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TAX - JTH Holding Inc Earnings Conference Call

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CONFERENCE CALL PARTICIPANTS

Scott Schneeberger *Oppenheimer & Co. - Analyst*

Thomas Allen *Morgan Stanley - Analyst*

Michael Millman *Millman Research Associates - Analyst*

PRESENTATION

Operator

Good morning, ladies and gentlemen. Welcome to the JTH Holdings Incorporated earnings call. As a reminder, all participants are in a listen-only mode. Later, we will open it up for a question-and-answer session, and instructions will follow at that time.

(Operator Instructions)

I'd now like to introduce JTH Holdings' General Counsel, Jim Wheaton. Sir, you may begin.

Jim Wheaton - JTH Holding, Inc. - General Counsel

Thank you, Frances. Good morning, everyone. Thank you for joining us. Today I am joined by John Hewitt, our Founder and Chief Executive Officer, and Mark Baumgartner, our Vice President and Chief Financial Officer, to review with you our first quarter fiscal 2013 results. Our earnings release went out on the wire early this morning, and hopefully you've had an opportunity to review it. The earnings release can be accessed at the Investor Relations section of our website, located at www.libertytax.com. We plan to file our 10-Q later today.

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 today 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 recently filed annual report on Form-10K for the fiscal year ended April 30, 2012, and our other SEC filings. JTH Holding undertakes no responsibility to publicly update these risk factors or forward-looking statements. With that, I will now turn the call over to John.

John Hewitt - JTH Holding, Inc. - Founder & CEO

Thank you, Jim. As you know, earlier this morning we released our first quarter fiscal 2013 results. Before we discuss these, I'd like to announce one recent development. I was proud to join over 50 of our franchisees, employees, Board members, and family to ring the opening bell at NASDAQ on August 13. It's especially rewarding to have founded two national companies that I've taken public. Many companies change their focus after going public. Liberty will not. I will continue to manage the Company with a long-term focus as our goal remains unchanged, to become the number one in the tax industry by 2020.

We are in the ramping up stage of our franchise development season. Traditionally, through July 31, we typically bring in less than 10% of our new franchisees. Although it's early, we are pleased that our inquiries, discovery data that's in applications are all up by double digits compared to last



year. In the first quarter, I personally conducted a dozen seminars for over 300 prospective buyers and met with over 250 franchisees to talk about their future plans. The morale is high, and anticipation for tax season is infectious.

Our franchisees by far are our most valuable asset, and their enthusiasm for the business is invigorating. A special note is that we continue to see significant increase in mom-and-pop operations who are interested either in converting or selling to Liberty. Certification requirements, lack of loan products, increasing IRS enforcement, and aging are pressuring these independents to change or get out. Obviously, this is positive for all three national competitors. We are especially well positioned because we have more lucrative territories available.

We call this time of the year the planning season. While our franchisees are busiest during the tax or harvest season, we are busiest now, working on franchise development, creating marketing plans, refining our technology, and looking for more opportunities to expand our brand. We are updating our tax software, developing and running tax schools for over 40,000 students, and we typically train an average of over 300 new franchisees, as well as provide advanced training for our over 2,100 franchisees. We are also developing our industry-leading financial product strategy and identifying seasonal leasing opportunities with major retailers. At this time, I'd like to announce our Investor Day, which will be held in New York City on December 12. Now I'd like to turn the call over to our CFO, Mark Baumgartner, to discuss our first quarter results.

Mark Baumgartner - JTH Holding, Inc. - VP & CFO

Thank you, John. This morning's earnings release provides the detailed financial statements and summarizes results for the 2013 first quarter, so I would like to highlight just a few items. First of all, as those of you who follow us or our industry are aware, operating results for the first and second quarter of our fiscal year are not indicative of our full year performance. During the previous three years, we have generated roughly 7% of our annual revenue in each of the first two fiscal quarters, due to the seasonal nature of the tax return preparation business, and thus we expect to incur a net loss during these quarters. Additionally, as a growth Company, we expect our quarterly losses in the first and second quarters to increase as compared to the prior year, as we staff up and spend for the upcoming tax season.

For the 2013 first quarter, we generated revenue of \$6.8 million, compared to \$4.9 million in 2012, an increase of 39%. During Q1, our revenue is mainly comprised of area developer and unit franchise fees and interest income. We ended our first quarter with a debt balance of \$40 million, and the unused portion of our revolving line of credit was \$94 million at quarter end. We are generally consuming cash in a manner consistent with the prior year as we prepare for the upcoming tax season. Our leverage ratio at quarter end was approximately 0.83 times, versus our current leverage ratio covenant of 3 times. Plans for our financial product program for the 2013 tax season are well under way. We are working diligently to expand our state refund loan program, which we call ICAs or Instant Cash Advances, to help replace the RAL program offered during the 2012 tax season by Republic Bancorp, which provided a loan product for approximately 82% of our offices. Our stated goal is to provide a loan product in virtually all of our tax offices in the upcoming season.

Lastly, I would like to comment on the performance of our stock since we became a public company on June 14, 2012. We understood prior to proceeding with the Form 10 route of becoming a public company that there would be subsequent tasks to accomplish before our stock is appropriately valued in the marketplace. During the first quarter, we completed a number of those tasks, including becoming DTC eligible and moving over to the NASDAQ on July 2, while beginning work on many others. In the remaining quarters of our fiscal year, we expect to make substantial progress on a number of key fronts, including having analysts initiate coverage of us, increasing public float of our shares, and enhancing the visibility of our Company and its historical performance. We plan to provide initial financial performance targets/goals at our Investor Day in December. And with that, I'll turn the call back over to John for closing remarks.

John Hewitt - JTH Holding, Inc. - Founder & CEO

Thanks, Mark. I'm fortunate to be surrounded by talented and dedicated franchisees and employees who are constantly striving to make Liberty Tax Service the best Company in the world. Innovation and the desire to never settle for less is what drives them. As we head toward the tax season 2013, I'd like to thank them all for their continued efforts in growing our Company. And Frances, we're now ready for questions.



QUESTIONS AND ANSWERS

Operator

Thank you.

(Operator Instructions)

Our first question is from the line of Scott Schneeberger from Oppenheimer. You may proceed.

John Hewitt - *JTH Holding, Inc. - Founder & CEO*

Welcome, Scott.

Scott Schneeberger - *Oppenheimer & Co. - Analyst*

Thanks, John. Good morning. Just a couple from me. One, I just don't recall from past conversations, what are you looking for for IRS growth in 2013?

John Hewitt - *JTH Holding, Inc. - Founder & CEO*

The IRS has forecast 1.5 million more filers every year for the next five or six years, so we continue to expect that to be at least the minimum expectation for the future.

Scott Schneeberger - *Oppenheimer & Co. - Analyst*

Thanks. And with regard to pricing for the speed of refund product this year, one of your competitors offered it for free for a period of time last year and is unlikely to do so this year. What is your position? How do you think that will play out this year across the main competitors in the industry?

John Hewitt - *JTH Holding, Inc. - Founder & CEO*

Scott, we see the price on that coming down over the next four or five years. So this year it will be -- we believe it would be the same or less than last year, and there will be pricing pressure to drive that even lower over the next few years. But this year, it won't be higher than it was last year, for sure.

Scott Schneeberger - *Oppenheimer & Co. - Analyst*

Thanks. And then just looking at your -- it sounds like you're pretty active in this off season, and I think Mark alluded to about 300 new franchisees each year. Could you just speak to how you're pacing this year, what you expect once you get into the tax season?

John Hewitt - *JTH Holding, Inc. - Founder & CEO*

Yes, we brought in over 300 franchisees on average for the last five or six years. And as we said on the call that this year, although it's very early in the season, we're only, we only historically bring in less than 10% of our franchisees in the first quarter. In terms of the franchise visits on Discovery Day and applications and interest, we're having double-digit growth, so we're excited about the start of the franchise development season.



Scott Schneeberger - *Oppenheimer & Co. - Analyst*

Okay, thanks a lot. I appreciate it.

John Hewitt - *JTH Holding, Inc. - Founder & CEO*

Thank you.

Operator

(Operator Instructions)

Our next question is from Thomas Allen from Morgan Stanley. You may proceed.

John Hewitt - *JTH Holding, Inc. - Founder & CEO*

Good morning, Thomas.

Thomas Allen - *Morgan Stanley - Analyst*

Good morning. How are you? Just from a tax code perspective, is there anything we should be watching out for over the next few months that could benefit or hurt next tax season? I don't think many people were prepared for the impact of the make work pay tax credit expiration last year, so there's similar things we should be watching out for this year.

John Hewitt - *JTH Holding, Inc. - Founder & CEO*

It's tough to tell, Thomas, because if you can tell me who is going to win the election, I can give you better insight into that. But I'll say this, that there's no major change thus far like the make work pay credit hurt the industry last year. Obviously, the new healthcare provisions that are in place will help us for the following tax season, tax season 2014. But we believe that there has to be some changes. The fiscal cliff that we're facing on January 1 is -- we believe is going to push us into recession. So we think that there are going to be some significant changes due to the expiration of all the tax changes that are in place. However, those are impossible to predict. The easiest thing for them to do would be just to replace or continue the taxes as they are today. So, we don't expect anything that's going to have an adverse or a positive impact on tax season 2013.

Thomas Allen - *Morgan Stanley - Analyst*

So if things continue to be as they are today, that would be fine. If things change at the end of the year, that could be a worry?

John Hewitt - *JTH Holding, Inc. - Founder & CEO*

No. Based on what's happened in the past, last minute changes, although they may be disruptive during the season in terms of execution, they've always provided extra customers because of the changes in the code. So we would think any code changes would be positive or neutral.



Thomas Allen - Morgan Stanley - Analyst

Okay, thanks. And then can you give us an update on your digital offering? I think you were spending there to make some improvements. Where are you in that process? And then, how do you position your digital offering versus competitors in terms of pricing? Thanks.

John Hewitt - JTH Holding, Inc. - Founder & CEO

Thomas, we've conducted a next generation software project where we're almost completed with that, and it's a three-year project. We've invested over \$20 million in that to come out with a state-of-the-art product, but we'll be making those presentations at our Investor Day in December. We're not prepared to announce what our marketing efforts or goals are until our December Investor Day.

Thomas Allen - Morgan Stanley - Analyst

That makes sense. Okay, thank you.

John Hewitt - JTH Holding, Inc. - Founder & CEO

Thank you.

Operator

Your next question comes from the line of Michael Millman from Millman Research Associates. You may proceed.

John Hewitt - JTH Holding, Inc. - Founder & CEO

Welcome, Michael.

Michael Millman - Millman Research Associates - Analyst

Thank you. Could you talk about the Meta deal, how much was involved, what do you expect? Are they the ones who are going to do some of your RAL-type financing? If not, who is? Also, maybe from a broad standpoint, what is the IRS suggesting now about refund timing going forward, at least this coming year?

John Hewitt - JTH Holding, Inc. - Founder & CEO

I'll let Mark handle the first one. Go ahead, Mark.

Mark Baumgartner - JTH Holding, Inc. - VP & CFO

In terms of the Meta investment, we've had ongoing product conversations with Meta over the last four to five years. Meta, as many of you know, is a leader in the electronic processing space. And so when this opportunity came up to invest in them, we saw it as a way to strengthen what could be a future partnership with them. It's not a material investment. We'll be significantly less than a 5% holder in them, so it's not -- in the scope of things, it's not a material investment.

John Hewitt - *JTH Holding, Inc. - Founder & CEO*

In terms of the IRS timing, Michael, there is -- the scuttlebutt, there is no official word from the IRS yet as to when they're going to open for electronic filing. They are going to switch to modernized e-file completely and just have the legacy system as a back up. So we're -- anecdotally, we're hearing some scuttlebutt that they may delay accepting returns a few days to a week from the prior year. But we still expect it in mid- to -- somewhere between the 15th and the 23rd of January, which could be a little bit later than most years.

Michael Millman - *Millman Research Associates - Analyst*

Okay. In terms of specifically refunding, there's been some scuttlebutt as well, as the four to eight days target maybe moved back. Could you comment on what you're hearing?

John Hewitt - *JTH Holding, Inc. - Founder & CEO*

Yes, a couple years ago, they had projected by 2012 that they would be issuing refunds in five to eight days. They've totally backed off of that position, especially after the difficulty they had last season in delays in issuing refunds. So, we would expect them to be somewhere between the 10- and the 15-day refund this year.

Michael Millman - *Millman Research Associates - Analyst*

And getting back to the first question, could you talk a little bit more, give us a little more color on what you're doing regarding, I guess, financing or what's called pseudo-RALs?

John Hewitt - *JTH Holding, Inc. - Founder & CEO*

We can tell you what we've done historically, and the rest of them we'll wait until our Investor Day on December 12 to rollout our 2013 strategy. We don't want to alert our competitors as to what we're going to be able to do this season. But we're very proud of the fact that two years ago, when the regulators began pushing the banks out of this industry, that Block dropped out of the industry and Jackson Hewitt scrambled to get partial coverage and stayed with the last lender in the industry, Republic. We in 2011 rolled out this pilot ICA program in Ohio very successfully. We expanded it last year into seven states in over 150 offices very successfully, and now all of our offices in those seven states today are able to offer loans. If a customer was to come in on August 29 could get a loan on their refund. So, we're the leaders in this industry and we expect to stay that way, but our projections for 2013 will be given out on Investor Day on December 12.

Michael Millman - *Millman Research Associates - Analyst*

Okay. And just, I guess, there's a balance sheet question. Your purchase of assets for franchisees quadrupled, maybe low numbers, but maybe you can discuss that?

Mark Baumgartner - *JTH Holding, Inc. - VP & CFO*

Quadrupled, I'm not sure, Michael -- this is Mark -- where you're seeing that.

Michael Millman - *Millman Research Associates - Analyst*

I'm now looking again.



Mark Baumgartner - *JTH Holding, Inc. - VP & CFO*

Yes, what you'll begin to see, and we disclosed this in our Form 10 as well as in our 10-K filing, that you'll see us begin to buy back some of our area developer deals as those deals become mature in certain markets. And so that activity will also run through that line item.

John Hewitt - *JTH Holding, Inc. - Founder & CEO*

We view this as an excellent opportunity for consolidation. Most companies have to consolidate outside their own company, but with about one-third of our royalties going to our area developers, it's an opportunity to grow our cash flow over the next six or eight years.

Michael Millman - *Millman Research Associates - Analyst*

This was specifically purchases of assets from franchisees. Does that include the ADs?

Mark Baumgartner - *JTH Holding, Inc. - VP & CFO*

Yes.

Michael Millman - *Millman Research Associates - Analyst*

Okay, great. Thanks, Mark.

John Hewitt - *JTH Holding, Inc. - Founder & CEO*

Thank you, Michael.

Operator

(Operator Instructions)

At this time, there are no questions in the queue. I'd like to turn the call over to Mr. John Hewitt for final remarks.

John Hewitt - *JTH Holding, Inc. - Founder & CEO*

Well, thank you, Frances. And thank you for the callers and thank you for your interest in Liberty Tax. And we look forward to seeing you at our Investor Day on December 12. Have a great day, everyone.

Operator

Ladies and gentlemen, this concludes your presentation. You may now disconnect. Have a good day.



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