Osarugue Sophia Ize-Iyamu · Investment Idea · 12 July 2026

H&R Block (NYSE: HRB)

BUY at $39.83. Intrinsic value $52. I add below $36. Downside case $34.

PRICE (10 JUL 26)	MARKET CAP	TRAILING P/E	FY26E P/E	FCF YIELD	SHAREHOLDER YIELD
$39.83	$5.05B	7.0x	7.7x	13.4%	9.9%

THE BUSINESS

Doing your taxes is confusing, and getting it wrong has consequences. So about eleven million Americans a year walk into an H&R Block office, hand a stranger their paperwork, pay an average of $282, and leave with someone else's name signed at the bottom. If the IRS asks questions later, H&R Block answers them. It has done this for 70 years across roughly 9,000 offices and keeps about 18 cents of every dollar as cash. The customer is buying a signature, an audit guarantee, and a person to hold responsible. She is not buying arithmetic.

THE SCREEN

I screened US names under $10B for return on invested capital above 15% sustained, capital intensity under 5% of revenue, net debt under 1.5x EBITDA, and under 30x trailing earnings. About forty companies cleared it. Almost all were fairly priced. I kept only the ones where I could name the specific belief that moved the price, and say why it is wrong.

THE MOAT

- **A human must sign.** A PTIN is issued only to an individual, and Treas. Reg. 1.6695-1(b)(1) requires an individual signing preparer. Software cannot be the paid preparer of record.
- **Brand in a once-a-year, high-consequence purchase.** You use a preparer about 50 times in a life, so there is no learning by repetition.
- **Liability transfer.** Audit protection is sold with the signature, and that requires a counterparty with a balance sheet.
- **Capital-light.** Capex is 2.2% of revenue, ROIC 36%, offices leased.

Plainly: the moat is sustainable, not widening. Burgundy asks for barriers that are stable or increasing. These are stable at best.

END MARKET AND ECONOMICS

About 163M US returns are filed a year, roughly half through a paid preparer. The category is flat. H&R Block prepared 18.86M returns in 2026, down 2.5%.

SEASON 2026	VOLUME	PRICE
Assisted, company-owned	+2.1%	+3.9%
Assisted, franchise	-7.8%	+2.9%
DIY software	-5.8%	+4.4%

One number decides the stock: the terminal decline rate. Flat volume plus 3-4% price plus a 5.5% share count reduction yields 8-10% EPS growth. FY26 proved it.

WHAT THE MARKET IS MISSING

The market applied a DIY-software thesis to a company that is not a DIY-software company. After Goldman published math showing AI can process a return for about $0.12, Intuit became the worst stock in the S&P 500 in 2026, down 46%, and H&R Block was dragged from $57.55 to $39.83. But DIY is $235.8M of H&R Block's $2,800.5M of nine-month revenue, or **8.4%**. Assisted preparation is 66%. If DIY went to zero tomorrow the company loses roughly $10 per share of value. The stock has already fallen $18.

The reverse DCF is the argument. Capitalizing $700M of normalized free cash flow at a 10% cost of equity, today's price implies free cash flow declines **3.9% every year, in perpetuity**. Not once. Forever. In the season that ended eleven weeks ago, H&R Block grew revenue 5.3%, grew adjusted EPS 11.9%, held assisted market share for the first time in years, and raised guidance twice. You do not need to believe it grows. You need to believe it does not shrink 4% a year forever. If free cash flow is merely flat, the shares are worth $55.

ORIGINAL ANALYSIS

- **The IRS just said it, in June.** Office of Professional Responsibility Bulletin 2026-19 (24 Jun 2026): technology "serves as a powerful tool, not a substitute for professional judgment... final decisions must always rest with qualified professionals."
- **An IRS-funded lab study proves the customer is buying fear relief.** Alm, Yan, Schulze, Vigil and von Bose found participants "prefer tax preparers who are credentialed, even when the cost is high or the credential has no impact on outcomes" and "fear an audit, regardless of its likelihood." People knowingly overpay for a credential that does not change the result. AI can do the arithmetic. It cannot absorb the fear.
- **Consumers are moving away from AI on taxes, not toward it.** Willingness to trust AI with a return fell from 43% to 37% between 2025 and 2026, and it fell in every generation (Censuswide, n>2,000 US filers, Feb 2026, via Journal of Accountancy).
- **The company is hiring into the disruption.** Accounting Today (2 Oct 2025): H&R Block planned to hire 60,000 to 80,000 preparers for the 2026 season, the top of that range above its baseline of about 70,100. And a full-text search of all 15,889 employee reviews on Indeed returns zero mentions of Sidekick, its new AI copilot. After a full season, 70,000 preparers wrote nothing about it.

VALUATION

Normalized free cash flow to equity of $700M, at a 10% cost of equity (beta 0.38).

TERMINAL FCF GROWTH	VALUE/SHARE
0% forever	$55.22
-2% forever	$46.02
-3.9% (what the price implies)	**$39.83**
-6% forever	$34.51

Central value $52: the average of a zero-growth perpetuity ($55), 10x normalized adjusted EPS ($52), and a two-stage DCF that grows 2% for five years then declines 4% forever ($48).

MANAGEMENT AND CAPITAL ALLOCATION

The share count has gone from over 200M in 2016 to 127.8M, down 5.5% in the last year. The dividend has been paid for **56 consecutive years**. More than $5B returned since 2016, against a $5.05B market cap today. In Q4 FY26 the board added $100M to the buyback and the CFO said it was in response to "dislocation in the stock price."

The weakness: CEO Curtis Campbell, six months in, owns 3,159 shares. Professionally managed, not owner-operated.

WHAT WOULD BREAK THIS

The bear case that deserves respect is not AI. It is Intuit, with humans. TurboTax Full Service will have a credentialed expert prepare and sign a simple return for $89 federal plus $49 state. H&R Block's realized average charge is **$282.30**. TurboTax is roughly half the price for the same signed return. Intuit's CEO said on the 20 May 2026 call that he is "disrupting the $37 billion assisted category," with TurboTax Live revenue growing 36% and nearly 600 expert offices open. **The regulation guarantees a human signs. It does not guarantee that human works for H&R Block.**

Supporting evidence for the bear: preparer median pay is $15.50/hr with 95% reporting no benefits; first-year preparers rate the company 3.2/5 with 34% recommending it, down 14 points in a year; and the advertised office count fell from 10,000 (Jan 2024) to 9,000 (its own Feb 2026 reviewer's guide), with an independent scrape counting 8,669.

What would prove me wrong: net average charge stops rising, or company-owned assisted volume turns negative. Either one breaks the only lever the company has, and I would sell.

Osarugue Sophia Ize-Iyamu · Sources: HRB Q3 FY26 10-Q and earnings call (6 May 2026); FY25 10-K; IRS OPR Bulletin 2026-19; Treas. Reg. 1.6695-1(b)(1); Intuit Q3 FY26 call (20 May 2026) and published Full Service price list; Accounting Today (2 Oct 2025); Journal of Accountancy / Censuswide (Feb 2026); Glassdoor, Indeed, ScrapeHero. Prices at the 10 July 2026 close.

RESEARCH UPDATE · SEPTEMBER 17, 2026

H&R Block

HRB:US · NYSE · Rating unchanged: Buy

MEASURE	VALUE
Rating	**Buy (unchanged)**
Intrinsic value	**US$52**
Price at publication (10 Jul 2026)	**US$39.83**
Price, 17 Sep 2026	**US$44.81**
Implied upside now	**+16.0% (was +30.6%)**
Implied P/E and FCF yield	**~7.9x and ~11.9%**
Market capitalisation	**US$5.52B**

HRB has advanced to US$44.81, roughly 12.5% above the July level, which narrows the implied upside to the US$52 intrinsic value from 30.6% to 16.0%.[1] On the same earnings basis the multiple re-rates to about 7.9 times with a free cash flow yield near 11.9%, against 7.0 times and 13.4% at publication.

The argument has not changed. The signing requirement that anchors the thesis is a legal one, and the market moving part-way toward the intrinsic value is the thesis working rather than breaking. The remaining gap is now smaller, so the margin of safety is thinner.

Sources. [1] Closing price and market capitalisation for September 17, 2026, retrieved from Yahoo Finance: HRB. Company fundamentals are from the issuer's filings as cited in the report above. The rating and target in the original report carry its publication date; this page records what has happened since.