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TAX - Q2 2015 Liberty Tax Inc Earnings Call

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PRESENTATION

Operator

Good morning. My name is Evelyn, and I will be your conference operator today. At this time, I would like to welcome everyone to the Liberty Tax Incorporated second-quarter FY15 earnings conference call.

(Operator Instructions)

I would now like to turn the call over to Cari Fisher, with Investor Relations. Please go ahead, ma'am.

Cari FisFisher - *Liberty Tax Inc - IR*

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 second-quarter earnings was distributed this morning. The earnings release can be accessed at the Investor Relations section of our website located at www.LibertyTax.com. A replay of this call will be available shortly after the conclusion of the call. The information to access the replay was in the earnings press release.

I would 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 this date, and are not guarantees of future performance. Forward-looking statements involve certain risks, uncertainties and assumptions that are difficult to predict. As a result, our actual outcomes and results could differ materially. You can learn more about these risks in our annual report on Form 10-K for the fiscal year ended April 30, 2014 and our other SEC filings. Liberty Tax undertakes no obligation to publicly update these risk factors or forward-looking statements.

I would now like to turn the call over to our Founder, Chairman and CEO, John Hewitt. John?

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

Thank you, Cari, and good morning, everyone. Let me start by saying that I am more excited than I have been in decades about this upcoming tax season, and about the industry as a whole. We are expecting the industry to experience dramatic growth over the next few years. This growth stems from three major factors.



First, the economy has added over 4.4 million jobs since January 2014. This increase is the largest increase in jobs in the 21st century. Second, the Affordable Care Act will cause more people to file, and a higher percentage of people to seek assistance from paid preparers. Third, Immigration Reform Act will require millions of undocumented workers to begin filing tax returns.

Because we still have not heard from the IRS when they will begin accepting tax returns, we anticipate that it may be around January 31. This late start though will not affect the increase in filers. We are expecting over 3 million more filers for the upcoming tax season, and an even larger increase in the following season. Liberty is prepared and ready for this growth.

Let's talk about what we are doing. We will be adding more [successful] year-round offices and decreasing our seasonal offices which historically have significantly lower return counts. Return count growth comes from adding offices and by increasing same-store sales. The most profitable way to increase return count is by increasing same-store sales.

In the past, we have provided mid year data on the total number of new franchises brought in the system. We believe this information has become less important now that we are, already have the right number franchises to reach our long-term goals in terms of office count. At present, we have approximately 2,000 franchisees that operated last year, an average of two offices each ranging anywhere between 1 and 50 locations. Our goal and anticipation is for our franchisees to operate when mature six to seven locations each, which will completely fill out our available territories.

As far as new territories sales year today, we've sold approximately 105 new territories, compared to approximately 65 during the same period last year, and 190 in 2013. Our now discounted zero franchise fee program was in full swing during 2013, which accounted for 81 of the 190 new territories. Excluding these, we are roughly in line with our 2013 numbers.

Based on our testing of the zero franchise fee program, we concluded that it was unsuccessful, and we discontinued it in an effort to attract and retain higher quality franchises who are better able to manage the financial aspects of the business, and fulfill our goal of each franchise operating multiple offices. While this may be decreasing the number of new franchisees going forward, we believe we will have a better base of long-term financially stable franchisees will produce solid results.

Our franchisees are adding offices daily through the month of December, so it is too early to give you a final count for the upcoming season. We can say though, that our total office count will increase over last year. Last season, as ACA enrollment was just getting under way, we conducted multiple tests to determine how we could best assist our customers. These tests including having license insurance agents in some of our offices, referring customers to local insurance agents, and an online solution called Liberty Health Exchange. As a result of these tests, we are continuing and expanding our efforts regarding ACA now and throughout the upcoming season.

This season many of our offices will have franchisees and their employees who are licensed insurance agents themselves. Over 1,200 of our franchisees and/or their employees have already obtained their health insurance licenses, and are able to answer questions and write health insurance policies now. In some offices, third-party licensed insurance agents will rent space and answer questions regarding ACA. We have contracts already in place with these types of agents and are still in negotiations with others. In other offices, we will continue one of our tests from last season, referring customers to a website or a toll-free number for ACA-related assistance.

While we believe this will be benefit to some, we are least excited about this approach, and believe our tests will be more impactful -- other tests will be more impactful. Although we may see a small amount of revenue from the health insurance premiums, our main focus is to build the tax business. By opening early and providing these ACA-related services now and throughout the season, we are building trust and gaining new tax customers. Many of our offices opened on November 15 this year to assist customers with ACA-related matters. This is the first time in my 45 years in the tax industry that I have ever encouraged our franchisees to open before January 1.

We currently have over 1,000 offices open full-time assisting customers with ACA and scheduling appointments for the tax season. We are also well-positioned to handle the tax insurance of the millions of new filers that will be filing as a result of the new immigration policy recently announced by President Obama. Not only do we have about 600 certified Liberty hispanic offices with bilingual preparers, but we are also have launching our new brand, SiempreTax, which is a second brand developed to assist in underserved set of customers, the growing Hispanic market. The hispanic

population is the fastest growing population in the United States, and it appears imminent that there could be as many as 5 million new filers as a result of the President's executive actions on immigration.

The President's actions provide deferred action for certain immigrants giving them time to, in his words to get right with the law. Tax returns will certainly be one of the required documents to provide -- to prove residency when applying for deferred action, and those approved will be required to pay their fair share of taxes during their deferred action period. We believe the President's action opened another door and provided a new class of taxpayer that we are ready and able to help. Our offices specifically, our SiempreTax offices and our certified Liberty hispanic offices will offer services including assistance with obtaining an ITIN, obtaining a drivers license, notary public services, other immigration help and of course, tax-preparation.

We believe our new brand along with the President's recent actions will provide an ongoing tailwind even after the ACA impact has reached its full potential in the next several years. Our franchisees have already signed up to open over 60 Siempre locations this tax season. Although 60 may sound like a small number, to put it in perspective, let's look at the beginning of a few other tax franchises in the United States. When H&R Block started, they had one office. When I started Jackson Hewitt, they had six offices, and at Liberty five. SiempreTax is the biggest opening in tax franchise history.

In order to escalate our growth plan, we are taking these actions and implementing these major initiatives. We are looking once again to grab market share in a market that is poised to grow faster than ever. Now I like to turn the call over to our CFO, Kathy Donovan.

Kathy Donovan - Liberty Tax Inc - VP and CFO

Thanks, John. Good morning, everyone. As John said, we have spent the first half of the year preparing for the upcoming tax season, and rolling out our Affordable Care and SiempreTax initiatives. We believe both of these programs position us well to grow our customer base both this year and for several years to come.

Turning to the financial results for the quarter, we generated revenue of \$7.7 million, compared to \$7.3 million in 2014. Franchise fees and transfer fees drove most of the revenue increase. Transfer fees are earned when one franchisee sells a territory to another, and they are included in the other revenue category on our income statement. Our franchise sales were higher this year than last, and when you exclude the impact of zero franchise fee program in 2013, are much more comparable to the levels we saw that year, because we had the benefit of a much more normal selling season this year.

On the expense side, reported operating expenses for the quarter grew by \$5.1 million. Nonrecurring items, which are described in table E of our press release, drove \$1.9 million of the increase. The largest nonrecurring item during the quarter was related to a tentative settlement for one of our pending class-action cases. We accrued \$2.1 million during the quarter to cover the settlement amount, net of an anticipated recovery from the vendor involved in the underlying claim.

Excluding the increase in nonrecurring items, adjusted operating expenses for the quarter grew by \$3.2 million. We spent approximately \$1 million during the quarter on the combined launch of our SiempreTax and Affordable Care initiatives. As I said, we believe these initiatives will produce long-term benefits for the Company, and position us very well for the future. The remainder of the increase in expenses is related to higher commissions, advertising and AD fees associated with the higher franchise sales, along with higher general corporate expenses in support of our continued growth.

Our tax rate for the second quarter was 39.7%, which is in line with last quarter. We expect the full year rate to come down and be similar to last year's rate, once Congress renews the R&D tax credit for this year. As a result of the increase in expenses, our second-quarter reported net loss increased to \$11.3 million or \$0.89 per share, and our adjusted non-GAAP net loss, excluding the nonrecurring items, increased to \$9.4 million or \$0.74 per share. Our investments during the quarter in Siempre and the Affordable Care initiatives drove about \$0.05 of that net loss.

Now to the balance sheet and cash flow. During the quarter, we worked with our banking partners to amend and extend our revolving credit facility. We increased our revolving line of credit from a previous commitment of \$143 million to \$204 million, and extended the term date for two

years from April 30, 2017 to April 30, 2019. We also negotiated some additional room in our third-quarter leverage covenant. We appreciate the support of all of our banking partners, and we believe this larger facility will support our growth for the next several years.

As expected, we increased the amount drawn on our revolver during the quarter. At the end of the second quarter, we had drawn \$51.7 million, versus \$13.8 million last quarter, and \$38.5 million a year ago. The increase of \$13.2 million versus prior year was primarily used for share repurchases, higher cash tax payments on the prior year results, and incremental operating expenses to support our growth. We expect to begin to pay back the revolver in February, and to pay it back completely by the end of March when we receive funding from the IRS.

In terms of share count, our average basic share count for the quarter dropped approximately 200,000 shares from Q1. This reflects the full quarter benefit of the 800,000 shares we repurchased in early June, as well as other share repurchases during the quarter. We have approximately \$5 million remaining under our share repurchase program, and we will continue to evaluate the use of this program as favorable opportunities arise. As some of you may have seen, our shelf registration statement filed in October became effective on Friday. We filed this registration statement to maintain our flexibility going forward, and have no specific plans for an offering by the Company, at this time.

In conclusion, we have had a busy off-season, launching our new Affordable Care and SiempreTax initiatives, selling new territories, and working with our existing franchisees to open previously sold territories. We feel good about where we are for the year, and we continue to believe the Affordable Care Act and immigration reform will provide tailwinds for the industry and for us, for the next several years. With that, I would now like to turn the call back to John.

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

Thanks. Operator, we are now ready for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Lee Jagoda, CJS.

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

Welcome, Lee.

Lee Jagoda - *CJS Securities - Analyst*

John, can you talk a little bit more about the seasonality related to a franchise opening? Maybe discuss a little more about [in regard] today versus the end of October from a progress perspective?

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

From a what perspective, Lee?



Lee Jagoda - *CJS Securities - Analyst*

From a progress perspective.

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

Yes, we are -- versus last year, we are significantly ahead of last year, and that was mostly due to our SEC restatement. We feel good about, even comparing our results to the following year.

Lee Jagoda - *CJS Securities - Analyst*

If I think about the 60 Siempre locations that [you've signed up] for this tax season, did that include, in the 105, or is that incremental to the 105?

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

That is included in the 105.

Lee Jagoda - *CJS Securities - Analyst*

Okay. John, related to the Walmart locations that I think you said, you expect to decline year-over-year, is there any update on that?

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

Yes. One of the reasons we're declining the amount of locations in Walmart this year, is that Walmart significantly -- for the first time in 20 years -- I've been dealing with Walmart for 20 years -- at both Jackson Hewitt and Liberty -- the increased the rent dramatically. In some cases, tripling or quadrupling the rent. So the rents which averaged under \$5,000 for the last few years, are in the neighborhood of more like \$15,000 this year.

So we're -- we only have access to the Walmarts that are left over from Jackson Hewitt. Jackson Hewitt had first opportunity, and they have 2,800 locations and they took most of the best locations. So as a result of the increased rent, and the fact that we have access to inferior locations, we are reducing them. In addition to that, Lee, they performed far less than the store fronts. Store fronts are our bread-and-butter.

Lee Jagoda - *CJS Securities - Analyst*

That's very helpful. I will hop back into (inaudible) we look forward to seeing you at our conference in January.

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

Thanks, Lee.

Operator

Joe Janssen, Barrington Research.



Joe Janssen - *Barrington Research Associates, Inc. - Analyst*

Good morning, John, good morning, Kathy. Hey just -- you talked about the opening of -- or not new stores, stores earlier this year, to get clients informed about ACA. I know it's maybe a little early in the process, but I am just curious what you are seeing on the ground, or what you are hearing from these clients in terms of like confusion, and maybe just some color on that?

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

Yes. We are not only open in over 1,200 -- or over 1,000 locations, but we are actively calling our customers. We have called hundreds of thousands of our customers. The customers are very receptive because there is so much confusion in the marketplace. It's a larger benefit, and the fact that we are asking our customers, not only if they have questions, but do you know anyone that has questions?

In the areas of the country where we have a presence, we only have about a 5% market share. So that means that when we are making these calls, only 5 out of 100 people that are in that market we are serving and doing their tax returns. So we are bringing a dramatic number of new customers into our offices to answer their questions. So we're really happy with the program, and happy that we have chosen -- as I said, for the first time in 45 years, to open before January.

Joe Janssen - *Barrington Research Associates, Inc. - Analyst*

And then, when you get them in the store, are you then offering some incentive to come back in January/February to get their taxes done? Or is it just more conversation right now?

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

Absolutely, and in fact in some cases, we are actually starting their tax. But that's a bit confidential, but yes, we are doing whatever we can to capture them as tax customers for 2015.

Joe Janssen - *Barrington Research Associates, Inc. - Analyst*

Okay, and then switching gears a bit, your existing same-store -- or your existing store base. Last year, you were kind of -- giving you were -- blacked from selling the 15 franchises for a big chunk of it. You were a little bit more aggressive than usual in closing some underperforming stores or swapping them out to new owners. If you look across the portfolio now, are you happy with your existing store base, and should we expect maybe less closures this year?

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

We are happy with our existing franchise system, and we think we are poised for excellent increase in same-store sales.

Joe Janssen - *Barrington Research Associates, Inc. - Analyst*

Okay. And then, one last question, and I will jump in queue here. You talked about the elimination of the try before you buy, that zero down program. You've operated that for a few years. I am just curious, is that a function that these particular want-to-be-entrepreneurs are not likely to succeed on the Liberty model, or just not really in it, and you have gotten better results from people that are willing to put skin in the game?

John Hewitt - Liberty Tax Inc - Founder, Chairman and CEO

Yes, let me talk a minute about those zero franchise -- franchises. What happened is, beginning in the great recession in 2008, the funding for small business startups dried up dramatically. And actually, there were less franchise units of all kinds in this country in 2012, than there were in 2008. So small business was not growing, and the funding for small business was not growing.

While our \$65,000 or \$75,000 franchise startup cost isn't very high compared to other major franchises. For example, the average startup franchise in this country is over \$400,000. So our \$65,000 to \$75,000 was very reasonable, and enabled us to be in the top 10 fastest-growing franchises of all kinds year after year. However, people were struggling to come up with that money. And so, we looked at what Block had done.

What Block has done and what they've done since the beginning of time essentially, is they don't charge a franchise fee. Instead of charging of franchise fee, they charge a very high royalty, in excess of 25% compared to our 14%. So what we decided is to copy the Block model and have the ability for franchisees to come in, pay a higher royalty, and a lower startup fee. So the lower startup fees, instead of being \$65,000 or \$75,000, were just in the neighborhood of \$25,000.

Well, that didn't work out as we had hoped. What happened was, less investment came, less quality franchisee, with less investment of time and commitment. So, the numbers for those franchisees that started under that program for a couple of years were significantly lower than the number of franchisees that came in at the normal franchise fee and the lower royalty. So, we chose to drop that program in favor of a more successful program that we have been than having since the beginning of time.

Joe Janssen - Barrington Research Associates, Inc. - Analyst

Okay. That helps. I will jump back into queue. Good luck on this upcoming tax season.

John Hewitt - Liberty Tax Inc - Founder, Chairman and CEO

Thank you.

Operator

Michael Millman, Millman Research Associates.

Michael Millman - Millman Research Associates - Analyst

A few questions. Starting -- the 3 million, or over more 3 million more filers this year, how do you see that breaking down between normal growth, I guess economic growth, and some of the other factors, ACA, emigration? Can we assume that many of the immigrants covered by the new procedures already pay tax? Is just a matter of them filing?

John Hewitt - Liberty Tax Inc - Founder, Chairman and CEO

No. I think -- I guess if I had to break it down quickly and broadly, I would say that at least 1.5 million are going to come from the increase in employment, so at least half from the increased employment. Another 1 million or so from the ACA, and about 0.5 million from the 4 million or 5 million more people that are going to file. Because I don't believe that these 5 million -- the 5 million undocumented workers are going to rush to file their tax returns until they are approved, they filed an application and have been approved. Based on our experience, Michael, in providing ITINs, which are identification numbers for undocumented workers that don't have Social Security numbers to enable them to file a tax return. And for those that don't know the tax law, that the government cannot use those ITINs or the information given in getting an ITIN, to go after them, and find them and deport them.



However, the undocumented workers primarily don't believe that, or are fearful that if they file an ITIN application that they will be tracked down and deported. So our guess is that at least 4 million or 4.5 million of the 5 million are not filing tax returns. However, we believe that the major impact will be after they file their application which would probably be at least March or April next year. So the biggest impact of those filers will be in the following tax season. So again, if I had to break it down, I would say half from the employment from ACA, and about 0.5 million from undocumented workers. And more, I think it could be as high as 4 million or 5 million. But we believe it is going to be over 3 million.

Michael Millman - *Millman Research Associates - Analyst*

Okay. Looking at pricing, can you talk about how you plan to price for the ACA? And the IRS just recently came out with 10 items to -- for tax preparers to discuss, do you see charging for each one of them? Or is it all part of the total?

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

To say it succinctly, we expect a tailwind of about 2.5% from ACA this season, and another 2.5% the following season. So in addition to the forecasted increase of 4% or 5% that we are anticipating before ACA, we anticipate about 2.5% impact this year. And again, the same impact in the following season. So I would expect our fees to go up by [7]% for each of the next couple of years.

Michael Millman - *Millman Research Associates - Analyst*

Great. What's your online expectation for Liberty and for the industry?

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

I think online suffers because of ACA, that people will be turning to assisted preparers. This is the biggest tax change I've seen since 1986. And so, there is very little memory in this industry of those tax changes.

What happens during times of large tax change, it drives people to preparers. So I think over the next couple of years, we see a shift in assisted tax-preparation growing for the first time. It's been pretty stagnant for 10 years, roughly the same year after year. I expect a shift over the next two or three years, every year, towards assisted tax-preparation.

Michael Millman - *Millman Research Associates - Analyst*

And a final, can you talk about pricing you see for [HERC], if we still use that term? And for you and for the industry?

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

Yes, we call them RTs now, refund transfer, trying to mirror what other people are all calling. I think the pricing, our pricing remains the same from last year.

Michael Millman - *Millman Research Associates - Analyst*

Which is?



John Hewitt - Liberty Tax Inc - Founder, Chairman and CEO

It's about \$40 per customer.

Michael Millman - Millman Research Associates - Analyst

And do you see the industry remaining flat, as well?

John Hewitt - Liberty Tax Inc - Founder, Chairman and CEO

My competitors don't share that information with me. But I don't see any reason it's going to go down. I think it will be flat, yes.

Michael Millman - Millman Research Associates - Analyst

Okay. Thanks, John.

John Hewitt - Liberty Tax Inc - Founder, Chairman and CEO

Sure.

Operator

Scott Schneeberger, Oppenheimer.

Scott Schneeberger - Oppenheimer & Co. - Analyst

Hey, good morning, John and Kathy. How are you? I guess, to start off the -- John, you mentioned earlier about -- uncertain when the start of the tax season will be, and since we have had the last few at the very end of January, you did make the comment that it would still be, in your opinion, a strong first peak. Could you address that a little bit, just what you see the timing and the drivers? Also, just the follow-up question is going to be looping in, you having more stores opened earlier, and just a little bit of what's going on in that, and the interim time period? Thanks.

John Hewitt - Liberty Tax Inc - Founder, Chairman and CEO

Yes, the -- since 1969 when I started in this industry, there has always been people driven to file early to get their refunds, and those customers live paycheck to paycheck. They have lower income. They are younger, and they file as soon as they get all their W-2s. So whether the IRS is set up to file them, and send them their refund, it's not going to slow them down very much.

There will be -- if the tax season is delayed until January 31, there will be a modest decline in demand. But that's going to be more than made up for the extra 2.5% to 3% more filers this season. So we expect strong volume in January. Because we're -- it's easier to gain a new customer by proving you are fast, which are the early filers versus proving you are experienced and thorough, which are the later filers, it is easier to prove you are fast.

We historically grow more in the January, early February time period than in later in the season. So opening early is just going to give us a jumpstart in all the offices that opened early. We expect to see significant increases in early January.



Scott Schneeberger - *Oppenheimer & Co. - Analyst*

Thanks. Just curious, in the press release it says there are -- adding year more year-round offices, decreasing number of seasonal offices, and you have addressed it a little bit on this call. But can you discuss a little bit more following up on that thought? That the dynamic of the performance of each kind, and is -- where it was discussed earlier where you've had some closures, is that more the seasonal offices? Is that more the new -- and this is a change for you, doing a bit more open year round? Is that because of ACA, because of immigration, just going to be the trend going forward?

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

Yes. That's exactly right. Our store fronts do roughly twice as well as our seasonal kiosks or better. And so opening the store -- we encourage our franchisees to open the store fronts in place of those seasonal locations. That's good for both of the situations you described.

It's good for ACA in answering questions, in a longer -- we have a longer period of volume, compared to ever. And the fact that we started November 15 and we will go to April 15, and next year it starts even earlier, it starts in October. So that's good for us, that we have more time to be in front of customers.

Our store fronts are much more profitable than our seasonal locations, and that's all beneficial to us, and that's going to carry forward. ACA is going to take three years to really maximize the opportunity, and the undocumented workers will take even longer, four or five years. So we have the strongest tailwinds I have ever seen in this industry, or at least since the 1980s.

Scott Schneeberger - *Oppenheimer & Co. - Analyst*

Thanks. And I know you are a primarily franchise model, so a lot of that extra opening of the offices is going to be -- the cost is going to be borne by the franchisees. What's the sentiment of the field on that? Also any financial impacts we would see on the financials of Liberty? Thanks.

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

The morale in the field is the strongest I have ever seen it in. Since we opened -- my [non-compete] ended in 2000 -- the morale of the franchisees is the stronger than ever. Not only are they excited because they have strong same-store sales last season, but they are expanding, they are adding locations. The best franchisees are buying from the poor performing franchisees. They are expanding their base. They are getting licensed agents, and we are excited about the Hispanic program. Our 600 offices that are certified Hispanic in addition to our Siempre offices, are ready, fully ready to help people fill out their immigration paperwork and do their tax returns, as soon as that becomes available from the government.

Scott Schneeberger - *Oppenheimer & Co. - Analyst*

Thanks. And then, last question is a two-parter, it builds off what Michael was asking earlier. You mentioned 3 million more this year, and more than 3 million more filers next year in the industry. Could you speak in percentage terms, just so we know what base you are using? And then historically, you have been willing to guesstimate what some of your competitors might be looking at for their growth relative to your growth? I am just curious to hear what you think on that front? Thanks.

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

Yes. Last year, or last couple of years, 135 million to 140 million people have filed during the tax season. So we expect it to grow by 3 million -- over 3 million this year, and it could grow by anywhere from 4 million to 6 million next year. Because the exemptions that the IRS has issued for not paying your health insurance has exempted tens of millions of Americans from paying a penalty on their tax return this year.

Historically, when there has been a new penalty instituted, they have given a one-year waiver. So the number of people that are impacted by ACA will increase next year, and the number of filers will increase next year. But most of it is the undocumented workers that I think will hold off until they have some type of proof from the government that they are going to be allowed to stay without being deported.

As soon as that -- those applications are filed and approved, I expect that to grow exponentially. So we would expect 3 million or 4 million more people to file in tax season 2016, as a result of that. So that will be the biggest impact, two years from now.

Scott Schneeberger - *Oppenheimer & Co. - Analyst*

Thanks. Finally, if you don't want to comment -- but, just curious on this current year, what you think for volume growth across your competitive field?

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

Yes. They said, I think it's widely attributed to John F Kennedy, that a high tide lifts all boats. And so, I can't -- I can't do anything but believe that everyone, Block and Jackson Hewitt and mom and pops, we are all going to benefit from these shifts, these unique shifts that haven't happened in decades.

Scott Schneeberger - *Oppenheimer & Co. - Analyst*

Great. Thanks very much.

Operator

Stefan Mykytiuk, ACK.

Stefan Mykytiuk - *ACK Asset Management, LLC - Analyst*

I just wanted to clarify and I apologize if maybe -- I dropped off for a couple questions a bit ago -- but the 105 new territories, that's actually the number of new franchisees, not the number of offices?

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

No. We have more new franchisees than that. That is the number of new, unique territories that were opened. Many of our franchisees are buying existing -- from existing franchisees. So that's just the unique territories that were unopened last year.

Stefan Mykytiuk - *ACK Asset Management, LLC - Analyst*

Okay. So did you address actually how many new offices you expect this year?

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

We haven't (multiple speakers). Stefan, what we have said, is that every day we are adding offices, as we find them. So we are not prepared yet, to indicate how many office that we are going to have during the season. We can say that it's going to be more. We are going to have more store fronts than last year.

Stefan Mykytiuk - *ACK Asset Management, LLC - Analyst*

Okay. And so, when you say store -- the number of office or the number of locations will increase year-over-year despite the fact that you are closing a number of Walmarts?

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

We believe that, yes, that's true.

Stefan Mykytiuk - *ACK Asset Management, LLC - Analyst*

Okay. Terrific. All right. Thanks so much.

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

Thanks, Stefan.

Operator

I will now turn the call back over to Mr. John Hewitt.

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

Thank you for your attention, everyone. And again, we're excited. This is a great time to be in the tax-preparation industry, and we are looking forward to reporting our next quarter. We will talk to you then. Have a great day.

Operator

This concludes today's conference call. You may now disconnect. [End of transcript]

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