THOMSON REUTERS STREETEVENTS

# EDITED TRANSCRIPT

TAX - Q4 2015 Liberty Tax Inc Earnings Call

EVENT DATE/TIME: JUNE 18, 2015 / 12:30PM GMT





THOMSON REUTERS

## CORPORATE PARTICIPANTS

**Jim Wheaton** *Liberty Tax, Inc. - General Counsel, VP, Legal & Governmental Affairs*

**John Hewitt** *Liberty Tax, Inc. - Chairman, CEO & President*

**Kathy Donovan** *Liberty Tax, Inc. - CFO*

## CONFERENCE CALL PARTICIPANTS

**Lee Jagoda** *CJS Securities - Analyst*

**Michael Millman** *Millman Research Associates - Analyst*

## PRESENTATION

**Operator**

Ladies and gentlemen, thank you for standing by and welcome to the Liberty Tax fiscal year 2015 earnings call. (Operator Instructions). I will now turn the conference over to Jim Wheaton. Please go ahead.

---

**Jim Wheaton** - *Liberty Tax, Inc. - General Counsel, VP, Legal & Governmental Affairs*

Thank you. Good morning, everyone, and thank you for joining us. With me today are John Hewitt, our Founder, Chairman and Chief Executive Officer; Kathy Donovan, our Vice President and Chief Financial Officer; and Gordon D'Angelo, a member of our Board of Directors.

The press release announcing our fiscal year 2015 earnings was distributed this morning. The earnings release may be accessed at the Investor Relations section of our website located at www.libertytax.com. A replay of this call will be available shortly after its conclusion. The information to access the replay was in the earnings press release.

I'd like to remind everyone that today's remarks may include forward-looking statements as defined under the Securities Exchange Act of 1934. These 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 a result our actual outcomes and results could differ materially. You can learn more about these risks in our Annual Report on Form 10-K for the fiscal year ended April 30, 2014 and our other SEC filings. Liberty Tax undertakes no obligation to publicly update these risk factors or forward-looking statements. I would now like to turn the call over to John Hewitt. John.

---

**John Hewitt** - *Liberty Tax, Inc. - Chairman, CEO & President*

Thank you, Jim, and good morning, everyone. Thank you for joining us today. We appreciate the opportunity to share some insight into the recently completed tax season and to tell you about the opportunities we see in the future for the industry as a whole and Liberty in particular.

As we previously stated in our end-of-season press release, we missed our growth targets for 2015. While that is concerning, it has rejuvenated and invigorated us. The 2015 season has intensified my commitment to being number one. It has also challenged and motivated my team and put a breath of energy and life into us that is frankly humbling and emotionally rewarding to me.

We have made sizable investments to prepare for both the Affordable Care Act and the launch of our SiempreTax brand. We believe these investments have given us a significant advantage over our competitors.

However, while these current investments will help position the Company for future long-term growth, our profitability was negatively impacted this tax season. With that said let's give you some updated numbers through the end of the fiscal year.

This year as of May 1, the IRS reported total growth in returns of 0.5% and paid preparer growth of 0.2%. Returns in our US offices grew 0.9% so we outperformed the paid preparer market. Our US system-wide revenue grew 4% and largely due to an increase in our average net fee as well as the increase in returns.

This season presented some unique challenges. The IRS and tax industry continued to face a growing threat in the area of tax fraud. The IRS estimated it had to stop 3 million suspicious tax returns this year, 700,000 more than the last tax season. To help protect taxpayers Liberty has taken steps to help fight tax fraud which we will discuss in more detail shortly.

Our Canadian business turned in a very strong tax season. Canadian tax returns were up 9.3% and Canadian system-wide revenue grew by 10.5% on a local currency basis. Combined with the US return growth, total returns processed in our offices grew by 2.1%.

During the 2015 tax season the complication and confusion around ACA did not drive the expected volume of incremental returns to the industry overall or to professional tax preparers in particular. We believe this was caused by three factors.

One, the general population did not understand the responsibilities set out by the ACA or didn't like how it affected their refund expectations. As such some just avoided filing altogether. As evidence of that we had an increase in extensions of over 60% this year.

Two, the IRS offered numerous exemptions allowing most people to not pay the penalty by simply allowing people to bypass any ACA forms if they had any trouble obtaining insurance during the year. In fact, a majority of our customers impacted by the ACA received an exemption.

Three, many individuals did not feel like the penalty was substantial enough to get health insurance during the first year and so did not need to file the more complicated ACA-related forms. However, the penalty per person will triple next year and then quintuple in two years and we believe this will force more individuals to get health insurance.

It is currently estimated that 10.2 million people have enrolled and paid their premiums through the Health Insurance Marketplaces in 2015 compared to 8 million in 2014. Yet, 12% of the total population in the United States remains uninsured and will be forced to look for health insurance as the penalty becomes more significant.

According to internal research, most of our ACA impacted population either claimed an exemption or received a penalty. We saw 37% of our total ACA population receive a penalty, which on average was about $159. We also noted 55% of our total ACA population filed an ACA exemption. We expect this number to dramatically decrease in the coming years as some of these exemptions disappear.

Out of the population of our ObamaCare customers, [47%] received an additional subsidy, 48% had to pay additional money back, and only 5% needed no adjustment (company corrected after the call). The average incremental subsidy for these filers was $720, while the average amount paid back was $711.

Our experience with the first year of ACA has shown that the majority of marketplace participants do require additional adjustments to their subsidy through their tax return, along with the enhanced documentation requirements which will be in place next year. This could cause more ACA tax filers to look for a tax professional's help beginning next year.

However, rather than helping drive incremental growth this year, our investment in the Affordable Care Act reduced our office and our return count growth. As you know, we grow in two ways: we open new offices and our existing offices grow their return count.

Many of our franchisees were so focused during the off-season on learning about the Affordable Care Act, and in some cases obtaining health insurance licenses, that they reduced the time they spent preparing for the coming tax season and opening new offices. However, as the ACA impact becomes more significant in the coming years, this preparation will enable us to remain an industry leader in matters related to the ACA.

As I mentioned earlier, we also saw a more than 60% increase in the number of extensions filed this year compared to last tax season. This should drive higher off-season revenue than last year, but it also took revenue away from what could have been a stronger tax season.

Turning to SiempreTax. We believe this will be the fastest growing part of our Company for years to come. There are many hidden opportunities in the Hispanic market, such as less expensive and targeted advertising as well as the growing acculturation of the Hispanic population and the significantly less competition, especially in the digital space.

SiempreTax had a strong first season. SiempreTax plans to be more than just a taxpreparation brand, offering money transfers, immigration assistance, and other services valued in the Hispanic community. We operated 57 SiempreTax offices during its first season and we are excited about continued store count expansion and brand recognition moving into the next tax season.

This compares to H&R Block, which 60 years ago opened with one office, Jackson Hewitt opened with 11 offices, and Liberty who opened just five offices in their first year.

In addition to SiempreTax, we have approximately 600 certified Hispanic Liberty offices. These offices are staffed with bilingual employees who are trained and internally certified to advise customers on Tasks such as obtaining an ITIN.

There are over 26 million Hispanic individuals currently in the labor force, and the number is projected to rise to 31 million by 2022. We expect at least 5 million undocumented immigrants to be impacted by Obama's immigration executive action.

The impact of the executive action could be realized as early as this summer, but the country will likely be dealing with changing immigration policies for the next five to seven years. We believe being on the forefront of reaching this thriving Hispanic population will be instrumental to our long-term growth goals.

Earlier this year I was invited, along with the CEOs of H&R Block and Intuit, to meet with Treasury Secretary Lew and to a later meeting with IRS Commissioner Koskinen. Over the last several months, Liberty Tax has been working closely with the IRS, state tax commissioners and other members of the industry to address tax fraud issues.

As you may have seen, those efforts culminated in a press conference with Commissioner Koskinen last Thursday, at which the IRS, states and the industry announced important steps being taken to combat identity theft tax fraud during the 2016 season.

I was proud to participate in that press conference, and Liberty Tax Service has already signed a Memorandum of Understanding with the IRS and state tax commissioners that was announced last week. We feel that the initiatives announced for the 2016 tax season and are just the start of an unprecedented level of cooperation among federal and state tax authorities and the industry.

Identity theft tax refund fraud is a serious crime that not only defrauds the federal and state governments, but has a traumatic negative impact on the lives of honest taxpayers. However, we also recognize that identity theft tax refund fraud is only one type of fraud that is occurring in the tax system. We are already working with the IRS and others on additional efforts that go further than this first set of initiatives.

As a Company, Liberty Tax is committed to addressing tax fraud. Our franchisees understand that commitment, and we will continue to provide leadership in this area both on our own initiative and by participating in further joint efforts.

However, I need to point out that in some areas, successfully addressing tax fraud will require governmental action. For several years we have been aware of a trend toward the use of online tax products to commit the kinds of tax fraud that are difficult or impossible when the taxpayer is being assisted by honest tax professionals.

We believe the IRS should level the playing field so that online tax services are required to collect some of the same types of diligence information that are required of tax preparers, and should crack down on the phenomenon of phantom tax preparers who utilize online tax products to prepare returns for a fee without identifying themselves as the preparer.

We also continue to support IRS regulation and registration of tax preparers, and ensuring that the IRS has sufficient technology and other resources to better prevent fraud.

For fiscal 2016, we are looking forward to the franchise selling season and we expect the continued excitement of the ACA and our SiempreTax brand to drive more franchise sales and increase store count. We believe these two factors represent an unprecedented growth opportunity across the tax industry and we anticipate our growth to continue to exceed the IRS and our competitors.

This year, we started sales seminars in March with a record of 20 franchise seminars coast-to-coast. We also enhanced the referral incentive for franchisees to refer other individuals, increasing our new franchise referral fee 150% to an average of $7,500 per new franchisee.

To focus on office growth I am personally meeting with each of our Area Developers to discuss expansion goals over the next three years to ensure our existing franchisees see the potential in every territory. Franchisees who commit to expand over the next three years will also get my specific guidance for growth.

We are launching a new program this year to target A+ or prime locations for new offices. The way this will work in most cases is that our Area Developers will find great locations, they will rent them and furnish them and make them available to sell to our new and existing franchisees.

We are also focused on expanding training for new and existing franchisees. We have started a 16 hour Guerrilla Marketing Boot Camp that provides in-depth training on how to run a successful marketing campaign. Reviews thus far have been extremely positive from the people who have participated.

We have made some changes to upper management in the operations, sales and online business units. We look forward to future with new team members such as Gordon D'Angelo, one of our long-term Board members. Gordon started with me at H&R Block in 1972 and he was cofounder of Jackson Hewitt and one of the first directors in 1982. He is well-versed in sales and his advice has already made an impact.

In addition to existing office growth, last season we doubled our number of acquisitions of mom-and-pop's and mom-and-pop conversion. This year we plan to double them again. Acquisitions and conversions help with not only revenue per office, but office count as well.

Additionally, we are implementing increased cost controls throughout the Company to help cut down on unnecessary expenditures and remain focused on investing where we will receive the highest return. I have also personally reduced my salary to $1.00 a year for the entire 2016 fiscal year, making my compensation entirely dependent on the Company's results.

And I hope this demonstrates my commitment to the Company and my belief and our future opportunities. This fully aligns my compensation with the interest of our shareholders.

Finally, based on our strong and reliable cash flow and our confidence in the future, our Board has authorized us to issue a quarterly dividend of $0.16 per share, which will be paid on July 22, 2015 to shareholders of record on the close of business on July 15, 2015.

We believe the quarterly dividend shows our continued commitment to enhancing shareholder value. Our outlook for the future remains bright. We are looking forward to a strong franchise selling season driven by our intensified commitment to growth, the second year impact of ACA and the continued expansion of SiempreTax. Now I would like to turn the call over to our CFO, Kathy Donovan.

---

**Kathy Donovan** - *Liberty Tax, Inc. - CFO*

Thanks, John. Good morning, everyone. Before we dive into the financial details I would like to start off with some high-level numbers. Our US system-wide revenue grew 4% last year to $413 million and our Canadian system-wide revenue grew 10.5% on a local currency basis.

Our adjusted EPS was $1.36 this year compared to $1.45 last year reflecting the substantial investments John just described. These investments position us well to capitalize on growth opportunities emerging for the industry over the next several years.

Starting with revenue, total revenue was up 1.6% at $162.2 million. Currency rate changes in Canada negatively impacted total revenue by $0.8 million. Royalties, advertising and financial products combined grew close to $4.6 million. However, this was offset by lower revenue in other areas that I will explain later.

Taking royalty and advertising revenue first, in total, this area grew by 2.6% to $80.5 million. In the US royalty and advertising revenue grew by 3.3% driven by a 0.9% increase in volume and a 3.1% increase in average net fee. Canadian royalties were down slightly reflecting the conversion of 20 franchised stores to Company stores and the impact of currency partially offset by the growth in return count.

Switching to financial products, revenue in this area grew 7% versus prior year. This growth was largely driven by our decision to process a higher percentage of financial products in-house which increases our profitability and allows us to recognize the full amount charged to the customer as revenue.

We processed 73% of our financial products in-house this year versus 48% last year. Offsetting this change was a decline in the financial product attachment rate from 51.5% last year to 49.7% this year. The biggest driver of this decline was a mix shift in the number of refund due versus balance due returns. In total, was settled 949,000 RT products this year compared to 973,000 last year.

Offsetting this revenue growth were declines in franchise fees, tax preparation fees and other income. The decline in tax preparation fees was driven by lower online return counts partially offset by higher Company store revenue in Canada. Franchise fees and other revenue were down primarily because franchise fee payments from our franchisees declined.

Just as we did, our franchisees invested this year in preparation for the Affordable Care Act and immigration reform, which impacted their ability to make some franchise fee payments. As the impact of the Affordable Care Act materializes in the future, these franchise fee payments will catch up.

Area Developer fees were stable this year, but they will trend down next year now that revenue from the first year of AD sales in 2005 have been fully recognized over their 10 year life. The Area Developer function serves an important purpose for us, but, as we have said before, we will be strategically reacquiring AD rights in areas that have been fully built out which will eventually bring down our AD expense.

Moving on to expenses, the largest items contributing to the increase in adjusted operating expense were our investments in the launch of SiempreTax and in preparing our organization for the first year of the Affordable Care Act, along with higher advertising costs and incremental costs associated with bringing a higher percentage of financial products in-house.

We increased our advertising spend for new franchisees last year and we also spent more than the required tax season advertising in anticipation of higher advertising revenue from our franchisees. We spent approximately $1 million more than required in tax season advertising.

On a GAAP basis we recorded two charges in the quarter that we have backed out of the adjusted results. First, based on changes in the competitive landscape in the DIY space, we recorded an $8.4 million impairment of our DIY software and acquired customer lists.

Second, our GAAP selling, general and administrative costs in quarter include $1.4 million of incremental expense reflecting the final estimated settlement and recovery amounts for our two recently settled class action lawsuits. Both of these cases are now waiting for final Court approval.

The reported tax rate for the year was 35.6%, but after normalizing for the impairment and legal costs, the normalized rate was 37.3% which is what is reflected in our adjusted results. Going forward we expect our tax rate to be between 38% and 38.5%.

Finally, on an adjusted basis, as I said earlier, our EPS for the year was $1.36 per share compared to $1.45 last year. And on a GAAP basis EPS was $0.61 versus $1.51 last year.

Now let's take a quick look at the balance sheet and cash flow. Our balance sheet remains solid. We delivered $24.5 million of cash from operations and ended the year with $21.4 million of cash. The year-end cash balance was down $24.7 million from the prior year reflecting share repurchases of $24.3 million and the first quarterly dividend payment of $2.2 million.

In conclusion, immigration reform and the Affordable Care Act will generate significant opportunities for Liberty and the tax industry for the next several years. We invested last year to be ready to capitalize on those opportunities. We are now completely focused on driving store count and return count growth.

We are excited about the prospects for next year and believe we will continue to grow faster than the overall market and we will continue gaining market share. And with that, operator, we are now ready for questions.

---

## QUESTIONS AND ANSWERS

**Operator**

(Operator Instructions). Lee Jagoda, CJS Securities.

---

**Lee Jagoda** - *CJS Securities - Analyst*

So, John, I appreciate the color about the changes being made in terms of the process to increase store growth. Could you compare that with what was done this year and last year to kind of give us a sense of the real difference?

---

**John Hewitt** - *Liberty Tax, Inc. - Chairman, CEO & President*

Yes, I think the -- as we said last year, we were focused on ACA and getting our franchisees ready for ACA. We have done that, that process is well underway. And now the franchisees can look to expand and grow their franchise -- their number of offices.

And we have roughly 2,000 franchisees half of which have one location and half which have about three on average. And so, we are looking going to the franchisees and working with them to expand over the future.

In the past, my past experience at Block and at Jackson Hewitt, the average franchise ends up with about eight or nine offices. So most of our growth will be internal as our franchisees expand their number of units. So the first expansion is internal with our existing franchisees working with them. And the second of course is bringing in new franchisees.

And we have redoubled our efforts in terms of marketing and targeting insurance agents. And we got off to a quicker start with the 20 seminars we did during the tax season.

So our goal is to return to the levels of three years ago where we were bringing in over on average for about four years we were bringing in over 350 franchises, which will be over 100 -- and 150 more franchises than we brought in last year. But it is a redoubling and focusing our efforts on those two efforts that are going to get us an increased store count.

---

**Lee Jagoda** - *CJS Securities - Analyst*

And do you find that the franchisees looking to open new locations are relying on the profitability from their existing locations for the capital and the confidence? Or are they using capital from (technical difficulty) to do that?

---

**John Hewitt** - *Liberty Tax, Inc. - Chairman, CEO & President*

It's kind of a mixture, but it is about half and half. Half use their existing cash flow to expand and acquire new locations and half seek some kind of outside financing. They are happy with their cash flow, but they look to use other people's money to expand their number of units.

And we have special procedures, policies for rent-to-own's and try before you buy and things like that for franchisees that are uncertain and just want to put their toe in the water.

---

**Lee Jagoda** - *CJS Securities - Analyst*

Okay, great. And then just switching gears over to pricing this year, it looks like price was up about 3%, which is lower than the 5% to 6% more historical increases we are used to, and that is even before the ACA impact. So what are sort of the puts and takes around that 3%?

---

**John Hewitt** - *Liberty Tax, Inc. - Chairman, CEO & President*

Yes, a couple things. Number one is ACA did not help us as anticipated, so we didn't get that benefit. Secondly is the fraudulent returns, the reduced number of returns that came in or that switched to online were higher price returns.

And finally as we weren't meeting our numbers in the middle of the season, the franchisees used extensive discounting during the latter half of the season to compete in the marketplace.

---

**Lee Jagoda** - *CJS Securities - Analyst*

So how should we think about that pricing going forward into this coming tax season?

---

**John Hewitt** - *Liberty Tax, Inc. - Chairman, CEO & President*

We are going to wait and address that in December and give you more color in December on that. H&R Block hasn't announced yet. So we really target them when we target our fee increase for the years.

---

**Lee Jagoda** - *CJS Securities - Analyst*

Okay, great. One more question and I will hop back in the queue. Kathy, can you just give us some more detail around the impairment charges and the outlook for the DIY online product going forward?

---

**Kathy Donovan** - *Liberty Tax, Inc. - CFO*

Sure, we took a look at the highly competitive pricing environment that we saw this year, particularly early in the season, along with the cost of customer acquisition in that area. So the way the process works is you compare projected future cash flows to our carrying value and that is where we end up with a write off.

But we continue to strongly believe that there is a lot of synergy between the online space and our brick-and-mortar stores. But again, at this time we are still working on our exact plans for next year.

And I think for competitive reasons we really wouldn't want to talk about what we think are going to be the appropriate pricing levels for next year to attract and retain customers. But we still do strongly believe that there is great synergy between online and brick-and-mortar.

**Lee Jagoda** - *CJS Securities - Analyst*

Great, I will hop back in the queue. Thank you.

**Operator**

Michael Millman, Millman Research Associates.

**Michael Millman** - *Millman Research Associates - Analyst*

So I want to talk about the balance due which I guess was discussed a little bit. It looks like it was off -- at least the IRS balance due is up about 6%. How would you split that between the economy, between maybe fraud reduction, ACA and other things? And what's it really suggest about what next year can bring?

**John Hewitt** - *Liberty Tax, Inc. - Chairman, CEO & President*

We don't have toal insight into that. But certainly from our experience the majority of that is related to the ACA and the increase in penalties people are paying for the ACA. So more than half of it is related to the changes in the ACA.

**Michael Millman** - *Millman Research Associates - Analyst*

So, in that case it may continue into next year as well as penalties are likely to increase?

**John Hewitt** - *Liberty Tax, Inc. - Chairman, CEO & President*

I would think that along with the other impacts from ACA that are going to be another three years in the making; we are going to see the same thing for two or three years, yes.

**Michael Millman** - *Millman Research Associates - Analyst*

And is this beneficial to you or not beneficial to you?

**John Hewitt** - *Liberty Tax, Inc. - Chairman, CEO & President*

It is offsetting. There is good and bad news. The bad news is less people are going to take our bank products because there is going to be less refunds. So we are going to lose some bank products.

But the good news is the tax trends are going to get much more complicated and our customers will be paying higher fees and a higher percentage of people should be using assisted preparation versus online. So it is mostly good news but there is a little bad news there.

**Michael Millman** - *Millman Research Associates - Analyst*

Okay. And regarding paper, which looks like there was a substantial movement -- a continued movement. How do you see that break down between the assisted and between do-it-yourself?

**John Hewitt** - *Liberty Tax, Inc. - Chairman, CEO & President*

If your question is how do I see the percentage of paper that are assisted, a very high percentage of paper returns are assisted returns. A higher percentage than electronic filing.

**Michael Millman** - *Millman Research Associates - Analyst*

I guess I didn't ask it I guess -- let me try it this way. It looks like there might have been something on the order of almost 2 million -- continued 2 million shift. How much do you think that most of that was assisted or do-it-yourself or one shifting to the other?

**John Hewitt** - *Liberty Tax, Inc. - Chairman, CEO & President*

Yes, the trend continues and has been for the last 15 years. The trend continues that most of the paper returns are shifting to do-it-yourself.

**Michael Millman** - *Millman Research Associates - Analyst*

So this might suggest that when you look at total assisted it actually declined or am I reading too much into that?

**John Hewitt** - *Liberty Tax, Inc. - Chairman, CEO & President*

I think you are. The industry doesn't talk a lot about the shift over the last five years of the new emergence of the shadow preparers that do returns and don't sign them. So the IRS doesn't count them as assisted preparers.

So when we and Block talk about the shift of the earned income credit customers from assisted to online over the last five years that has impacted us, really much of that is these preparers that couldn't get an electronic filing identification number or a PTIN and therefore are forced to do returns and not report themselves as preparers on the returns.

So that is helping make the percentage of assisted a little bit murky because there is really a good 5% or 10% of the returns that are right now looking as if they are self prepared are actually being prepared by these shadow preparers.

**Michael Millman** - *Millman Research Associates - Analyst*

And so, some of the work with the IRS I assume is to try to figure out which ones are coming from these preparers it sounds like.

**John Hewitt** - *Liberty Tax, Inc. - Chairman, CEO & President*

That is a big part of the fraud effort because that is a big part of the fraud. So the industry and the IRS are trying to work out how to identify those individuals that are participating in those types of scams.

**Michael Millman** - *Millman Research Associates - Analyst*

Great, thanks, John.

**Operator**

Scott Schneeberger, Oppenheimer.

---

**Unidentified Participant**

Good morning, this is Daniel and for Scott, how are you guys? John, can you discuss where you see the mix of do-it-yourself versus assisted trend in the next couple of tax seasons here and what the primary drivers and key swing factors might be?

---

**John Hewitt** - *Liberty Tax, Inc. - Chairman, CEO & President*

Yes, I think that it is common knowledge that over the last 12 or 13 years the percentage of people that are using assisted preparers is -- announced by the IRS is 60% to 62%. And we see that going up a couple hundred basis points over the next three years as ACA kicks in and immigration reform kicks in.

ACA, the complications of the ACA, whether you pay a penalty or get a credit, that will drive some people to assisted. And also the Hispanic immigrants -- a significantly higher percentage of them use assisted preparation versus do it their own. I think that is pretty understandable since because of the language barrier and reading and writing English and so forth. So a higher percentage of them are going to turn to a preparer.

And a higher percentage of the people that are impacted by ACA will change to an assisted preparer. So we are looking for a couple hundred basis points over the next two or three years.

---

**Unidentified Participant**

Okay, great. Can you also speak to your debit card issuance this season with your Netspend partnership? Any interesting customer behaviors in the market and how you view customers will choose to receive cash in the coming year?

---

**John Hewitt** - *Liberty Tax, Inc. - Chairman, CEO & President*

Unlike some of our competitors who really push the debit card -- I think at Block there is not only a fee to get a check, I think it is about a $20 fee you have to pay to get a check. But the check is mailed to you instead of receiving it at the office. So they discourage people from getting a check and they have a lot higher percentage of people as a result that get a card.

We try to take the pulse of the customer and give them what they want. And so, we have a very low take rate with the debit card, it's 5% or 6%. We had an increase this year, but we did pay our tax preparers a bonus for putting people on the card. But it is not in demand in our customer base. Our customers want checks, they want cash as quickly as possible.

---

**Unidentified Participant**

Okay, understood. And a final one for me. As far as the tax industry working with retail partners like Walmart, is this a strategy Liberty Tax is interested in pursuing?

---

**John Hewitt** - *Liberty Tax, Inc. - Chairman, CEO & President*

We are. We have many, many partnerships from Walmart to Sears to Kmart to Family Dollar to large mall chains. It is not our bread-and-butter, but it is an inexpensive way to get a footprint, brand-name in the marketplace.

Walmart has recently just last year raised their rents dramatically, so they are much higher than the others. But typically we can get into these seasonal locations for under $3,000 for the entire season. So the breakeven in these locations is a very small number of returns and it allows our franchisees to get and drive customers eventually into their storefronts.

---

**Unidentified Participant**

Okay, thank you very much.

---

**Operator**

Lee Jagoda.

---

**Lee Jagoda** - *CJS Securities - Analyst*

Just with regards to Walmart, what was the status at year end or tax season end with regards to the number of locations open at Walmart? And do you expect additional attrition and/or additional increases in the upcoming season at Walmart?

---

**John Hewitt** - *Liberty Tax, Inc. - Chairman, CEO & President*

At Walmart we were second in line. Jackson Hewitt has been in Walmart, I personally negotiated that deal in 1995; they have been in Walmart since 1995. And Walmart gives first refusal to whichever tax preparer was in the location the previous year. So out of the about 4,500 viable Walmart locations in the country, Jackson Hewitt took primarily the best 3,800. So our access is to the weaker locations.

And so we were just in a couple hundred locations last year. And unless they reduce the rent to where it was a couple years ago, we don't expect to see any significant increase in that. But I do want to emphasize that our bread-and-butter, our major profit center is that year-round storefront.

And so our focus is to build the number of year-round storefronts. We will continue to work with Walmart and Sears and Kmart and other large organizations to have seasonal locations. But those are just to drive business to our storefronts.

In our goal, H&R Block has 10,500 storefronts in this country to our approximate 4,000. Wherever there is an H&R Block without a Liberty storefront, to me it is a vacancy sign. We need to get 6,500 more storefronts in this country.

---

**Lee Jagoda** - *CJS Securities - Analyst*

Okay and then looking at Canada for a minute. It looks like your franchisees in Canada were down, your offices in Canada were down, yet volumes were up 9.5%-ish. What drove that and was it price, was it an initiative in Canada? Can you give us more color there?

---

**John Hewitt** - *Liberty Tax, Inc. - Chairman, CEO & President*

We had better execution this year than in previous years. Our same-store sales were strong. The economy was good and the number of people paying a preparer grew. So the stars aligned for a robust year in Canada. Unfortunately we were hurt by the Canadian dollar, the exchange rate.

---

**Lee Jagoda** - *CJS Securities - Analyst*

Okay --.

**Lee Jagoda** - *CJS Securities - Analyst*

Kathy, I know you made a comment earlier on the trend in the AD revenue. Can you just repeat that because I think I missed it earlier.

**Kathy Donovan** - *Liberty Tax, Inc. - CFO*

Yes, it was flat this year, but we recognize revenue from AD sales over the life of the initial agreement which was 10 years when the program first started. So all those sales from 2005 have been fully recognized in 2015.

I was thinking about trying to give you guidance. I would assume about 1/10 of the revenue would be dropping off now that one of the bigger years, the early years is falling off and fully recognized.

**Lee Jagoda** - *CJS Securities - Analyst*

Got it. Thank you.

**Operator**

I will now turn the call over to John Hewitt for closing remarks.

**John Hewitt** - *Liberty Tax, Inc. - Chairman, CEO & President*

Well, thank you for listening in today. And I just want to reiterate that we are committed to growing this organization, we are reinvigorated. And we know that the only way that we are going to be successful is happy, successful employees and happy, successful franchisees. So we are redoubling our efforts to grow this Company. Thanks for listening.

**Kathy Donovan** - *Liberty Tax, Inc. - CFO*

Thank you.

**Operator**

This concludes today's conference. You may now disconnect.