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# EDITED TRANSCRIPT

TAX - JTH Holding Inc Q3 FY 2013 Earnings Conference Call

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## CORPORATE PARTICIPANTS

**Darby Schoenfeld** *JTH Holding Inc. - Director - IR*

**John Hewitt** *JTH Holding Inc. - Chairman, CEO*

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

## CONFERENCE CALL PARTICIPANTS

**Carter Meeks** *Cost Research - Analyst*

**Joe Janssen** *Barrington Research - Analyst*

## PRESENTATION

### Operator

Good afternoon ladies and gentlemen and welcome to the JTH Holding Inc. Third Quarter Earnings Call. As a reminder, all participants are in a listen-only mode. Later we will open up for question and answer session and instructions will follow at that time.

(Operator Instructions)

As a reminder, this call is being recorded. I will now turn the conference call over to Darby Schoenfeld, Director of Investor Relations for JTH Holding. You may begin ma'am.

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### **Darby Schoenfeld** - *JTH Holding Inc. - Director - IR*

Thank you. Good afternoon everyone and thanks for joining us. With me today are John Hewitt, our Founder, Chairman, and Chief Executive Officer; and Mark Baumgartner, our Vice President and Chief Financial Officer. The press release announcing our third quarter earnings was distributed this afternoon.

The earnings release can 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 of the call. The information to access a 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 of -- 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, 2012 and our other SEC filings. JTH Holding undertakes no obligation to publicly update these risks, factors, or forward-looking statements.

I would now like to turn the call over to our founder, chairman, and CEO, John Hewitt; John.

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### **John Hewitt** - *JTH Holding Inc. - Chairman, CEO*

Thank you Darby. I'd like to start the call today by talking about the impact the late start of the season had on the industry as a result of Liberty Tax. Then I'll cover our taxes and results through February 28. After that I will turn things over to Mark who will detail for you the financial results of our third quarter.



I've said over and over that in my 44 years in the tax industry this was the latest start of the season I've ever seen. The unprecedented delay impacted the industry with broader effects in just to delay in ours and our franchisees revenue. The shift in revenue from the third quarter to the fourth quarter did have a significant impact. The shift was not only felt in corporate, but also by our franchisees.

In anticipation of the original January 22 beginning to e-filing, we had already made the move to increase our line of credit by \$38 million. We believe that the initial one week delay not only would the company need additional operating cash during the third quarter, our franchisees would also need assistance.

Once the IRS further delayed e-filing for another week and delayed some significant forms another month, the impact was even larger than originally thought, but we were well prepared. As a result of concerns about decreased operating cash flow because of the delayed season, some of our franchisees decided not to open additional offices.

Also with the additional of the Wal-Mart opportunity, many of our existing franchises chose to operate a kiosk in Wal-Mart instead of expanding with the traditional storefront. We also saw a large increase in the number of new franchisees purchasing existing offices. Given these items and the fact that small business lending continues to be difficult to acquire, we are pleased to say that we were able to keep up with our past growth, opening 337 net new offices this tax season.

Even though this is below the guidance we gave at investor day. Another result of the delay was the change in the ramp-up of returns. Typically we see a slow build in the number of returns in the early season, which peaks around the end of January, early February. This gives both us and the IRS time to iron out any kinks in the system before peakage. With a late start to filing, there was no ramp-up, our offices were full the day the IRS opened the e-filing.

This was compounded by the fact that this year was the first year all states were required to file through modernized e-filing. Out of the 42 states that have state income taxes, 35 had not tested modernized e-filing prior to this season. And unfortunately there was no real time [file] over to the IRSs legacy system in the event something went wrong. So as the issues began to appear in state e-filings, there was no way to shift to the older system as we worked with states to get things ironed out.

Moving on to our interim US tax results as of February 28, the reference I'm going to compare where we were as of January 31, so you can see the progress there has been made. At January 31, the number of US customers served by us and our franchisees in the calendar year were down 27% year-over-year. At February 28, total US customers served for the calendar year were down 1.4% year-over-year.

For the calendar year-to-date through February 28, our US system-wide revenue has increased 5.2% compared to the prior year. We are encouraged by our strong February numbers with the IRS announcement in early March that they were ready to begin accepting the last delay tax forms finally all tax payers can file.

According to the IRS website, total US returns received were down 12.9% for the calendar year as of March 1, 2013 verses calendar year 2012 ending March 2. However, we believe that if you adjust for the extra leap day last year and the extra day of March 2 into 2012, total US returns were actually down about 10.5% to 11%.

Based upon the tax season today and the change the IRS implemented with regards to the earned income tax credit form, we believe the total tax returns of the United States will be flat to up 1% this filing season instead of our original estimate of up 1. -- 1% to 2%. Before I turn things over to Mark in regards to our partnership with Wal-Mart, we expanded into 300 Wal-Marts in a difficult tax season.

We have already begun preliminary planning with Wal-Mart for next season and hope to be able to expand this relationship going forward. Now I'd like to turn the call over to our CFO, Mark Baumgartner to discuss our third quarter results.



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

Thank you John and good afternoon everyone. Our revenues for the three months ended January 31, 2013 decreased 14.3% to \$30.5 million versus \$35.7 million in the prior year period. The decline in revenues primarily due to the unprecedented delay in the start of the tax season causing a decrease in most of our revenue line items.

This was somewhat offset by an increase in interest income since we increased the amount of operating loans that we made to franchisees during the initial nine months of our fiscal year. Also due to the differences in the structure of the current year's contract for the instant cash advance, or ICA program, the accounting for the program changed. And we are now required to account for the program on a net basis instead of gross.

So instead of recording revenue and expenses separately within our income statement, we recorded the net amount we received as financial product revenue. Operating expense for the three months ended January 31, 2013 increased 2.2% to \$27.6 million versus \$27 million in the prior year period. The increase was primarily due to an increase in hiring to support growth, the operation of additional company owned stores, and becoming a public company.

This was somewhat offset by a decrease in general and administrative expenses as a result of the change in accounting for the ICA program. Operating expenses in the third quarter included approximately \$461,000 of cost associated with being a public company that were not incurred in the prior year quarter. Operating expenses for the first nine months of the fiscal year included approximately \$1.5 million of cost associated with being a public company that were not incurred in the prior year.

Net income for our fiscal third quarter ended January 31, 2013 was \$1.1 million, or \$0.08 per share compared to net income of 4.7 million, or \$0.33 per share in the prior year period. Net loss for the nine months ended January 31, 2013 was \$11.7 million, or \$0.92 per share compared to a net loss of \$4.6 million, or \$0.41 per share for the nine months ended January 31, 2012.

At January 31, 2013 due to the shift in revenue from the delayed start to the tax season, we were not in compliance with our leverage ratio covenant in our credit facility. We recently obtained a waiver from our banks syndicate and as of March 7 we had paid our revolving line of credit down to 36 million. We appreciate the support we have received from our banks syndicate and their understanding that the delay of the tax season merely shifted the timing of our revenue and the subsequent repayment on the line of credit.

While we are only required to have support of 51% of our bank partners, we were happy to receive 100% approval of the waiver. From January 30 to February 8 we continued our testing of our state based loan program this year to replace the no longer available refunding participation loan. And the results were promising. When we compared offices that were open in both years, the ones that offered the ICAs had slightly better performance.

We are committed to continuing the development of financial products that are demanded by certain of our customers. Finally, we are reiterating our full year net income and effective tax rate guidance of \$20 million to \$21.5 million and \$38.6 million respectively. Revenue guidance for the fiscal year 2013 which is being updated to a range of \$120 million to \$125 million, primarily due to the change in accounting for the ICA program and the operation of fewer company stores than previously projected. I'd like to turn things back to John.

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**John Hewitt** - *JTH Holding Inc. - Chairman, CEO*

Thanks Mark. Operator, we are now ready for questions.

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## QUESTIONS AND ANSWERS

### Operator

Thank you. (Operator Instructions) Thank you and our first question comes from the line of [Carter Meeks] (inaudible), I'm sorry, Cost Research, please go ahead sir.

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**John Hewitt** - JTH Holding Inc. - Chairman, CEO

Hey Carter. Welcome.

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**Carter Meeks** - Cost Research - Analyst

Thank you, John. How are you?

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**John Hewitt** - JTH Holding Inc. - Chairman, CEO

Super.

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**Carter Meeks** - Cost Research - Analyst

Are you able to give some kind of indication as to how your new stores are performing versus the stores that have been in the system? Just to get an idea of how the trends are going for you.

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**John Hewitt** - JTH Holding Inc. - Chairman, CEO

Well, just let me say it this way, Carter, that industry wide we've seen that because the season was delayed, the customers that came in typically came in to their prior year tax prepare. So it's a very difficult start up year for new offices. That's all I can say about and that -- we're hoping that changes by April 15 and the later season customers continue to be attracted to the new offices.

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**Carter Meeks** - Cost Research - Analyst

And I think you made a comment about your substitute [rall] product, and I'm wondering is there anyway to look at how that product is performing in offices that are offering that versus in offices where you might not have that product. What type of difference you're seeing in terms of client increases?

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**John Hewitt** - JTH Holding Inc. - Chairman, CEO

As Mark said, we're doing -- we're happy that it had a positive effect on those offices. We're not ready to announce that number yet until at least we finish this season.

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**Carter Meeks** - Cost Research - Analyst

And then just one last question. I think, John, you stated that your existing franchisees are purchasing offices, are these offices of independence that no longer want to be in the business, or are these offices -- other franchisees that might have chosen a different path?



**John Hewitt** - JTH Holding Inc. - Chairman, CEO

Yes. We're happy that each year we're able to retain over 90% -- or approximately 90% of our franchisees. Well, when you have 2,000 franchisees and you're retaining 90% of them, and that represents 200 franchisees that are leaving approximately and they're taking somewhere in the neighborhood of 400 offices.

So much of our gains in the future will be gains due to that type of attrition. We already have enough franchisees to sell our goal of about 11,000 offices in the United States because one day our franchisees will average five or six offices a piece. So that's just normal attrition in our franchise system.

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**Carter Meeks** - Cost Research - Analyst

Well, thank you very much, John. I really appreciate it.

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**John Hewitt** - JTH Holding Inc. - Chairman, CEO

Thanks Carter.

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**Operator**

Thank you. And the next question comes from the line of Andrew (inaudible) from CJS Securities. Please go ahead, sir.

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**John Hewitt** - JTH Holding Inc. - Chairman, CEO

Welcome.

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**Unidentified Participant**

Good afternoon. I was wondering if you could discuss how the tone of the way heading into March will affect your profitability. In the month you generally have done pretty aggressive promotions in March. Is there an opportunity to maybe offer less promotions and become more profitable in returns you do in March?

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**John Hewitt** - JTH Holding Inc. - Chairman, CEO

You know most of our gain is going to be in April. There's really two kinds of customers, customers that come in early and they want their money fast and then customers that don't care about how quick their refund and they tend to procrastinate. Well, this year they have an extra reason to procrastinate because of the fiscal cliff, because of late forms.

March is never been profitably in my 44 years. It's not going to be profitable, or extremely profitable. The most profitable months are January, February, and April. Although, we are continuing to see increases versus prior years. The big growth is going to be in the last week of the tax season for this industry.

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**Unidentified Participant**

Got it. And then could you discuss the waiver with the banks. It's not clear based off of the line in the press release. Are you in compliance at this point?

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**John Hewitt** - JTH Holding Inc. - Chairman, CEO

Yes. The leverage ratio is measured on a quarterly basis. The banks granted us a waiver on that calculation as of January 31. So we are technically in compliance with our bank deal today.

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**Unidentified Participant**

Got it. Thank you. And in terms of competition what are you seeing from the market right now?

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**John Hewitt** - JTH Holding Inc. - Chairman, CEO

You know Andrew, we have -- with over 2,000 franchisees -- we have a lot of information coming from the field. And I would characterize it by saying that our franchisees are not complaining about Block or Jackson-Hewitt, or anyone in their market. So I would say pretty status quo compared to the previous year in terms of at least our major competitors.

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**Unidentified Participant**

All right. Thanks very much. I'll get back in queue.

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**Operator**

Thank you and the next question come from the line of Julian (inaudible) from Barrington Research. Please go ahead sir.

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**Joe Janssen** - Barrington Research - Analyst

Yes. It's Joe Janssen. Thanks for taking my call. I just wanted to get back to that first question real quick and I'm just trying to do the math here in my head. You know if you look -- try to get that same store sales and you might not want to comment on this, but if exclude your new store account and assuming those stores don't perform at the optimal level, if they are a mature store.

And given your comments through 2/28 total return filings versus the IRS, is it fair to say you're gaining market share?

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**John Hewitt** - JTH Holding Inc. - Chairman, CEO

You know Joe we've always gained market share in my 30 year career competing with Block, every year. And, yes, we are definitely gaining market share. Our offices are doing far better than the IRS and far better than Block announced. And, yes, you're right, our new offices, even in normal times do considerably less than our mature offices as they tenure from their first to their typically maturity of their seventh or eighth year.

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**Joe Janssen** - Barrington Research - Analyst

Great. Thank you. And then you talked about this in the prepared remarks, your expectations for new store count versus the actual. Can you just bridge that gap for me one more time?



**John Hewitt** - JTH Holding Inc. - Chairman, CEO

Yes. There are a couple things happening. Number one is the election set up back more than we thought it would that this administration has not been kind to small business. There are -- as we said at our inventor day there are less franchise units in this country of all kinds than there were in 2008. And so for the first time in any four-year period there's been a decrease and that include McDonald's and HR Blocks and Liberty and Subway and so forth.

There's less franchise units. So that hurt. But the fiscal cliff really was the clincher that stopped a lot of people from coming into the business and/or expanding because it was such up in the air. I know at least one analyst asked me during December, or January, if they thought the IRS refunds were going to be delayed until after the season. That customers wouldn't get their refunds because of the sequester problem.

So there was a lot of concern that slowed us down a bit in office growth. But we're happy that we're the only ones that are growing. The Block and Jackson-Hewitt have less offices today than they did five years ago, and we continue to grow.

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**Joe Janssen** - Barrington Research - Analyst

Great. And then just one last question, maybe you can talk about the refund -- excuse me, your refund transfer product and kind of what you're seeing there in terms of [attachment] rate? I mean, is it in line with historical average, or are more people -- because I think on your analyst day you had dropped the price a bit to consumer. Are you seeing a higher attachment rate?

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**John Hewitt** - JTH Holding Inc. - Chairman, CEO

Our attachment rate is about the same because one of the reasons our average fee is up so dramatically this year is our franchisees, we dropped the fee in most areas of the country about \$11 to the consumer. That enabled our franchisees to raise their fees, raise their profits. And so it wasn't as much of a decrease in cost to the customer. But our attachment rate is very in line with similar -- with prior years.

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**Joe Janssen** - Barrington Research - Analyst

Great. I'll jump bank in queue. Thank you.

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**John Hewitt** - JTH Holding Inc. - Chairman, CEO

Thanks Joe.

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**Operator**

Thank you. And the next question comes from the line of Scott (inaudible) from (inaudible). Please go ahead sir.

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**Unidentified Participant**

Thanks. Hi John. Hi Mark.

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**John Hewitt** - JTH Holding Inc. - Chairman, CEO

Hey Scott.

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

How you doing Scott?

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**Unidentified Participant**

I guess first question I want to ask is can you guys kind of help bridge US calendar year through February 28 increases revenue, increased 5.3% and then US same time period filings down 1.4%. John is that the RT revenue split benefit this year, or -- I mean, the underlying question here is how is your pricing year over year really?

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**John Hewitt** - JTH Holding Inc. - Chairman, CEO

The 1.4 includes both our inline and our office count. And our pricing is up. I think you can -- I think we've released the numbers in the back of our press release.

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

Yes. That has -- the back of the press release has the number of offices and the growth --

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**John Hewitt** - JTH Holding Inc. - Chairman, CEO

Sufficed to say Scott, our average fees are up in the range of 8% to 9%.

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**Unidentified Participant**

Okay. Okay. So system-wide at the tax stores, it's up 8% to 9%, fees are?

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**John Hewitt** - JTH Holding Inc. - Chairman, CEO

Exactly.

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

And the returns are down 3.5%.

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**Unidentified Participant**

Okay. Yes. I see. I'm looking at that chart, Mark thanks. Okay. Understood. That's helpful. And then following up on the RT question just asked, if you want to quote numbers that'd be great John or Mark. But so you are offering a lower priced RT verses competitors. Do you care to talk about magnitude and form of -- are you offering on debit card, are you offering in check? Just comparing and contrasting, you're offering from a pricing and dynamics standpoint verses your competitors, thanks.



**John Hewitt** - JTH Holding Inc. - Chairman, CEO

The prices are in line with our competitors. So I mean, there's only a few dollars difference in the prices. And it's not apples-to-apples because there's state fees and federal fees. There's -- our competitor for example, Block, has a \$20 check fee if you get a check versus a debit card. We do offer debit cards, but unlike Block we don't push it on our customers.

So we have a low attachment rate. It's less than 5%. So we do offer -- you can get a check, or you can get a debit card, but we don't charge our customer extra to get a check.

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**Unidentified Participant**

Thanks. And then, John, any comment on the fast 50 promotion, how that worked for you this year?

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**John Hewitt** - JTH Holding Inc. - Chairman, CEO

No. Scott, the fast 50 -- you mean the cash in a flash?

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**Unidentified Participant**

Yes.

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**John Hewitt** - JTH Holding Inc. - Chairman, CEO

That's very positive for us. Our customers -- every customer that comes in gets \$50 cash. And very popular with our customer base. And we've been doing that for six years.

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**Unidentified Participant**

Thanks. And then how are the mom and pops comparing this year from your contacts? Not necessarily the Blocks and the Jackson-Hewitt's, but the mom and pops?

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**John Hewitt** - JTH Holding Inc. - Chairman, CEO

Well, I think they continue to suffer from lack of bank products, but also based on the numbers we're seeing from our competitors, I think that they're suffering at the expense of the national players because Blocks numbers were better than the IRS numbers. Our numbers are better than Blocks and better than the IRS. So that would lend one to believe that obviously the mom and pops are losing market share.

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**Unidentified Participant**

Thanks. And then one last one if I could, the ICA, did you -- given the fiscal cliff disrupts that offering -- did you reduce the number of states in which you offered and if so how many? I've heard earlier the commentary that you're doing better relatively in the locations where you have it. But I'm just curious (inaudible).



**John Hewitt** - JTH Holding Inc. - Chairman, CEO

Actually, at investor day we said -- I believe we said we're going to do 26 states and we did 27 states. But we only did it through peak period ending in February 8. And as you can imagine the demand to get a loan on your refund dries up as soon -- begins drying up rapidly as soon as everyone has their W-2s. So we just offered it. We offered it in more states but only through February 8.

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**Unidentified Participant**

Okay. Thanks. Appreciate the question.

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**John Hewitt** - JTH Holding Inc. - Chairman, CEO

Thanks Scott.

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**Operator**

I would now like to turn the call over to Mr. John Hewitt for closing remarks.

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**John Hewitt** - JTH Holding Inc. - Chairman, CEO

Thank you everyone for your interest in the company. We look forward to talking to you after the end of the fiscal year. Have a great day.

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**Operator**

Thank you for your participation in today's conference. This concludes the presentation. You may not disconnect. Have a good day. Thank you.

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