H&R Block, Inc. (HRB) CEO Jeffrey Jones II on Fiscal Q1 2020 Results - Earnings Call Transcript

Aug. 28, 2019 10:26 PM ET
by: SA Transcripts

FQ1: 08-28-19 Earnings Summary

Press Release *10-Q* *Slides*

EPS of $-0.72 beats by $0.03 | Revenue of $150.36M (3.57% Y/Y) misses by $-0.99M

Earning Call Audio

Subscribers Only

00:00 -40:15

H&R Block, Inc. (NYSE:HRB) Q1 2020 Results Earnings Conference Call August 28, 2019 4:30 PM ET

Company Participants

Colby Brown - Vice President, Investor Relations

Jeffrey Jones II - President and Chief Executive Officer

Tony Bowen - Chief Financial Officer

Conference Call Participants

Scott Schneeberger - Oppenheimer

Jeff Goldstein - Morgan Stanley

Kartik Mehta - Northcoast Research

Chris Howe - Barrington Research

Michael Millman - Millman Research

George Tong - Goldman Sachs

Jeff Silber - BMO Capital Markets

Operator

Good day, ladies and gentlemen, and thank you for your patience. You've joined H&R Block's First Quarter Fiscal 2020 Earnings Conference Call. At this time, all participants are in a listen-only mode. Later, we will conduct a question-and-answer session and instructions will be given at that time. [Operator Instructions]. as a reminder, this conference may be recorded.

I would now like to turn the call over to your host, VP of Finance and Investor Relations, Colby Brown. You may begin.

Colby Brown

Thank you, Ladip. Good afternoon, everyone. And thank you for joining us to discuss our fiscal 2020 first quarter results. On the call today are Jeff Jones, our President and CEO, and Tony Bowen, our CFO.

We've posted today's press release on the Investor Relations website at hrblock.com. Also on the website, you will find a link for the webcast containing today's presentation, which will be posted after this call.

Some of the figures that we'll discuss today are presented on a non-GAAP basis. We've reconciled the comparable GAAP and non-GAAP figures in the schedules attached to our press release.

Before we begin our prepared remarks, I'll remind everyone that this call will include forward-looking statements as defined under the securities laws. Such statements are based on current information and management's expectations as of this date and are not guarantees of future performance.

Forward-looking statements involve certain risks, uncertainties and assumptions that are difficult to predict. As such, our actual outcomes and results could differ materially. You can learn more about these risks in our Form 10-K for fiscal 2019 and our other SEC filings. H&R Block undertakes no obligation to publicly update these risk factors or forward-looking statements.

At the conclusion of our prepared remarks, we will have a Q&A session. During Q&A, we ask that participants limit themselves to one question with a follow-up after which they may choose to jump back into the queue.

With that, I'll now turn the call over to Jeff.

Jeffrey Jones II

Thank you, Colby. Good afternoon, everyone, and thanks for joining us. As you may remember from our last call, we made tremendous progress in our tax business last year. We achieved the high end of our financial outlook and strengthened our growth trajectory through the acquisition of Wave.

Today, I'd like to provide initial thoughts on our plans for fiscal 2020, the second year of our strategic journey. Tony will then discuss how we're reporting Wave's financial results, our first fiscal quarter and our full-year outlook.

Starting with Wave. We announced the acquisition on June 11th and the transaction closed a few weeks later. We're delighted to have the Wave team officially onboard. As the two teams have come together post-acquisition, we are more excited than ever about how the combined entity can deliver value for small business owners.

We've been working with the team to establish the appropriate operational cadence to enable their sustained growth. We're also prioritizing the numerous growth and monetization opportunities that lie ahead for the business as Wave continues to innovate.

An example of this is the recent launch of instant payouts. Managing cash flow is one of the most critical issues entrepreneurs face, resulting in significant day-to-day stress and causing small businesses to fail.

When entrepreneurs accept payments through credit cards or ACH from a third party, it typically takes up to two business days to process, leaving them waiting longer for their cash.

With Wave's instant payouts, they can get their cash in seconds, significantly reducing the time it takes to receive funds and, ultimately, making it easier to manage cash flow. This is one simple example of how Wave is constantly innovating on ways to serve the needs of entrepreneurs.

Wave continued its historic trends by posting 50% revenue growth this quarter when compared to the same quarter in the prior year. Through product innovation and organic growth, Wave has generated consecutive year-over-year quarterly revenue growth of greater than 40% over the last several years.

It's clear from these results that Wave is solving challenges for entrepreneurs and delivering value. By improving its world class offering and developing new solutions that simplify the financial lives of entrepreneurs, Wave will drive monetization and increase its user base. And the Wave team is excited about the additional capabilities that H&R Block brings that can accelerate them on this path.

This acquisition is a key element of our strategy as we invest for the long term. Wave is a strong strategic fit that will allow us to accelerate our efforts in serving small businesses, driving overall growth and enhancing shareholder value.

In the tax business, we're coming off the first year of our multi-year strategy. We made excellent progress against our long range objectives. We achieved strong results in assisted, DIY and virtual, taking share overall.

Our associates and franchisees delivered significant improvements in how we serve our clients. We've led the industry with upfront transparent pricing and we made tremendous progress on our technology roadmap.

As we enter the second year, we're building on our learnings to continue innovating across all our platforms, providing better service to our clients and enhancing our brand relevance.

In assisted, we'll remain focused on operational excellence and improving our value proposition. By concentrating our efforts on the standard operating procedures that matter the most, we're simplifying our approach in driving consistency within our offices and we'll further leverage upfront transparent pricing, which was extremely well received by both tax pros and clients.

In DIY, we'll advance our challenger strategy to continue our growth and share gains. We're investing in enhancements to the user experience, which is earning accolades from independent reviews.

This includes better help within the product to drive consumer confidence and conversion, leveraging AI to personalize the experience, and effectively setting expectations upfront and throughout on price.

These enhancements will be complemented by competitive pricing and aggressive marketing to ensure consumers know about our award-winning product.

And in virtual, we will continue to lead in this emerging segment, building on the success of the past year in which we attracted new clients to our brand through innovative products.

This year, we're taking the feedback we received from clients to improve our offerings and better leverage our Tax Pro network as we provide expertise and care in new ways.

All of these efforts enhance our value proposition, which in turn elevates our brand relevance. We're demonstrating in very tangible ways why consumers should switch to H&R Block.

To wrap up, we're building on our momentum from the last few years. We have great plans in place that align with our strategy and position us for success. I'm excited to share more details closer to the start of the tax season.

With that, I'll now hand the call over to Tony.

Tony Bowen

Thanks, Jeff. Good afternoon, everyone. Before I get into details of Q1, I'd like to discuss how we're reporting Wave's financial results. Wave revenue will be reported as a separate line within our MD&A table. Like most high growth technology companies, expenses related to Wave consist primarily of investments in people and technology. These expenses will largely be included in compensation and technology-related expenses in our MD&A table. Additionally, each quarter we'll provide relevant commentary regarding Wave that we believe will be helpful to investors.

We will not report Wave as a separate segment, given its size relative to our overall business. We will continue to evaluate our segment reporting as our business evolves.

Additionally, we're in the process of completing the purchase price allocation. We expect to complete this work by the end of our second quarter and we'll provide an update on expected amortization for the fiscal year.

Turning to our Q1 results, as a reminder, we typically report a loss during the fiscal first quarter due to the seasonality of our business. Therefore, first quarter results are not representative of our full-year performance.

Starting with revenues, we saw year-over-year increase of $5 million or 4% to $150 million. Wave contributed $3.6 million, representing one month of activity. Additionally pre-season results in the US tax business have been strong, resulting in increased tax prep revenues in assisted and DIY.

Our international revenues also increased as Australia has seen positive results in the first part of its tax season. These results were partially offset by a reduction in reported revenues from our Peace of Mind product related to the timing of how we recognize deferred revenue.

Turning to expense, total operating expenses increased $18 million or 6% to $346 million. This was due to planned increases in compensation and technology-related expenses as well as Wave.

The changes in revenue and expenses resulted in an increase in pre-tax loss from continuing operations of $8 million. Loss per share was unchanged at $0.72, driven by the increase in pre-tax loss and lower shares outstanding, offset by an increased tax benefit due to favorable discrete items.

As a reminder, while beneficial on a full year basis, the lower share count negatively impacts EPS in quarters in which we report a loss.

In discontinued operations, there were no changes to accrued contingent liabilities related to Sand Canyon during the quarter. For additional information on Sand Canyon, please refer to disclosures in the company's reports on Forms 10-K and 10-Q and other SEC filings.

Turning to the balance sheet. This quarter, we implemented the new lease accounting standard, which requires recognition of liabilities and assets for leases previously classified as operating. As of July 31st, we have recognized right-of-use assets totaling $486 million and a lease liability of $479 million. This change will have no impact on our income statement or cash flows going forward.

Regarding capital, our priorities remain unchanged. At the top of the list is maintaining adequate liquidity for our operational needs to account for our seasonality. We ended last year with a strong cash position after another year solid cash flow generation.

We then made strategic investments back into the business that we believe deliver value to our clients, ultimately benefiting our shareholders. Making prudent investments to drive sustainable growth remains a key element of our capital allocation.

Last, we'll deploy excess capital through quarterly dividends and share repurchases. With respect to dividends, the health of our business and our outlook for the future has allowed for dividend increases over the past four years. Over that time, our quarterly dividend has increased 30%. We will perform an annual review of the dividend after each fiscal year.

Regarding share repurchases, we remain committed to, at a minimum, repurchasing shares to offset dilution from equity grants. During the first quarter, we repurchased a total of 1.6 million shares for $44 million at an average price of $27.68. We will continue to be opportunistic in our share repurchase approach.

I'd now like to provide thoughts on our outlook for the year, which remains unchanged from what we provided during our call in June. The Wave transaction closed slightly earlier than anticipated, resulting in an immaterial change to expectations and no impact to our total company outlook on revenue and margin.

For revenue, we continue to expect growth of 1.5% to 3.5% in fiscal 2020, driven by growth in the tax business following the recent year and the addition of Wave. With respect to earnings, we anticipate total EBITDA dollars to be slightly higher than fiscal 2019 as we return to revenue growth.

We will offset the operating losses from Wave with other cost reductions to maintain the strong EBITDA level. As a result, we expect revenue growth will outpace EBITDA growth, which will impact our margin.

Therefore, we continue to anticipate EBITDA margin of 24% to 26% for fiscal 2020. We also expect our effective tax rate to be 23% to 25%. This may fluctuate should unanticipated discrete items occur during the fiscal year.

We'll provide additional details on our financial outlook along with our tax season plans on our Q2 call in December. We look forward to updating you on our progress throughout the fiscal year.

With that, I will now turn the call back over to Jeff.

Jeffrey Jones II

Thanks, Tony. We have great momentum coming off a strong year and are committed to executing our strategy. We're on the right track with the tax business, making prudent investments to improve in key areas. And we've added a great strategic asset with Wave, which enhances our growth profile, focused on driving another year of strong results. And I look forward to sharing more in December.

With that, we'll now open the line for questions. Ladip?

Question-and-Answer Session

Operator

Thank you, sir. [Operator Instructions]. Our first question comes from the line of Scott Schneeberger of Oppenheimer. Your question please.

Scott Schneeberger

Thanks. Good afternoon, everyone. I guess, Jeff, could you speak to how you're thinking about balancing price and volume in the assisted channel going forward? Just some high level thoughts now that we're well past last season and well in advance of next season. And I know it seems to be an aspiration of the company to drive positive volume growth in assisted, just anything at this time of year, you might be able to share with us regarding that for the coming season. Thanks.

Jeffrey Jones II

Absolutely, Scott. Thank you. No doubt, our aspiration is to return to growth in the assisted business. We're on a multi-year improvement in our trajectory. That's absolutely our goal and where we're headed.

Price and volume, the first thing I want to reiterate, is we do not intend to reset prices again. We took the price reset a year ago. We knew that we had just gotten too high. And what that was doing was it was keeping the value conversation from really happening in the office.

At the pricing levels we're at, we feel really good that we've made nice progress. We look at a lot of different factors, what we hear from the consumer, what we hear from the Tax Pro. And in both cases, it made a big difference in their choice of block.

With the consumer, we saw the improvements we talked about at the end of the year in price for value. From the Tax Pro, what we heard was, we don't have to spend time now at the end of the tax event to try to convince people about what the price is. We can focus our time on delivering value, providing expertise, delivering tips.

And so, we feel good about where our price is. Our intention is, we are not going lower. As we've said, we want to keep prices essentially flat going into 2020. We believe that, as we continue to rebuild the trust and credibility of the brand, improve the value proposition, we believe we can get back to inflationary level price increases in the future, but that's not what we're going to be doing in 2020.

Scott Schneeberger

Thanks. I appreciate that. For my follow-up, I'll turn it to Wave. And just kind of a two-part question. Your initial impressions, just on Wave organic growth, what you see there and what you see as potential? And then, to the extent you can comment at this juncture, any cross-selling opportunities you see of the strategic pairing of H&R Block and Wave? Thanks.

Jeffrey Jones II

Yeah. Two great questions. So, what we saw in the revenue growth this year is the kind of year-over-year quarterly growth they have been seeing for several years. We were excited to see that performance continue.

If we take a step back from the business, we love the fact that this is a brand that is still unknown. So, we still see opportunity to deliver this value proposition to more people, remembering who Wave is focused on are small business owners that are currently using nothing. They're using Shoe Box or using Excel. And so, the strength of the value prop, combined with the fact that not enough people yet know about them, we believe there's opportunity on the upside, and one of the things we were excited about in the deal.

We also see them really doing a nice job on the product pipeline. So, continuing to think about new products, all in how they serve the small business owner more and more. When we did the deal, the deal economics did not assume any revenue or cost synergy. But as I shared in my prepared remarks, we've already begun the conversation about how Block's clients can benefit from their offering and how their clients can benefit from Block's offering, but we're taking a long-term view on that. We really want to make sure that given the product pipeline they have in place that we can do everything we can to support that innovation of pipeline, but also know over time there is absolutely synergies between our two businesses.

Scott Schneeberger

Thanks. Appreciate that.

Jeffrey Jones II

Thank you.

Operator

Thank you. Our next question comes from Jeff Goldstein of Morgan Stanley. Your line is open.

Jeff Goldstein

Hey, good afternoon. You've talked about implementing cost reductions to offset the Wave dilution this year. Can you expand on where exactly those reductions are coming from and where you could see maybe upside or downside to these expected savings?

Jeffrey Jones II

Hey, Jeff. I'll just tee it up by saying that what Tony is about to share with you are all things that are identified and plans in place that are not to go-dos as the year plays out. And I'll let Tony talk to you about exactly what those things are.

Tony Bowen

Yeah, it's a bunch of smaller items that we've identified that's going to allow us to offset the operating loss from Wave. The biggest bucket is the office closures that we did last year, which resulted in a one-time expense. That's, obviously, not recurring this year. So, that's rolling off. That would probably be the largest number. That was about $11 million or $12 million from last year. The rest of it smaller $1 million, $2 million, $3 million items that we've identified. To Jeff's point, they are already kind of actions that are put in place that's going to allow us to offset that loss and maintain a strong EBITDA level going into fiscal 2020.

Jeff Goldstein

All right. That's helpful. And then, just given that you bought back $44 million of stock in the quarter, which is, I know, less than you did in 1Q of last year, just how should we be thinking about the pacing for the remainder of the year. So, does the Wave acquisition inhibit your ability at all to accelerate repurchases from here. Just how should we be thinking about that?

Tony Bowen

Yeah. So, we deployed about $400 million of capital for the Wave acquisition, but we believe we still have excess capital to deploy opportunistically for share repurchases. As you pointed out, we did $44 million during Q1. And there's a number of factors that we take into account when deciding to do share repurchases. Obviously, trading volatility, number of trading days in a particular quarter, a number of factors that all come into play. We typically don't guide on when or how much we will do in share repurchase. But I think we've proven, in the last several years, that we will be opportunistic and take advantage of volatility and buy shares when it makes sense.

Jeff Goldstein

All right. Thanks for the color.

Jeffrey Jones II

Thanks, Jeff.

Operator

Thank you. Our next question comes from Kartik Mehta of Northcoast Research. Your line is open.

Kartik Mehta

Hey, Jeff. I wanted to get your thoughts on the DIY product. Obviously, I understand you won't talk about strategy for next tax season. But this tax season, the strategy seemed to be you wanted to gain market share, you improved the product, you are price lower than TurboTax. And I'm wondering, as you move forward, do you anticipate a similar type of arrangement where you're trying to maintain a gap between – at least a pricing gap – somewhat of a pricing gap between you and your competitor?

Jeffrey Jones II

Hey, Kartik. So, first of all, I feel really good about the multi-year progress in the DIY business both in terms of the results, but I think especially important in terms of the product improvements. The team is completely focused on more and more personalization and making it easier and easier. That's what all the product roadmap is about.

I love the fact that the product is now being recognized by third parties. We're getting great accolades about those improvements. And I do think the broad strategy remains intact. We have to have a product that is great and getting better all the time. We believe that we have a great price-value relationship relative to the market and competitors and we will constantly test pricing to maintain that advantage.

And then, the third piece of the puzzle, which you've seen us do, is be aggressive in how we market that value proposition. As we've talked before, we still don't believe enough people even know we're in that business. And so, we still see upside in all three pieces of that puzzle.

Kartik Mehta

And then maybe, Tony, for you, just a little bit understanding on Wave. One is, is the client growth in line with the revenue growth that you've quoted? And would you anticipate Wave to then become margin accretive in fiscal 2021?

Tony Bowen

So, first, on the client side, we shared their overall client number is approximately 400,000. We shared that in June when we announced the transaction. We're not breaking out specifically at this point what their incremental client growth is. But I will say that revenue is growing at a rate a little faster than clients and that's because they're growing their client base, but they're also figuring out incremental ways to grow revenue through additional monetization.

As far as the accretion, the near-term goal is to continue to focus on top line growth and growing the base. And we believe they have a plan to get to profitability in the future. But like I said, the main focus is growing the top line and continue to invest in new products, grow the pipeline, grow the awareness and grow the overall user base. That's kind of job one and profitability is the secondary goal.

Kartik Mehta

Thank you very much. Appreciate it.

Jeffrey Jones II

Thanks, Kartik.

Operator

Thank you. Our next question comes from Alex Paris of Barrington Research. Your question please.

Chris Howe

This is Chris Howe sitting in for Alex. Good afternoon, everyone.

Jeffrey Jones II

Hey, Chris.

Chris Howe

Hey. My first question pertains to Wave and then my follow-up question is on product improvements. As it relates to Wave, you mentioned the 50% revenue growth that you saw year-over-year in the quarter and the consecutive year-over-year revenue growth of over 40% that you're seeing. Can you parse out in the quarter, what portion of revenue growth was attributable to North America versus outside of North America?

Tony Bowen

Yeah. Almost all of it is in North America. They have very little monetization outside of North America today. Most of those clients are finding the product organically and almost all of the revenue growth is in North America, with the majority of that being in the United States.

Chris Howe

Okay. And then, this is to satisfy my curiosity. You talked a lot about product improvements and the different investments you're making within each phase. As I dig deeper into these improvements, how would you break out what portion come from internal observations versus external observations that you're seeing within the competitive environment?

Jeffrey Jones II

So, I'll tee it up and Tony can add in if he wants. Without trying to put precise percentages on it, I would say the overwhelming majority is based on consumer and user feedback. So, we do a number of things across all of our products, especially digital products, in-home observations, surveys, net promoter scores, tracking verbatim. That's really the primary source of product improvement, is really listening to the unmet needs of the consumer and then creating solves for those problems. We always pay attention to competition . You have to be smart to be aware of your competitors, but we spend way more time focusing on what we hear from consumers than anything else.

Chris Howe

Okay. Thanks for taking my questions. I'll hop back in the queue for now.

Jeffrey Jones II

Thanks, Chris.

Operator

Thank you. Our next question comes from Michael Millman of Millman Research. Your line is open.

Michael Millman

Thank you. So, first question, I'd like to follow-up Scott's question in regard to what do you see assisting returns actually ending for the year and what's your expectation for assisted returns next year?

Tony Bowen

Michael, just one clarification. You mean for the industry or specific to H&R Block?

Michael Millman

Well, I meant the industry, but I think I'd have you add on the latter?

Tony Bowen

Yeah, last year we think was the little bit of an anomaly. The category had a lot of unusual things occur, starting off with the government shutdown and then, obviously, tax reform led to, in our belief, a lot more extensions being filed. A lot of those extensions are now being converted in the extension fees, if you will. But going into next tax season, we have no reason to believe that we won't return to historical levels of growth of approximately 1% for the overall industry, assisted being flat to slightly up and DIY growing 3% to 4%, which is what we've seen over the last several years.

For H&R Block specifically, and we've been on a multi-year improvement of client trajectory in the assisted business, we've, obviously, grown the DIY business for several years and taken market share. We expect that trajectory to continue to improve. We're not guiding specifically whether that means positive growth in assisted or slight improvement on the trajectory we've seen. But over the long term, we definitely expect the assisted business to be growing along with the DIY business.

Michael Millman

Okay. And the other question was sort of discussion question. Two areas. One, and it has to do with Intuit, you seem to be moving in sort of the same direction in terms of small business in Wave and their small business growth.

And secondly, in terms of using pros, they are using pros to take assisted and move it to then in do-it-yourself and you seem to be using pros to hold on to assisted. Maybe you can discuss if indeed this is an appropriate way to look at it or we should look at it a different way or ways?

Jeffrey Jones II

I'll tee that up. And I'll answer the second one first, actually, because I think what we're doing is building a platform to serve consumers any way they choose. And one of the advantages that we know we have is our team of 70,000 tax pros that all they do is taxes. As you may recall from prior, on average, they have 10 years of experience only doing taxes. Every year, they go through 40-ish hours of training on taxes. So, we know we have a great asset base in that expertise. And our ability to scale up or down how those tax pros serve people is a really important part of the strategy.

Obviously, in the assisted business, in the virtual business and in the multiple products we offer, we're essentially giving people choice on how much expertise they want and how do they want to receive it.

Keep in mind that, in our DIY business, two of these products are add-ons to DIY, what we call Tax Pro Go and Tax Pro Review. And that's really because we saw that there are many consumers that are very confident doing taxes themselves and DIY is the right method. We also know there are many that didn't like that choice by itself, but also didn't love the alternative of full assisted. So, for them, they get extra help on their terms. So that's really how we're thinking about the expertise of our tax pros and how we can match their expertise to how the consumer wants it with this range of options.

On your first question, one of the first things we did was look at our current business today and we know that we serve just under 2 million people in our tax business today that are small business owners. We know in our franchisees, they currently do a range of business services in bookkeeping for small business owners.

So, as we think about the evolution of our strategy, we know that we're starting from a place where we're already serving small businesses. So, Wave is really a chance to add to that by a different offering, doing it digitally and really targeting small business owners specifically, not the accountant. So, that's really where that decision came from was looking inside our own business today and the fact that we already have this asset base and we believe there is more upside and more that we can do.

Michael Millman

I appreciate that. Thank you.

Jeffrey Jones II

Thank you.

Operator

Thank you. Our next question comes from George Tong of Goldman Sachs. Your question please.

George Tong

Hi, thanks. Good afternoon. We're still several quarters away from tax season. But can you provide some thoughts on how your approach to marketing and promotions will be different this year compared to last year, specifically what worked well for you last year that you'd like to keep and what didn't work so well that you'd like to change?

Jeffrey Jones II

Yeah. Hi, George. So, I won't give you the play by play quite yet, but there is a few things I would highlight that worked very, very well that we'll continue. I'll start in the macro, which is the broadest television advertising. The spokesperson that we introduced this year, she was incredibly effective. We saw our advertising metrics all improve and we know that she is incredibly relatable to the customer that we're serving. So, we think we have a great success in Lisa.

And if I go to the opposite end of the spectrum, this year, we really shifted our investment in our mix into more performance marketing, really finding micro targets of consumers that we could test messages against and watch their behavior at a very, very micro level. That capability continues to grow with the company and that also was quite successful.

So, those are broadly two things that you will continue to see us do, use television and Lisa to deliver the broad big messages to help people understand why they should switch to Block and use performance marketing in the very micro targeting to deliver individual messages to individual consumers, knowing there's a lot of things that we could say, but we don't have to say it to everyone.

George Tong

Got it. That's helpful. You've indicated that you won't be decreasing prices next year in assisted,. With pricing no longer a driver, can you elaborate on the operational excellence levers that you hope to lean on to improve market share performance this year versus last year?

Jeffrey Jones II

For sure. We continue to think about things like what we call schedule readiness, a really important operational lever which is all about matching the person to the pro at the right level of expertise when they want to be served, an incredibly important part, one that we refer to as work in process. There are consumers that visit an office and, for some reason, need to leave the office and we can do a lot better job of making sure that when they leave, they come back. So, there's a lot of operational protocols around work in process. This is very retail tactical, but how we answer the phone, a very important part of the first impression to get the right appointment made to serve somebody when they come in. So, we wrap it all up into five standard operating procedures, but those are few of the examples.

Tony Bowen

Yeah. And the one thing I would add, George, is I don't think that upfront transparent pricing is completely leveraged. We rolled that out last year as a big change for the business and a big change for the industry, and I think there's a lot more that we can do this year building on the momentum we had from last year in year two of that change.

George Tong

Great, thank you.

Tony Bowen

Thanks, George.

Jeffrey Jones II

Thanks, George.

Operator

Thank you. Our next question comes from the line of Jeff Silber of BMO Capital Markets. Your line is open.

Jeff Silber

Thanks so much. I just want to go back to the last tax season – and forgive me if I asked this question before – but I'm just curious if you saw a lot fewer filers that itemized this past year relative to the prior year. And if so, do you think we might see more of a shift to DIY next year, now that we'll be in year two post tax reform and these folks might be a little bit more comfortable?

Tony Bowen

Yeah. Thanks, Jeff. It's Tony. We definitely saw fewer people itemizing. I think that was true at H&R Block, as well as across the entire industry. I think the IRS provided some stats on that, that given the tax reform change and the increase in the standard deduction that there were a lot fewer people itemizing.

There's, obviously, always switching between assisted and DIY. Some people, their life situation changes and they may feel more comfortable doing their own taxes or vice versa. So, that has always been true and will be true for this upcoming year. I have no doubt there'll be some clients that, because of tax reform, will feel more comfortable taking a shot at doing their own taxes, but we also know that there's DIY clients last year that got stuck, needed help along the way, and maybe didn't get the tax outcome that they wanted, so there could be migration to assisted as well. How that all shakes out, our base expectation is that the net migration from assisted to DIY will be somewhat in line with what we've seen over the last several years.

Jeff Silber

Okay, great. That's helpful. And to focus on the quarter that you just reported, and I know this is minor, but I think there were a lot more extensions this past tax season than we saw in the year prior. Do you think that helped boost revenue in the July quarter you just reported? And if so, roughly how much?

Tony Bowen

Yeah, definitely had an impact. Client volume has been strong in both assisted and DIY and I think that's partly due to the extension filers that filed at the end of last tax season that are now converting in the pre-season. It was offset by lower net average charge, though, especially in the assisted business. The pricing changes we made last tax season are now carrying over into the pre-season. We have the same upfront transparent pricing model in the pre-season, what we're calling extension season. So, that had an offset to the increase in clients, but there is no doubt the extension filing activity that we saw at the end of last tax season is carrying forward into the extension season.

Jeff Silber

Great. And that should probably help you in the current quarter as well, ending in October, correct?

Tony Bowen

Yeah, I would expect that to continue into Q2 as well.

Jeff Silber

Okay, great. Thanks so much.

Jeffrey Jones II

Thanks, Jeff.

Operator

Thank you. At this time, I'd like to turn the call back over to Colby Brown for any closing remarks. Sir?

Colby Brown

Thank you, everyone, for joining us and this will conclude today's call.

Operator

Thank you, sir. Ladies and gentlemen, this concludes the call. You may disconnect your lines at this time. Have a wonderful day.