

# Discontinued Operations/Sand Canyon Corporation

- Net loss from discontinued operations of \$31 mm, compared to \$80 mm in prior year
  - Variance primarily driven by loss on sale of RSM McGladrey in FY12
  
- Sand Canyon received \$23 mm of new claims for alleged breaches of representations and warranties (R&W) in Q4
  - Future claim activity could vary considerably from quarter to quarter
  - \$190 mm of R&W claims, \$41 mm of claims remain subject to review as of April 30
  - Total losses, including settlement payments, amounted to \$11 million in fiscal 2013
  
- Sand Canyon believes decline in claim activity is attributable in part to the existence of tolling agreements entered into with certain counterparties from which Sand Canyon has received a significant majority of its asserted claims
  - The purpose of these tolling agreements was to engage in settlement discussions related to previously denied and potential future claims
  - Although Sand Canyon has not experienced anything that would indicate a significant increase in future claims, future claim activity may increase if current efforts to settle with these counterparties are not successful

# Sand Canyon Corporation

- Based on initial settlement discussions with these counterparties during the fourth quarter, and other considerations, Sand Canyon recorded a provision of \$40 mm for potential losses related to representation and warranty (R&W) obligations
  - Accrual for R&W obligations of \$159 mm at April 30, 2013
  - Provision is the result of the events that occurred in the fourth quarter, and is not a reflection of an expected increase in future claim activity

## **Key Points:**

1. The R&W landscape continues to evolve, and Sand Canyon believes that the movement away from loan-level claim activity to a bulk settlement approach is a positive development
2. Sand Canyon remains confident that it has strong defenses related to R&W claims
3. Sand Canyon believes, based on its assessment of probable losses, that its accrual for R&W obligations is adequate
4. Sand Canyon is, and has always been, operated as a separate legal entity from H&R Block. We believe our legal position is strong on any potential corporate veil piercing arguments

# Sand Canyon Corporation

- Overall, Sand Canyon believes this is a step forward, as it works to wind down its obligations related to R&Ws
  - Sand Canyon is now in settlement discussions with the counterparties that represent the significant majority of its historical claim volume
  - Sand Canyon cannot be certain that settlements will be successfully negotiated
  - Sand Canyon's accrual reflects the losses it believes are probable related to its representation and warranty obligations
  - There is still work ahead, but Sand Canyon continues to make important strides in its efforts to bring this loss contingency closer to its conclusion

# Bank Update

- Our two objectives for selling H&R Block Bank have been, and continue to be, to stop being regulated as a savings and loan holding company and to find a partner, or partners, to continue growing our financial services business
  1. The “right” partnership
    - Continue to receive strong interest and are confident we will come to the right long-term solution
    - Nature of the bank and its role in our highly seasonal business makes this a unique and complicated transaction with a variety of considerations
    - Taking the appropriate amount of time to ensure we get the right deal done
  2. Stop being regulated as a Savings and Loan Holding Company
    - Exploring all options as it relates to ultimately selling or surrendering the charter
    - Unlikely that we will generate a meaningful premium related to a sale
  3. Legacy Mortgage Portfolio - \$339 mm Net Book Value
    - Portfolio is seasoned and stable, has moderate delinquencies and losses, and continues to wind down
    - Will retain the portfolio at the time we exit the bank charter
    - We will continue to evaluate the portfolio as it winds down, and based on market conditions, may decide to sell all or some of the portfolio in the future

# 2014 and Beyond – Affordable Care Act (ACA)

- ACA mandates that all Americans obtain healthcare insurance in 2014, or pay a penalty through their 2014 tax return
  - For those electing to receive subsidized coverage, one of the easiest ways for them to verify their income during the enrollment process is by using their 2012 tax return
  - Those who receive subsidies will have a mandatory filing requirement in 2015, to report income earned during the calendar year 2014
- Our research suggests that Americans need help understanding how healthcare reform will impact their lives, personal finances and tax returns
  - Many are simply unaware of the resulting complexity that lies ahead
- Our job is to understand the law as it is written and help our clients comply with these new requirements as it relates to their tax return
  - We have not taken, nor will we take, any position on the law; we just want to help those who are impacted by it

# 2014 and Beyond – ACA: The Opportunity

- Our clients are among those most heavily affected by the new law; low-to-middle income Americans for whom the tax return represents one of the most significant financial events each year
  - We estimate that a greater proportion of our clients will be eligible for subsidies under the ACA compared to the overall U.S. population
- While this may not be indicative of the choices they will make, it does indicate that many will face decisions regarding their healthcare coverage
- With the newly created intersection between healthcare and taxes, we have a unique opportunity to offer them unmatched service in meeting their needs in these two areas

# 2014 and Beyond – ACA: Healthcare

- We've begun to invest in resources and technology that we expect will enable us to roll out initiatives this year that will benefit our clients
  1. Planning to launch do-it-yourself tool on hrblock.com
    - Help clients across the country enroll into federal and state exchanges
    - Expect to partner with 3<sup>rd</sup> party to provide simple and easy-to-use platform
  2. Continue to offer complementary tax and healthcare review
    - Tax professionals will refer clients to digital tools and resources
  3. Looking into assisted pilot
    - In one state, properly licensed agents on staff in retail locations to offer our clients healthcare advice and process their enrollments

# 2014 and Beyond – ACA: Taxes

- There remain several elements of the law's implementation that are unknown at this point which may have an impact on taxpayers' filing decisions
  1. We haven't seen a form that helps us understand exactly how tax filings will be impacted by the new healthcare law
  2. Lack of clarity on how several aspects of the law will be implemented
    - Cost of healthcare premiums on the exchanges and related subsidies remain unclear
  3. Uncertain if the law will drive a significant amount of new filers into the market
    - No concrete way at this point to determine how many people will ultimately elect to receive subsidies, whether they were already filing taxes, and how the new law impacts their future tax filing decisions
    - Any increase in filings will occur over several years as Americans increasingly adopt health coverage and the associated tax penalties for non-compliance are gradually increased through 2016
    - We do not expect a material amount of new filers into the market in FY14

# 2014 and Beyond – ACA Summary

- H&R Block is well suited to assist clients in compliance with ACA
  - Our size, scale, and resources, position us well to capitalize on opportunities
  - We believe clients will seek assistance and will be more likely to trust a long-standing brand such as ours
  
- If we develop and execute the right strategy, ACA could have a positive effect on returning clients, do-it-yourself filers who switch to assisted and taxpayers who may have used other preparers in the past
  - Do not expect the ACA to result in a significant benefit for HRB in the near term
  - ACA introduced big changes to the healthcare market, and it will likely take us and other companies more than just next year to figure it out
  
- After evaluating our initiatives at the end of fiscal 2014, we'll have a better idea of our long-term strategy in this space

# Conclusion

- HRB's competitive position remains strong; we are optimistic in our ability to grow the business profitably and to continue improving shareholder returns

## 2013 Shareholder Return Highlights:

1. Increased EBITDA 15% to \$874 mm, or 30% of revenues
  2. Returned \$532 mm to shareholders from dividends and share repurchases
  3. Increased earnings per share from continuing operations 46% to \$1.69
  4. Stock outperformed S&P 500 Index by 74 pts, growing 89% for the year ended April 30
- The industry is changing, with the prospect of stricter regulation and increased complexity from possible legislative changes in the future
    - Our experience shows that new, complex tax laws consistently drive the need for assistance
    - HRB has been providing assistance to our clients in preparing their taxes for over 58 years



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**Appendix - Non-GAAP Reconciliations  
FY13 Earnings Conference Call  
June 12, 2013**

# About Non-GAAP Financial Measures

## About Non-GAAP Financial Measures

The accompanying press release contains non-GAAP financial measures. Non-GAAP financial measures should not be considered as a substitute for, or superior to, measures of financial performance prepared in accordance with 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 in other companies.

We consider non-GAAP financial measures to be a useful metric for management and investors to evaluate and compare the ongoing operating performance of our business on a consistent basis across reporting periods, as it eliminates the effect of items that are not indicative of our core operating performance.

The following are descriptions of adjustments we make for our non-GAAP financial measures:

- We exclude from our non-GAAP financial measures litigation charges we incur and favorable reserve adjustments. This does not include legal defense costs.
- We exclude from our non-GAAP financial measures non-cash charges to adjust the carrying values of goodwill, intangible assets, other long-lived assets and investments to their estimated fair values.
- We exclude from our non-GAAP financial measures severance and other restructuring charges in connection with the termination of personnel, closure of facilities and related costs.
- We exclude from our non-GAAP financial measures the gains and losses on business dispositions, including investment banking, legal and accounting fees.
- We exclude from our non-GAAP financial measures the gains and losses on extinguishment of debt.
- We exclude from our non-GAAP financial measures the effects of discrete income tax reserve and related adjustments recorded in a specific quarter.

We may consider whether other significant items that arise in the future should also be excluded from our non-GAAP financial measures.

We measure the performance of our business using a variety of metrics, including EBITDA, adjusted EBITDA, adjusted pretax and net income of continuing operations, adjusted EPS and adjusted pretax results of our Tax Services segment. We also use EBITDA and pretax income of continuing operations as factors in incentive compensation calculations for our employees. These adjusted results eliminate the impact of items that we do not consider indicative of our core operating performance and, we believe, provide meaningful information to assist in understanding our financial results, analyzing trends in our underlying business, and assessing our prospects for future performance.

# Non-GAAP Reconciliations

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### NON-GAAP FINANCIAL MEASURES

Unaudited, amounts in thousands, except per share amounts

#### EBITDA and Adjusted EBITDA <sup>(1)</sup>

	Three months ended April 30,		Twelve months ended April 30,	
	2013	2012	2013	2012
<b>Net income from continuing operations - as reported</b>	\$ 688,922	\$ 591,703	\$ 465,158	\$ 345,968
<b>Add back :</b>				
Income taxes	440,914	389,923	236,853	230,102
Interest expense	15,062	22,737	79,957	92,089
Depreciation and amortization	25,165	23,030	92,407	89,157
	<u>481,141</u>	<u>435,690</u>	<u>409,217</u>	<u>411,348</u>
<b>EBITDA from continuing operations</b>	<u>1,170,063</u>	<u>1,027,393</u>	<u>874,375</u>	<u>757,316</u>
<b>Adjustments:</b>				
Loss contingencies - litigation	364	(4,567)	(4,579)	22,961
Impairment of goodwill and intangible assets	2,160	3,152	3,581	11,389
Severance	4,310	30,554	4,785	32,474
Loss on extinguishment of debt	-	-	5,790	-
Gains on sales of tax offices	(396)	(17,742)	(1,272)	(16,601)
	<u>6,438</u>	<u>11,397</u>	<u>8,305</u>	<u>50,223</u>
<b>Adjusted EBITDA from continuing operations</b>	<u>\$ 1,176,501</u>	<u>\$ 1,038,790</u>	<u>\$ 882,680</u>	<u>\$ 807,539</u>

(1) Earnings before interest, taxes, depreciation and amortization

# Non-GAAP Reconciliations

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### NON-GAAP FINANCIAL MEASURES

Unaudited, amounts in thousands, except per share amounts

Non-GAAP Pretax Results	Three months ended April 30,		Twelve months ended April 30,	
	2013	2012	2013	2012
<b>Pretax income from continuing operations - as reported</b>	\$ 1,129,836	\$ 981,626	\$ 702,011	\$ 576,070
<b>Add back :</b>				
Loss contingencies - litigation	364	(4,567)	(4,579)	22,961
Impairment of goodwill and intangible assets	2,160	3,152	3,581	11,389
Severance	4,310	30,554	4,785	32,474
Loss on extinguishment of debt	-	-	5,790	-
Gains on sales of tax offices	(396)	(17,742)	(1,272)	(16,601)
	<u>6,438</u>	<u>11,397</u>	<u>8,305</u>	<u>50,223</u>
<b>Pretax income from continuing operations - as adjusted</b>	\$ 1,136,274	\$ 993,023	\$ 710,316	\$ 626,293

# Non-GAAP Reconciliations

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### NON-GAAP FINANCIAL MEASURES

Unaudited, amounts in thousands, except per share amounts

Non-GAAP EPS	Three months ended April 30,		Twelve months ended April 30,	
	2013	2012	2013	2012
<b>EPS from continuing operations - as reported</b>	\$ 2.51	\$ 2.01	\$ 1.69	\$ 1.16
<b>Add back :</b>				
Loss contingencies - litigation	-	(0.01)	(0.01)	0.04
Impairment of goodwill and intangible assets	-	0.01	0.01	0.02
Severance	0.01	0.06	0.01	0.07
Gains on sales of tax offices	-	(0.04)	-	(0.03)
Loss on extinguishment of debt	-	-	0.01	-
Discrete tax items	0.02	0.02	(0.12)	0.01
	<u>0.03</u>	<u>0.04</u>	<u>(0.10)</u>	<u>0.11</u>
<b>EPS from continuing operations - as adjusted</b>	<u>\$ 2.54</u>	<u>\$ 2.05</u>	<u>\$ 1.59</u>	<u>\$ 1.27</u>

### Supplemental Information

Stock-based compensation expense:

Pretax	\$ 3,879	\$ 3,166	\$ 15,293	\$ 14,213
After-tax	2,407	1,897	9,408	8,626
Amortization of intangible assets:				
Pretax	\$ 6,085	\$ 6,560	\$ 24,215	\$ 27,767
After-tax	3,775	3,935	14,896	16,852