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# EDITED TRANSCRIPT

TAX - Q3 2015 Liberty Tax Inc Earnings Call

EVENT DATE/TIME: MARCH 05, 2015 / 1:30PM GMT



## CORPORATE PARTICIPANTS

**Vanessa Szajnoga** *Liberty Tax - Corporate Counsel*

**John Hewitt** *Liberty Tax - Founder, Chairman, CEO*

**Kathy Donovan** *Liberty Tax - CFO*

## CONFERENCE CALL PARTICIPANTS

**Alex Paris** *Barrington Research - Analyst*

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

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

**Kartik Mehta** *Northcoast Research - Analyst*

**Scott Schneeberger** *Oppenheimer - Analyst*

## PRESENTATION

### Operator

At this time, I would like to welcome everyone to the Liberty Tax Inc. Third Quarter Fiscal 2015 Earnings Call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session.

(Operator Instructions).

Thank you. I'll now turn today's call over to Ms. Vanessa Szajnoga to begin. Please go ahead.

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### **Vanessa Szajnoga** - *Liberty Tax - Corporate Counsel*

Thank you. Good morning, everyone, and thank you for joining us. With me today are John Hewitt, our Founder, Chairman and Chief Executive Officer; and Kathy Donovan, our Vice President and Chief Financial Officer.

The press release announcing our third quarter earnings was distributed this morning. The earnings release may be accessed at the Investor Relations section of our website located at [www.libertytax.com](http://www.libertytax.com). A replay of this call will be available shortly after the 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. Such statements are based on current information and management's expectations as of the 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 our Founder, Chairman, and CEO, John Hewitt. John?



**John Hewitt** - Liberty Tax - Founder, Chairman, CEO

Thank you, Vanessa. First, let me talk about the tax preparation industry. 60% of the Americans have not filed their tax returns yet. So that's the good news. Two, February 27th the IRS reported that they were down 0.6% in returns received for the previous year. The IRS and industry have projected growth of 1% to 3%. We still believe that the growth will be over 2% through the end of April.

There are three reasons we believe taxpayers are filing later. Number one, weather, particular during February the weather has caused numerous office closings in the East and especially the Northeast, actually this pushes DIY a little earlier and assisted prep a little later.

The strong economy and lower unemployment, the reason that people file early in January and February that they want or need their refund, with a stronger economy and millions of jobs created the last two years, we have seen a slight shift towards less demand for fast refunds. Therefore, previous early filers in January and February are waiting until March or April to file, joining the rest of us procrastinators.

And finally, the complications of ACA have caused many to drag their feet in filing their tax returns. This is a reason that the industry has not received any significant benefit yet from ACA.

That's what the industry looks like today. Let's look forward, let's look at the end of the season and the future of the tax industry. We have been talking about three tailwinds that were set to help the tax industry for 2015 beyond.

Number one, 2014 was a biggest year for job creation in the 21st century. As a result, more people will file tax returns. However, it's going to happen in the last half of this season. ACA and Obamacare. That is -- the complications of ACA and Obamacare are driving and will drive more people to seek assistance.

As has been the case in prior years where there was a new penalty created, the IRS has been generous in giving one year exemptions for the many millions who do not file their or who did not purchase their insurance as required. So millions of people will not have extensive complication, they will just need to check a box of the exemption that they meet in not having to file their returns.

So those we have -- I am sorry, let's turn to our numbers. Our systemwide revenue has increased 5.7%, reflecting an increase in our average net fee of 6.4%. Our return count has decreased 0.7%. While these numbers do not meet our own expectations for return growth, we have continued to outperform the paid preparation sector.

The price increase we are reporting thus far is essentially our standard annual price increase due to the numerous exemptions allowed this year for penalties under the ACA. We have yet to see many customers with the complex forms that would have allowed for the price increase we originally anticipated. We continue to believe that the Affordable Care Act will drive more people to paid preparers but are now expecting to see most of the impact in 2016 and future tax seasons.

Our total office count has decreased by approximately 100 stores compared to last year. However, our permanent locations have increased by 100, while our seasonal office locations have decreased by slightly over 200. Although, this is not where we want to be, decreasing our seasonal offices and increasing our permanent offices will better situate us for growth in the future.

I want to say that, we did not execute properly and I did not execute properly. We were looking for a much greater growth in office count and we have already turned our attention towards getting back on track and increasing our office count in the future years.

H&R Block has over 10,000 locations in United States. We have 4,000. That's about 2,000 offices per franchisees. If you contrast that to Jackson Hewitt, Jackson Hewitt has about 600 franchisees that have an average of over nine offices a piece where we need to reach our target of over 10,000 locations, we need approximately 2,000 franchisees to just have five or six offices a piece.

Turning to the quarter, our revenue was up 17%, compared to the same period last year. As you know, the IRS begin accepting returns on January 20th this year as compared to January 31st last year and this drove a large part of the year-over-year growth. Kathy will discuss the drivers of the quarter results in more detail shortly.

Our Siempre brand is off to a good start. We have opened 57 SiempreTax+ offices. This compares to H&R Block which in 1956 opened one location, Jackson Hewitt in 1983 opened six -- 11 locations and Liberty in 1998 we opened five locations in United States. So 57 is a good start.

It also helps us in the third tailwind of Immigration Reform. While Obama announced a reform allowing the millions, many millions of the undocumented workers, probably 4, 5 million to possibly qualify for staying in United States and getting residency status that paperwork to apply for that opportunity has not yet been developed. So the impact of Immigration Reform is going to be a longer term impact.

Siempre, however, will help us with the huge Hispanic population, the legal Hispanic population in this country and it is that the first of what we think is many industries will have Hispanic-focused organizations. We have recruited a strong team to help us take advantage of this opportunity. And we believe that this will be the most important part of our office growth in the near term.

Finally, based on our reliable cash flow and our confidence in the future, our board has authorized us to initiate a cash dividend to shareholders. We believe that initiation of the quarterly dividend shows our continued commitment to enhancing shareholder value.

Our board has authorized a quarterly dividend of \$0.16 per share which we paid on April 22nd to shareholders of record on the close of business on April 15th. We believe this is a great time to be in the tax preparation industry. We are committed to working harder than ever to capitalize on the opportunities before us.

I'm looking forward to taking your question after Kathy walks you through the financials. Kathy?

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**Kathy Donovan** - *Liberty Tax - CFO*

Thanks, John. Good morning, everyone. As John indicated, this year's tax season has been a challenging one. And as you know, the timing has been inconsistent with the last couple of years. John has provided you with updated return counts through February 28 but I'm going to focus on our third quarter results, which benefited from the earlier opening of the IRS eFile system, moving many more days of returns ahead and into the third quarter.

Starting with revenue, total revenue grew 17% from \$40.7 million last year to \$47.7 million this year. Royalties, advertising and financial products saw most of the increase. Royalty and advertising revenue grew by 15% or \$3.4 million versus prior year. This was driven by higher volumes associated with the accelerated start to the season along with increases in our average net fee.

Switching to financial products, revenue in this area grew faster than royalty revenue. Part of this growth was naturally driven by the higher return volume. But there were two primary reasons for the faster growth. First, we chose to process a larger percentage of financial products in-house which increases our profitability and allows us to recognize the full amount charged to the customer as revenue.

In the third quarter, we processed 73% of our financial products in-house versus 48% last year. And we expect that pattern to continue for the rest of the year. In addition to that, based on the success of our JTH Financial subsidiary, we renegotiated our third party financial product agreements and are now receiving the lowest negotiated price from our partners, starting with the first product we processed.

Last year, our agreements included tiered volume thresholds for lower pricing. As a result of this change, some of the favorability we expensed in the third quarter of this year was recognized in the fourth quarter of last year. We expect full year financial product revenue growth to still outpace royalty growth but to be closer in line by the end of the year.

Turning to expenses, the increase in adjusted operating expense was primarily driven by the higher revenue. For the quarter, we incurred higher area developer expense which is directly related to the higher royalty revenue. As many of you know, our area developers receive 50% of the royalties and franchise fees that are paid to us by franchisees in their area.

So when those revenues increase, so does area developer expense. We also increased our advertising expense in the quarter. This is primarily due to the earlier start to the season and to additional funds spent during the quarter for the launch of our SiempreTax brand.

GAAP selling, general and administrative cost in the quarter includes \$4.1 million of expense, representing an estimate of the probable loss for the last of our remaining class action lawsuits, partially offset by a recovery from a vendor related to a prior case. We have excluded this loss and the recovery from our non-GAAP financial measures.

One other item to note when comparing our results to prior year, during the third quarter of 2014, we recorded a gain of approximately \$2 million from the sale of an investment we had made in a strategic partner. They've also removed that from the prior year results in our adjusted earnings and Schedule E of our press release.

Turning to taxes, during the third quarter, Congress re-approved the R&D tax credit for 2014. As a result, we recorded a cumulative adjustment to bring our year-to-date effective tax rate down to 38.9% from 39.7% at the end of the second quarter. Due to several factors, including the seasonal nature of our business and the relatively smaller pre-tax income in our third quarter as compared to the losses we make in the first half of the year, the year-to-date adjustment resulted in an effective tax rate for the third quarter of 46.3%.

The negative impact on adjusted earnings per share of this year-to-date change in the effective tax rate was \$0.04 per share in the quarter. But the reduction in rate will obviously be favorable for us for the year. We still expect our final tax rate for fiscal 2015 to be slightly less than last year.

Finally, on an adjusted basis, our EPS for the quarter was \$0.29 per share compared to \$0.20 last year. And on a GAAP basis, including the litigation expense in the quarter that I described earlier, EPS was \$0.13 versus \$0.28 last year.

Now, let's take a quick look at the balance sheet. Our revolver balance at the end of the quarter was \$110.8 million compared to \$104.6 million last year. As traditionally happens at this time of the year, we have already repaid nearly \$80 million of that balance and as we continue to receive funding from the IRS, we expect to fully repay the revolver by the end of March.

With that, I'd now like to turn the call back to John.

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**John Hewitt** - Liberty Tax - Founder, Chairman, CEO

Thank you, Kathy. And operator, we are ready for questions.

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions). And our first question comes from the line of Alex Paris with Barrington Research.

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**John Hewitt** - Liberty Tax - Founder, Chairman, CEO

Good morning, Alex.

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**Alex Paris** - Barrington Research - Analyst

Good morning, guys. Just a couple of questions. First off, not a lot new in this week's earning's report versus what we learned last week, when you reported the results of the early tax season through February 13th. I think it's sort of in line with that and in line with your explanation, as well as H&R Block's explanation for the slow start. Largely, the complexity, which ought of drive people to assisted over time is resulting in complexity that is leading filers to procrastinate a bit. So it's your expectation that you will have a stronger second half of the tax season than the first, again very much like your publicly traded competitor, H&R Block. Do you think given that expectation that you will get back to where you thought you were going to be before this tax season? Or do you expect to make up a lot of the soft start? How would you characterize that opportunity?



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**John Hewitt** - *Liberty Tax - Founder, Chairman, CEO*

I guess I would -- Alex, I would say that we expect to be where we would be based on the number of offices that we have. So based on the number of offices, we would expect to finish the season in line with our expectations.

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**Alex Paris** - *Barrington Research - Analyst*

I got you. So there are the two dynamics there, then the ACA filers haven't really showed up in numbers yet. People are waiting a little longer due to the fuller employment picture, but also there is some negative impact on your consolidated total returns prepared, given that you had fewer offices than you expected to have at this point. What are you doing -- you mentioned in your prepared comments that you are responding to that already? What are you going to do differently next tax season to increase the number of store openings?

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**John Hewitt** - *Liberty Tax - Founder, Chairman, CEO*

Well, we are not going to say everything we are going to do because it will help our competition especially, Jackson Hewitt who is still trying to grow and obviously Block has been segment for a long time in terms of all discomfort. But, Jackson Hewitt is still trying to grow, so we aren't going to talk about all this strategy. But it comes -- simplistically, it comes down to closing less offices, getting our -- bringing in new franchisees to replace the ones that are leaving through attrition and then helping to maximize our existing franchise base.

And let me say that those 2,000 franchisees just need to add three more offices each. So what we need to do is spend time with each of them and help them be all that they can be, because most of them have a goal, they have 7, 8, 10 offices each.

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**Alex Paris** - *Barrington Research - Analyst*

So are you saying that you didn't do that a lot this year? I know you have a lot of interactions with your existing franchisees. There wasn't as much selling so to speak.

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**John Hewitt** - *Liberty Tax - Founder, Chairman, CEO*

Well, the two major changes from previous years when we were growing, we brought in less new franchisees. And we had -- we're unable to get enough of our existing franchisees to expand and we did depart. So those are the two places where we failed to execute extremely well.

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**Alex Paris** - *Barrington Research - Analyst*

All right. So in the couple of years prior to last year, I think you open up on average around 300 net new stores a year. This year it looks like a 100 new permanent stores. Given the strategies that you plan to employ next year that you are not willing to divulge for competitive reasons today, do you expect to get back to that trend line next year or that average next year?

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**John Hewitt** - *Liberty Tax - Founder, Chairman, CEO*

What we pledge to do Alex is to be more transparent and give more color on our office growth each quarter, so that you will be able to measure that better. Certainly, this year part of the reason for the lack of growth is our franchisees. We had over a 1,000 franchisees get their licenses for ACA and we also had a number of our franchisees convert to Siempre locations. So there was a bit of murkiness in the future that resulted in this. But we can't get to the level we want to be without 10,000 offices. And whenever there is H&R Block office and there is no Liberty, I see a vacancy. And my job and our job is to fill that vacancy as soon as possible.



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**Alex Paris** - *Barrington Research - Analyst*

And then I guess last question and then I will turn it over. What role do you anticipate acquisitions will play in getting to that 10,000 store count, acquiring the mom and pops out there?

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**John Hewitt** - *Liberty Tax - Founder, Chairman, CEO*

We've hired a whole team, an acquisition team for the first time this year and we are pretty satisfied with our first year out of the box and we expect to grow that exponentially, especially in the Hispanic brand. One of the -- H&R Block and Jackson Hewitt have been aggressive in competing with us and acquiring mom and pops, so ever neither one of them has done a good job of going after the Hispanic mom and pops.

And so with Siempre brand, we represented opportunity for not only for acquisitions for the Hispanic mom and pops but for conversion. So that gives us again a huge leg up and a huge -- that's an easier way to grow because that field is ripe with opportunity.

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**Alex Paris** - *Barrington Research - Analyst*

Great. Well, thank you. And good luck in the second half with the tax season.

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**John Hewitt** - *Liberty Tax - Founder, Chairman, CEO*

Thank you.

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**Kathy Donovan** - *Liberty Tax - CFO*

Thanks.

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**Operator**

And our next question comes from the line of Lee Jagoda with CJS Securities.

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**John Hewitt** - *Liberty Tax - Founder, Chairman, CEO*

Good morning, Lee.

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

Hi, good morning. So John, just trying to ask that question regarding the lack of permanent store growth, a slightly different way. Are you hearing any feedback from either individual franchisees or frankly your area developers as to why they have had such a hard time expanding the permanent location?

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**John Hewitt** - *Liberty Tax - Founder, Chairman, CEO*

No. Again, I would say that it's more related -- this is not a complicated business or complicated situation. It's something that we didn't execute well. It's blocking and tackling, and I hate giving excuses. But certainly part of that is related to getting over 1,000 franchisees to open early in

November 15th and get license in anticipation of ACA and part of the Siempre, but there is no excuses. We need to get back on track and grow our office count to 10,000 or we are not going to be where we want to be.

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

And just with regards to Siempre, can you break out -- and maybe this is for Kathy -- the number of Siempre conversion versus new standalone Siempre locations? And maybe just talk about some of the early season trends at a Siempre location that was open this year versus a year one Liberty location?

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**John Hewitt** - *Liberty Tax - Founder, Chairman, CEO*

Yes. We are not ready to give those numbers yet. Again, we think we are first in market with the Hispanic tax preparation brand. And I have been -- for 32 years, I have been chasing H&R Block who is first in market and we're going to be copied. And so we're not going to make it easy to illuminate for our competitors the roadmap to get where we are.

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

And one last one, I'll hop back in queue. Of the roughly 2,000 franchises you currently have, how many of them have just one single location?

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**John Hewitt** - *Liberty Tax - Founder, Chairman, CEO*

That number I don't know. Of the top of my head it's ever changing number but we can -- certainly it's somewhere in the neighborhood of a third of them.

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

Okay. Great. Thanks very much.

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**John Hewitt** - *Liberty Tax - Founder, Chairman, CEO*

Thanks, Lee.

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**Kathy Donovan** - *Liberty Tax - CFO*

Thanks Lee.

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**Operator**

Our next question comes from the line of Michael Millman with Millman Research Associates.

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**John Hewitt** - *Liberty Tax - Founder, Chairman, CEO*

Good morning, Michael.

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

Good morning. Are you enjoying the weather today?

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**John Hewitt** - *Liberty Tax - Founder, Chairman, CEO*

Actually, it was 70 here yesterday in Virginia Beach and today it's back down to 40 and raining.

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

Was not so good here. So question related to the weather. When you look outside in the North East, how did your -- what did your returns look like if you can takeaway weather conditions?

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**John Hewitt** - *Liberty Tax - Founder, Chairman, CEO*

Because H&R Block doesn't give that information, we don't give that information. But -- and the difference between the IRS number of 0.6% decrease and IRS somewhat of 2% increase, it's somewhere between that number.

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

Okay. What was your same-store sales number through the 28?

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**John Hewitt** - *Liberty Tax - Founder, Chairman, CEO*

Because we had a slight decrease in offices, it was higher than the overall 5.7%.

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

If you correct for tenure, was that still the case?

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**John Hewitt** - *Liberty Tax - Founder, Chairman, CEO*

Something we may not know, tenure, as you and I do but tenure is looking at first year offices growing exponentially to second year offices growing to third year offices and so forth. The tenuring is the major growth year-after-year in our same-store sales. So it is the result of tenure.

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

Can you talk about what you see online for first, you and then possibly, the industry, particularly if the fraud issue question on earned income is equalized?

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**John Hewitt** - *Liberty Tax - Founder, Chairman, CEO*

It's hard to guess exactly how the IRS is going to equalize the playing field. But as described previously, it's not an even playing field. The taxpayers have to jump through far more hoops than someone who files online to -- especially in the earned income credit where there's been a big shift over the last three years. Mostly, it was a three year ago impact.



But we see more and more people switching to fraud, doing it online in our own online and we've had -- we and the states have and the federal government have continued to put in more and more checks and balances to make sure that it doesn't get through. But that should normalize once the IRS puts some regulations in practice that make it an even playing field for the assisted and the do-it-yourself filers.

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

Your online guesses been -- I assume is been adversely effected by the competition, particularly in do-it competition early in the year. What you see as your ability to compete that industry against someone like them and some of the others who are heavy spenders?

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**John Hewitt** - *Liberty Tax - Founder, Chairman, CEO*

It's difficult for us to compete with the 800-pound gorilla that's spending hundreds and millions of dollars in advertising and is a household name in online. And so we're not going toe-to-toe with them. I believe in the David and Goliath story that if you went on the same, if you went on the field with the same armor, the same shield, the same sword that Goliath had, there wouldn't be a story. It would have been the 187 guy killed by Goliath, so we have to do things differently. And actually, we're beginning to take an AOL like approach.

I know Michael you're old enough and most of them in the call are old enough to remember a world, where they were millions of free AOL discs across America. And we are willing to do tax returns for free because the tax returns that are started online and finished online at Liberty are more likely to, if they have a problem to go into Liberty office or if they change from online to assisted go into a Liberty location.

So online for us is the competitive advantage over Intuit, who has no offices to send their customers with questions into and has advantage over the mom and pops, who are the dominate force in assisted, who have no online if the customer is jumping back and forth between assisted and online. It's not large for us yet.

And certainly, we're adversely affected when Intuit came out with their Absolute Zero program from mid January to mid February. However, we have an Absolute Zero program that goes for the entire season. So we expect it to be able to use that in the future to help us grab market share, because it's going to be a long time before we could spend hundreds of millions of dollars advertising in that market.

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

Okay. And then shifting to assisted. Over the last several years, the assisted numbers have been I guess almost -- growth almost de minimis. Can you talk you about where you see that going over the next several years?

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**John Hewitt** - *Liberty Tax - Founder, Chairman, CEO*

We've been saying that since ACA came about the last year. We've been saying that we expected a shift from do-it-yourself to assisted, because of ACA and the complications of ACA. We still see that happening. The unfortunate thing for the pay, the assisted preparers is that's going to happen in the latter half of this tax season from now until April 15th of this tax season, but even much more so in 2016 and 2017.

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

Should it be happening already? In other words, when we look at the last couple of weeks, we've actually seen accelerating declines in the IRS numbers.

**John Hewitt** - *Liberty Tax - Founder, Chairman, CEO*

The declines in the IRS numbers are in our opinion related to -- a lot related to weather. There has been particularly bad weather. We missed in Virginia Beach, where we average less than 10 inches of snow a year. We missed seven schools days in the last 2.5 weeks. So obviously, this is not a snow area. So weather has been a big reason for that. And if you know the tax season, people procrastinate them and they don't procrastinate just till March, they wait until April. So we don't expect the big impact until the last 10 days of the tax season.

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

Thanks, John. I appreciate it. Thank you.

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**John Hewitt** - *Liberty Tax - Founder, Chairman, CEO*

Thanks, Michael.

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**Operator**

And our next question comes from the line of Kartik Mehta with Northcoast Research.

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**John Hewitt** - *Liberty Tax - Founder, Chairman, CEO*

Welcome, Kartik.

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**Kartik Mehta** - *Northcoast Research - Analyst*

Hi, John, how are you?

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**John Hewitt** - *Liberty Tax - Founder, Chairman, CEO*

Good.

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**Kartik Mehta** - *Northcoast Research - Analyst*

Hey, John, when you speak with your franchisees, is pricing other an issue as in the price you would charge for tax return versus what independents are charging? Is that an issue and do they see that as a hurdle at all where your prices might be higher than the independents?

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**John Hewitt** - *Liberty Tax - Founder, Chairman, CEO*

We have three types of franchisees, great franchise, average franchise, and below average franchise are low performers, so high performers, middle performers, and low performers. The high performers, they don't worry about it. They offer better service. And I learned in school that you have to either beat your competitor in price or service, you don't have to beat them in both. And so our highest performers have the highest fees and they have the highest growth.

And our lowest performers complain about the mom and pops and try to match their fees. So it's all across the board. But on balance, what we've learned is that you get what you pay for. And if you're willing to offer higher service, you can get higher prices. And it doesn't matter what the mom

and pop is selling down the street. When you go into the grocery store, I'm sure it's a Diet -- its Coke and Pepsi and Generic Cola. Generic Cola is only half of or less of what Coke and Pepsi are, but all the sales are in Coke and Pepsi.

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**Kartik Mehta** - *Northcoast Research - Analyst*

And then, you had some good success at least from a number standpoint and your financial product. Now, is some of that just timing because of what happened last season or are you if you kind of normalized for that, are you seeing some good success selling financial products and if so, is it just refund transfers or is it more people taking debit cards or going to paper-check?

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**John Hewitt** - *Liberty Tax - Founder, Chairman, CEO*

The success of our financial products over the last year is almost exclusively refund transfers. As you know, you have been following this industry a long time. The industry was hurt years ago when the refund anticipation loan was pushed out of the opportunity for tax payers and caused many millions of people to do their own returns versus coming in and paying preparers.

So we were hurt by that those government regulations. But at the same time while we were hurt by that back in four years ago, the banks have a monopoly in refund anticipation loan and they took most of the profit from the refund transfer to enable us to offer refund anticipation loans. Since they can't offer refund anticipation loans anymore, we have been able to shift that and now we get most of the profit from the refund transfers.

And so, we expect that to continue. There is a little bit of an upswing and we get 100 basis points a year approximately in a greater number of people taking the refund transfer. But the biggest success over the last three years has been in taking the lion share profits away from the banks and taking it in house.

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**Kartik Mehta** - *Northcoast Research - Analyst*

And then just one last question, John, based on what you have seen, I guess, industrywide the numbers that other companies had put out, any concern at all that, you have seen a migration from assisted DIY?

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**John Hewitt** - *Liberty Tax - Founder, Chairman, CEO*

No. I don't. I think the 15-year trend or 12, 13, 14, 15-year trend of 60% to 62% paying in prep each year continues to look like it's going to be the case success. Again, as I said, previously, we expect that to increase over the next couple years as both ACA, the complications of ACA kick in fully, they are barely kicked in at all yet and Immigration Reform.

The people that the new filers the undocumented workers they are much higher percentage that pay prepare then the non-Hispanics. So those two factors should push those numbers in our favor, in assisted preparation.

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**Kartik Mehta** - *Northcoast Research - Analyst*

Thank you very much. I appreciate it.

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**John Hewitt** - *Liberty Tax - Founder, Chairman, CEO*

Thanks, Kartik.

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**Operator**

And our next question comes from the line of Scott Schneeberger with Oppenheimer.

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**John Hewitt** - Liberty Tax - Founder, Chairman, CEO

Good morning, Scott.

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**Scott Schneeberger** - Oppenheimer - Analyst

Hey. Good morning, John. The -- just want to talk a little bit more on price and assisted. What would be you just outlined how you provide customer service and react on price? I'm just curious what you're seeing out there? Is there aggressive mom and pop pricing? And then from H&R Block, any read through to what they're doing in the store front with price? And then how you're positioning with price? At least you can compare and contrast those three groups? Thanks.

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**John Hewitt** - Liberty Tax - Founder, Chairman, CEO

Anecdotally, we haven't seen any significant change in mom and pop pricing this year versus prior years. And from what our franchisees are saying, Block is in the same kind of price increase that we are in the 5%, 6%, 7%. So we don't -- because there is 80,000 mom and pops, we don't get a lot of clear data, but no area the country is complaining that mom and pops have been aggressive in pricing and/or Block has been then hurtful in their pricing.

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**Scott Schneeberger** - Oppenheimer - Analyst

Okay. Thanks. With regard to the office count, I mean, obviously, that's coming out of some retail location had an impact. And you did grow the retail offices over the -- traditional offices but not to the magnitude you'd expected. This -- that got a little bit discussed on this call, but were you getting pushback? Was your field just -- what was there a theme to why franchisees did not expand office count this year? Just curious, if there is something that can be built as theme on that?

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**John Hewitt** - Liberty Tax - Founder, Chairman, CEO

Again, if there was any national theme, it was that, I can either -- I am a franchisee, I can either focus on ACA and get licensed and build my business through the -- being the best at handling ACA or I can add an office. They generally went in favor of favoring, getting a license in adding ACA and in to as much smaller extent, if I cannot add an office or two offices or just one Siempre, I'm going to open a Siempre.

So in a way, it was a bit of a distraction, ACA and Siempre but that's a good distraction long term -- unfortunately, it was poor distraction short term but a good distraction long term and that we're poised to take advantage of immigration reform and Obamacare for years to come.

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**Scott Schneeberger** - Oppenheimer - Analyst

Okay. And just I mean, it sounds like with Siempre is a good thing long term obviously, small traction of ACA may have been the bigger distraction of the two you just mentioned and that probably is going to require a re-education next year or at least incremental education next year that will be a distraction? Are you going to change incentives, change anything to improve that or do you feel that you do have the means? I know you are not going to share too much for the competitive reasons butE

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**John Hewitt** - *Liberty Tax - Founder, Chairman, CEO*

Right.

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**Scott Schneeberger** - *Oppenheimer - Analyst*

Eis it easily remediated?

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**John Hewitt** - *Liberty Tax - Founder, Chairman, CEO*

It is. There is no -- nothing worthwhile is easy. So I'm not going to say it's easily remedied or -- but I can say one thing it's my focus and it's going to happen. And we are going to grow office count.

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**Scott Schneeberger** - *Oppenheimer - Analyst*

Okay. Great. And one last one John, going north to of bottom in quarter, given the theme of the weather today, what are you seeing up in Canada? We saw Block just get more aggressive, kind of, an absolute free there for their online product. What are you seeing overall and then specifically to store fronts?

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**John Hewitt** - *Liberty Tax - Founder, Chairman, CEO*

Yeah. We're right the peak, we're in the peak week in Canada. So it's too early to say but we have modest growth in Canada better than we do in United States.

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**Scott Schneeberger** - *Oppenheimer - Analyst*

Anything very dynamic this year you're seeing different versus last year in the industry?

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**John Hewitt** - *Liberty Tax - Founder, Chairman, CEO*

Nothing significant. Although like in the United States, less -- the Canadian government have received less tax returns than the prior year. And again the weather is certainly even more of a factor up there.

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**Scott Schneeberger** - *Oppenheimer - Analyst*

Okay. Thanks John. They were long questions.

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**John Hewitt** - *Liberty Tax - Founder, Chairman, CEO*

Thanks Scott.

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**Operator**

And we do have a follow-up question from the line of Lee Jagoda with CJS Securities.

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**John Hewitt** - Liberty Tax - Founder, Chairman, CEO

Welcome back Lee.

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**Lee Jagoda** - CJS Securities - Analyst

Hi. Just a couple more from me. John, can you just take a minute and remind us of the technical difference between in-house and outsource financial product and why despite negotiating very low rates on an outsource basis, did you decide to take such a large percentage back in-house?

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**John Hewitt** - Liberty Tax - Founder, Chairman, CEO

Yeah. Obviously, the in-house where we did depositing is more profitable but Lee we don't want any single point of failure in the 21st century both Block and Jackson Hewitt hit the wall when their banks abandoned them in November, December and it cost them significant profit.

So we just want to have, make sure we don't have a single point of failure and the banks that were handling -- that were allowing to use other house, if you will, is -- that's just a protection against any problem that we may have.

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**Lee Jagoda** - CJS Securities - Analyst

And did you foresee any regulatory risks of bringing both the lion share over the vast majority of the financial products in-house on a go-forward basis?

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**John Hewitt** - Liberty Tax - Founder, Chairman, CEO

We don't. We haven't seen any significant push back. So we don't no. We don't see a risk in the near future of that.

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**Lee Jagoda** - CJS Securities - Analyst

Okay. And then just my last questions, switching gears up to Canada, can you disclose the number of stores you have in Canada this year versus last tax season?

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**John Hewitt** - Liberty Tax - Founder, Chairman, CEO

We'll get that for you. It's approximately the same. We've been approximately the same number of offices for the last five years. So it's just short of 300, but we'll get to that number if you like.

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**Lee Jagoda** - CJS Securities - Analyst

Okay. Terrific. That's all I have.

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**Operator**

And we do have a follow-up question from the line of Alex Paris with Barrington Research.

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**John Hewitt** - Liberty Tax - Founder, Chairman, CEO

Welcome back, Alex.

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**Alex Paris** - Barrington Research - Analyst

Thank you. Just a follow-up again on the financial product stuff and if I heard Kathy right, we were up 35% in the quarter. Part of that is due to the fact that you had more -- you had an earlier start to the tax season this year versus last. Part of it's due to processing more in-house than other house is more profitable. Was there any change in the attach rate?

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**Kathy Donovan** - Liberty Tax - CFO

No, the attach rate was very similar to last year and the one point that I did want to make on the timing of the volume thresholds is some of that comes back in the fourth quarter because when we hit the volume thresholds in the fourth quarter of last year, it went back to product number one, so some of that difference of 35 to 15 will normalize a little bit more in the fourth quarter. But there will still be extra growth from moving more in-house.

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**Alex Paris** - Barrington Research - Analyst

Got you. And then would you expect it to grow beyond 73% next year, or is this is the right mix between in-house and out house - out of house for diversification purposes?

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**Kathy Donovan** - Liberty Tax - CFO

I think that every year we have conversations over the summer with our banks and we see what the pricing is and we make that decision each off-season. But John, what would you?

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**John Hewitt** - Liberty Tax - Founder, Chairman, CEO

We are going to continue to maximize our profitability.

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**Alex Paris** - Barrington Research - Analyst

Okay. Fair enough. And then one last question and it's a fundamental question. Both, Liberty Tax and H&R Block noted their slow start to the tax season. Both Liberty Tax and H&R Block have said second half is going to be stronger than the first half and both have said but we probably won't get back to where we thought we were going to be. Why is that, number one? Because we still expect a 1% to 3% increase in filing and assuming you are going to maintain or grow your market share, why wouldn't it be or is it just a bottleneck in terms of body, just trying to get into a Liberty Tax store at the same time?

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**John Hewitt** - Liberty Tax - Founder, Chairman, CEO

Let me clarify, I don't think I said I wouldn't get back to where we thought we would be. We expect to get back to where we thought we would be, once we knew we were going to have the number of offices we have.

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**Alex Paris** - *Barrington Research - Analyst*

Okay.

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**John Hewitt** - *Liberty Tax - Founder, Chairman, CEO*

So, our not being where we wanted to be is in terms of office count, not in returns per office. We feel that we are on track to meet the expectations for the returns per office.

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**Alex Paris** - *Barrington Research - Analyst*

Okay. That's an important distinction of what I ask. So then, H&R Blocks commented at this time but that's something different though. All right.

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**John Hewitt** - *Liberty Tax - Founder, Chairman, CEO*

Well, Alex, they had their worst year ever last year and they were down 6.1% in returns in terms of percentage decrease is their worst year ever. And they followed it up with 8.7% decrease through February this year. Their issues are far different than ours. We are grabbing market share. We continue to grab market share. Every year, we gain market share even in the last few years where we've had less offices. Their growth is different than our growth.

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**Alex Paris** - *Barrington Research - Analyst*

Even in last eight weeks, even with you being down seven-tenths of 1% of the U.S. offices, H&R Block was down 8.7% and I think the IRS through February 28 was down 4.4% for professionally filed returns, is that right?

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**John Hewitt** - *Liberty Tax - Founder, Chairman, CEO*

That's exactly right.

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**Alex Paris** - *Barrington Research - Analyst*

Yeah. All right. Okay. Thank you very much for that clarification.

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**John Hewitt** - *Liberty Tax - Founder, Chairman, CEO*

Thank you.

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**Operator**

And there are no further questions at this time. I would now like to turn the today's call back over to you, Mr. John Hewitt for closing remarks.

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**John Hewitt** - *Liberty Tax - Founder, Chairman, CEO*

Thank you. Let me finish by reminding you that Liberty is committed to have happy successful franchisees and happy successful employees. And I want to thank all of you for your efforts this tax season and we promise to get better at having happy successful franchisees and employees, which will enable us to be number one. Thanks, everyone and have a great day.



**Operator**

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

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