

Mossberg's Investor Digest

Best Idea Profile:

JTH Holding, Inc. (NASDAQ:TAX)

DESCRIPTION:

JTH Holdings, Inc. is the parent company of Liberty Tax Service, which is the third-largest and fastest-growing retail tax preparation company in the industry's history. The Company provides federal and state tax preparation services and related financial products. It also facilitates refund-based tax settlement financial products, such as refund anticipation loans, electronic refund checks, and personal income tax refund discounting. Founded in 1997, the Company has 4,200 offices in the United States and Canada, with the majority owned by the company's 2,100 franchisees. JTH is headquartered in Virginia Beach, Virginia.

KEY INVESTMENT CONSIDERATIONS:

Predictable Growth Market – Tax preparation is a stable business that is protected from economic vagaries and boosted by annual changes in tax requirements that drive people to use paid preparers. Upcoming changes to the tax code and health care reform also reinforce the upcoming need for paid preparers. The industry's total projected compound annual growth rate of individual returns is 1.2%.

Experienced Management – JTH Holdings was founded by John T. Hewitt, a pioneer in the tax industry. He is also the founder of Jackson Hewitt, which he left in 1996, and is the only person to have founded two separate franchise companies ranked in the top 25 in the world by *Entrepreneur* magazine. Top management in the other top two competitors is considerably less tenured.

Third Largest and Closing – Liberty has 2% market share, which is third behind H&R Block (18%) and Jackson Hewitt (3%). The remainder of the market is highly fragmented. Liberty's market share has grown more than 24% annually over the last ten years and it is currently the fastest growing tax preparer. Management believes its franchise model and unique financial product capabilities give it a short-term advantage over the bigger players, and a long-term advantage over smaller tax preparers.

Wal-mart Expansion– Beginning in early January 2013, Liberty will offer tax preparation services in more than 300 Wal-mart Stores, providing a convenient solution for customers looking for local tax preparation.

Other Growth Avenues – Management sees further growth opportunities in the conversion of mom and pop businesses that are either aging out or lack the financial product or ability to satisfy growing IRS enforcement initiatives. The already expanding Hispanic market may grow exponentially if a mass amnesty program becomes a reality. The company is also studying new geographic markets, such as India, Brazil and Australia, to provide new opportunities.

VALUATION:

The stock has seen consistent pressure as a major venture capital holder is exiting its investment. The VC did not get sell its position during the early 2012 initial public offering and are now exiting as a planned strategy. The Company does not have an active analyst following and is thinly traded. Nothing is certain but death and taxes, but here is an opportunity to share in the growth of Liberty Tax Service's expansion.

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Investment Data (as of 11/27/12)

Recent Price	\$13.74
52-Week Range	\$8.85 - \$15.50
Fiscal Year End	April
Dividend	NA
Yield	NA
Shares Outstanding	14.0 M
Average Trading Volume (3 mos)	14k
Market Capitalization	\$193 M
Cash	\$2 M
Long-term Debt	\$41 M
Enterprise Value (EV)	\$232 M
Book Value	\$6.79
TTM Revenue	\$111 M
P/ Revenue	1.7
TTM EPS	\$1.16
P/ EPS	11.9
TTM EBITDA	\$36 M
EV/ EBITDA	6.39