



Blucora Q3 2016 Management's Prepared Remarks

The following is Blucora management's prepared remarks on a conference call Thursday, October 27, 2016 at 5:30 a.m. PT / 8:30 a.m. ET to discuss Blucora's third quarter 2016 financial results. This webcast can be accessed within the Investor Relations section of the Blucora corporate website at www.blucora.com.

FORWARD LOOKING STATEMENT - STACY YBARRA, VICE PRESIDENT INVESTOR RELATIONS

Good morning, and welcome to Blucora's investor conference call to discuss third quarter 2016 earnings.

Before we begin, I'd like to remind you that during the course of this call, Blucora representatives will make forward-looking statements, including but not limited to statements regarding Blucora's expectations about its products and services, outlook for the future of our business and growth initiatives, and anticipated financial performance for the fourth quarter and full year.

Other statements that refer to our beliefs, plans, expectations or intentions - which may be made in response to questions - are also forward-looking statements for purposes of the safe harbor provided by the Private Securities Litigation Reform Act. Because these statements pertain to future events, they are subject to various risks and uncertainties, and actual results could differ materially from our current expectations and beliefs. Factors that could cause or contribute to such differences include, but are not limited to, the risks and other factors discussed in Blucora's most recent Quarterly Report on Form 10-Q on file with the Securities and Exchange Commission. Blucora assumes no obligation to update any forward-looking statement, which speak only as of the date the statement is made.

In addition, during this call, our management will discuss GAAP and non-GAAP financial measures. In the press release, which has been posted on our website and filed with the SEC on Form 8-K, we present GAAP and non-GAAP results along with reconciliation tables, and the reasons for our presentation of non-GAAP information.

We have also provided supplemental financial information to our results in the investor relations section of our corporate website at www.blucora.com and filed with the SEC on Form 8-K.

Now, I'll turn the call over to John Clendening. Following his comments, Eric Emans will review third quarter results and full year outlook. Then we'll open up the call to your questions.

JOHN CLENDENING, PRESIDENT AND CHIEF EXECUTIVE OFFICER

Thank you, Stacy. Good morning everyone, and thank you for joining our call today, especially those of you joining live from the West Coast where it's just after 5:30 am and still at least two hours before sunrise.

Since joining Blucora as CEO six months ago, I have had the opportunity to work hand in hand with a team that is successfully evolving Blucora into a strong and growing technology-enabled financial solutions firm. I'm excited about sharing the progress we've made and the results achieved in the third quarter. We are becoming the company we told you we would become. We are building a strong leadership team, reengineering our operating model to align with our new vision, acting to lift business unit performance, and driving synergies between HD Vest and TaxAct.

During my first two quarterly calls I shared our near term focus on the four Ds – Divest, De-lever, Deliver and Drive, with each D representing a key component of our action plan to transform our business. I will continue with that same cadence as I share our results with you today.

In the third quarter we completed the *divestiture* of Infospace to OpenMail for \$45 million. We have nothing to announce today regarding the sale of Monoprice. However, negotiations have accelerated with a short list of high potential buyers and we hope to have news to share with you very soon.

We continue our efforts to *de-lever* our business by paying down debt. In the third quarter, we used the proceeds from the Infospace sale to retire \$45 million of our Term B loan. With a total debt reduction of \$133.4 million in 2016, fueled by the strong cash-flow generation profile of our businesses, we have already taken a significant step toward achieving our goal of a 3x net leverage ratio.

During the third quarter, we *delivered* revenue and Adjusted EBITDA ahead of expectations, driven by better than expected results at HD Vest. Additionally, we took steps to *drive* synergies between HD Vest and TaxAct, along with corporate decisions that will set us up for future success, both of which I will discuss shortly.

Starting with Wealth Management.

In the third quarter, revenue performed ahead of expectations at \$80.1 million, up slightly compared to the prior year. Segment income was strong at \$11.6 million.

It was a positive quarter for us on the advisory side of the house as we saw the highest net flows into advisory since the first quarter of 2015. Advisors and end-clients are increasingly relying on VestVision®, our goals-based investment and retirement planning tool. Goals-based planning was up 18-percent year-over-year, contributing to stronger net flows. Since launching VestVision® in 2014, over 12 thousand plans have been created. We are encouraged by this increase in adoption, as a goals-based plan puts our advisors in the best possible position to well-serve clients in addition to driving asset accumulation.

Transaction revenue also performed better than expected this quarter. As I noted last quarter, we had some volatility in transaction revenue in June but revenue bounced back in July and stabilized in August and September.

Let's turn to DOL. At our last earnings call, we explained that we would be in a position to share more clarity on the investment and cost ramifications in this call. We are now prepared to share our current best estimates on each.

Big picture, the team is working hard on the various implementation plans necessary to enable compliance. The simplest way to satisfy the new DOL rule is to appropriately have clients in fee-based advisory relationships. While we are pleased that 26.5-percent of our client assets are already in a fee-based account, driving 41-percent of revenue, it's a certainty that this percentage will increase over time.

Given this, an important implementation step around DOL is upgrading our advisory platform trading technology. We have partnered with a leading provider to offer a new state-of-the-art platform that will give our Advisors in the field and our home office portfolio managers the ability to more efficiently create and manage investment portfolios, efficiently trade more security types, and rebalance when appropriate.

The new platform will also provide our team with enhanced insight into client portfolios and the ability to better monitor for issues like concentration, drift from target asset allocation, and inactivity in accounts, helping to foster compliance with the DOL best interest standard. This is an important investment in our capabilities, and we are now in execution mode.

In full candor, which you can expect in these calls, I want you to know that while the DOL prompts this investment now, it's clearly something we would have needed to do in the near future regardless.

While we are investing in the advisory part of the business, we do not intend to follow the lead of those who are abandoning commission-based model in IRAs. Our reasoning is simple: while an increasing number of investors are adopting fee-based advice, many will continue to prefer to pay for investment advice on a transactional basis. And, as a client-centered business, we are committed to giving our investors choice in terms of how they want to work with us. This will require some product development which is underway.

Advisors are receptive to the progress we are making on DOL implementation and our efforts to help them evolve their businesses while complying with the DOL rule. Many have expressed to me first-hand their excitement about the technology investments we are making. In addition, we've seen strong advisor attendance at our webinars covering the DOL fiduciary rule and increased engagement at chapter meetings where the topic has, and will continue to be, a prominent theme in our program.

In addition to technology investments, we will also experience increased costs associated with, among other things, compliance, investment due diligence, account monitoring and vectoring clients into appropriate products and platforms.

Many of these expenses are one-time in nature, while others will be ongoing. Let me share the numbers as we see them right now.

1. *Initial one-time.* In total, we are likely to invest around \$5.7 million in start-up costs over this year and next, with approximately 60-percent of this total associated with upgraded technology. A large portion of this technology spend will be associated with utilization of existing internal resources, and can largely be capitalized.
2. *Ongoing.* We expect annualized ongoing expenses of around \$1.8 million, in the aforementioned areas.

These represent the total estimated costs as we now see them. We expect the impact of these to be reduced through deprioritizing other efforts as well as sharing some of the increased costs with advisors.

And, for clarity, all implications of the DOL rules for this year are embedded into our guidance for the fourth quarter.

While we feel confident about these expense estimates, we have more work to do on the revenue side, particularly in light of the inherent challenge in forecasting revenue given the degree of change we are facing. There are a number of moving parts:

- As noted earlier, we expect a shift to fee-based advisory, with regard to existing IRA accounts as well as new accounts.
- We anticipate new and lower minimums on fee-based advisory solutions, to serve a wider client base.
- Additional guidance and interpretation of the fiduciary rule is expected from the DOL in the coming months.
- Product manufacturers are starting to evolve their offerings to adapt to the DOL requirements.
- And lastly, but importantly, we are working through how to best share some of the revenue implications with advisors, end-clients, and vendors.

Given that uncertainty, I want our shareholders to know we are focused squarely on the elements we can control:

- We will continue to move toward goals-based relationships with our clients.
- We will meet our clients where they are, offering terrific fee-based *and* commission-based solutions.
- We will offer fee-based advisory solutions at a very low level of minimum assets, to make working with HD Vest accessible to nearly all investors.
- We are committed to providing our advisors the proper training to enable our entire set of offerings.
- We will make the technology investments necessary to maintain and grow a healthy and competitively advantaged business.

While DOL is a material shift, garnering significant attention, we are also moving on other fronts to build long term value, with many of these efforts centered around investments in our advisors. We recently launched the following programs:

1. We have initiated a new referral relationship with an investment banking firm to serve our business owning clients' investment banking needs. As our advisors' business owning clients grow their businesses, this relationship will afford HD Vest and the advisor the opportunity to facilitate participating in a potential liquidity event for the client. In so doing, we will generate referral fees and be well-positioned to provide our clients with wealth management solutions with respect to the transaction proceeds. Thus far, we have a number of advisors that have potential transactions in the pipeline to present to our banking partner over the next 6 to 12 months.
2. We launched a new advisor equity program for our top advisors. Blucora will offer stock options to the top 75 advisors - all of whom play a critical role in the success of the business. We are offering other rapidly growing advisors the opportunity to participate in the program as well. We believe this offers a great opportunity to align advisors with shareholders' interests in terms of encouraging growth as well as enabling enhanced advisor retention.
3. We are offering HD Vest advisors a free version of our TaxAct 2016 Professional Edition, a terrific value. This is another way that we can bring value to our advisors through synergies. We just launched the program a few weeks ago and the results are very promising.

Wrapping up on Wealth Management, while we are pleased with exceeding guidance this quarter, we are certainly not yet satisfied with our results. The business is back on course compared to our conversation three months ago, but we recognize we still have a lot of work ahead. I view these positive trends as a foundation for future growth.

Now turning to Tax Preparation.

With new product features and a compelling value proposition, the TaxAct team is ready for another successful tax season. Consumers can expect us to make significant headway on improving the import capability of the product, among many other exciting new features. Data integration was the one gap we had versus the competition and I'm pleased with the significant progress for tax year 2016.

This offseason the team commenced work to develop a multi-year journey to reestablish TaxAct as a challenger brand. It's too early to share details of our plans for competitive reasons, but needless to say we are very excited about the direction in which we are headed and the opportunities that lie ahead given our strong value position in the space. Our goals continue to center around profitable growth in DDIY through bringing more value to our customers. I look forward to sharing more with you on our evolution during tax season.

I'll briefly touch on some synergy updates.

When I joined Blucora, I believed in the promise of uniting TaxAct and HD Vest was sensible and I saw enormous potential in the combination of these two great businesses. I'm happy to share that the synergies between them are taking shape nicely. For the upcoming tax season, TaxAct will offer its DIY customers a personalized financial assessment based on their unique filing situation. DIY-oriented customers will then have the option to open automated – or “robo” – advisory accounts for their IRAs and taxable investment accounts. The offering will be the cornerstone for a digital investing and financial planning platform, leveraging HD Vest's

30+ years of tax smart investing strategies. Through a partnership with an automated advice technology partner, we will offer financial solutions that are most relevant to our customers' needs, at exactly the time when people are most engaged in their finances. Additionally, we will have the ability to provide customers with maximum choice and flexibility in how they can access this unique platform, either on a 'do it yourself' basis, or as part of an advisor-assisted holistic plan through the seasoned professionals affiliated with HD Vest. No other tax return software provider or automated investment advisor offers a comparably integrated solution.

Switching gears now to our professional product. This week TaxAct is launching its 2016 Professional Federal Editions. All TaxAct 2016 Professional Federal Editions are updated with the latest tax law updates and offer comprehensive tools for organization, year-end tax planning and return preparation. TaxAct Professional's 1040 Client Organizers have been enhanced this year to help tax preparers more efficiently collect the information they need from clients to begin preparing their tax returns. With updated questions that align with each section of a tax return, 1040 Client Organizers are pre-populated with information from last year's imported returns, and are now customizable based on the clients' actual tax situations, helping preparer's deliver even greater customer value.

Additionally, this year's product will provide our TaxAct Professional users the opportunity to deliver more holistic services to their clients with the use of HD Vest's 1040 Analyst®, allowing TaxAct Pros to seamlessly integrate their clients' tax data from the Form 1040. They can then provide a customized client report highlighting investment opportunities that can help clients chart a new course for their financial future. Providing this value-added service allows the tax professional to deliver a comprehensive service to their client, while also expanding their practice.

Before I move on to Blucora corporate progress, I want to provide an update regarding the search for a successor as President of TaxAct. We continue to work with Heidrick & Struggles, a leading executive search firm, to identify candidates that can accelerate the significant momentum in this business. I have set the bar very high and we are taking our time to make sure we find the right candidate. Fortunately, we have a very strong and long-tenured bench at TaxAct, and the leadership team has stepped up to ensure we don't miss a beat.

Finally, I'd like to share some organizational changes happening at Blucora.

I've said before that we are building the strongest team in the industry. I'm pleased to share some recent progress we've made toward that goal with two new additions to the Blucora executive leadership team.

Mathieu Stevenson joined as Chief Marketing Officer for Blucora as the first enterprise-wide marketing head. Mathieu will play a fundamental role in refining Blucora's go-to-market strategies and driving top-line growth, and takes on marketing leadership for both Tax Act and HD Vest. A tested marketing leader with experience at McKinsey & Company, HomeAway and Capital One, Mathieu comes to us most recently as Chief Strategy Officer for Catalina Marketing Corporation where he led corporate strategy. Additionally, Pam Turay recently joined the team as our new Chief Human Resources Officer. Pam has 20 years of business

experience in human capital leadership including her most recent position at Jackson Hewitt Tax Service.

Today we announced another important step in Blucora's transformation. As we have been discussing publicly for several months, we are transitioning our business to a new "One Blucora" model from our prior holding company model. Additionally, in our new operating company model, the corporate team will add value by directly contributing to business unit results. The best way to support this transformation is to co-locate the corporate team with one of the operating units. With the sale of Infospace earlier this year, Blucora no longer has an operating unit in Bellevue. So we have made the decision to move Blucora's offices from Bellevue, WA to Irving, Texas by June 2017, in a carefully staged transition. At that point, we will have a two-location geographic footprint. By bringing our teams together, we will create stronger connections and collaboration across business units. In addition to increasing impact, this approach will also enable us to enhance cost savings and ultimately create additional value for our shareholders. We are committed to working with our employees to ensure that we continue to appropriately support them through this transition period. Achieving the qualitative and quantitative benefits of this strategy will require some one-time expenses that Eric will cover in his remarks.

Eric Emans, Chief Financial Officer and Treasurer, does not intend to move to the Irving office. Accordingly, Blucora has retained Heidrick & Struggles, to help identify and recruit candidates. Eric remains fully committed to the company and its shareholders, and plans to remain completely involved in the management of the Company well into late 2017 in order to ensure a smooth transition, which will include a substantial overlap with our future CFO.

I want to extend my gratitude to the Blucora corporate leadership team, and the entire Bellevue staff, who have displayed unwavering professionalism during an extended period of uncertainty. I have no doubt they will continue to do so through this transition to a new headquarters' location.

One never takes a decision with this impact on people lightly. I can't fully express how proud I am of the leadership team for their ability to focus first and foremost on our shareholders in making this decision. Many teams would have simply "kicked the can" down the road or avoided the decision altogether. This team stepped up, and focused on the right call for the future of this business.

With that, I'll turn the call over to Eric for more details on the financials.

ERIC EMANS, CHIEF FINANCIAL OFFICER

Thanks, John.

Today, I will cover third quarter results and then provide fourth quarter and full year outlook. A summary of our consolidated results for the third quarter are as follows:

- Revenue of \$83.2 million
- Adjusted EBITDA of \$2.3 million, and
- Non-GAAP net loss of \$10.1 million or a \$0.24 cent loss per share

GAAP net loss for the third quarter was \$54.1 million or a \$1.30 cent loss per share and reflects impairment charges associated with our discontinued operations. More specifically, the impairment reflects a write-down of Monoprice goodwill and intangible assets informed by current sales process price indications.

Turning to the balance sheet, we have cash, cash equivalents and short-term investments of \$75.7 million. As John mentioned, we paid down \$45 million of term loan B, bringing our net debt down to \$398.6 million. This pay-down included 100-percent of the proceeds from the Infospace divestiture as debt re-payment remains our top capital allocation priority. Net leverage exiting the quarter was 4.2 times, down from 4.5 times as of June 30, 2016. Looking forward we expect to reduce net leverage by about a full turn by mid-2017 despite the reduced sale proceeds expected from the Monoprice divestiture and the incremental costs associated with our move to Irving, which I will touch on in a bit.

Shifting to segment performance, beginning with Wealth Management.

HD Vest third quarter revenue was \$80.1 million, flat versus prior year and above the high-end of our guidance expectations for the quarter. The better than expected performance came from advisor-driven revenue primarily from transaction revenue, which was flat versus last year, but up 18-percent sequentially – quite a bounce from what we experienced in the last quarter. The increase in transaction revenue was highlighted by a 43-percent sequential increase in variable annuities driven by investment volumes. We are pleased to see the transaction business stabilize in the third quarter, but given the challenges in forecasting this revenue stream because of its inherent variability, we will continue to maintain a relatively broad range in establishing our forward expectations.

Trailer revenue also outperformed expectations aided by market tailwinds in the quarter. Advisory revenue also posted a bit above our expectations and as John mentioned, our best net flow quarter since first quarter 2015. Net advisory flows for the quarter were \$132 million, enabling us to break the \$10 billion barrier as we exited the quarter with \$10.2 billion in AUM, up approximately 9-percent year-on-year and 4-percent sequentially. Total AUA at the end of the quarter was \$38.5 billion, up 8-percent year-on-year and 3-percent sequentially. Segment income for the third quarter was \$11.6 million, up 1-percent versus prior year and again above the high-end of our guidance expectations, driven in part by revenue outperformance as well as lower than expected costs, a portion of which is timing related as certain costs are shifting to the fourth quarter.

Turning to the fourth quarter outlook – we expect revenue between \$79 to \$82 million and a segment margin in the high-13 to mid-14-percent range. As John noted, the fourth quarter segment margin outlook includes an estimate of DOL implementation costs. For the full year 2016 this translates to an increase in our revenue outlook range to \$312.5 to \$315.5 million. Additionally, we are tightening full year segment margin expectation to approximately 14-percent.

Transitioning to Tax Preparation.

TaxAct Third quarter revenue was \$3.1 million and segment loss was \$4.4 million both better than our expectations. The beat on segment loss in part reflects a shift in cost to the fourth quarter but we are also increasing our full year outlook for both revenue and segment margin. We now expect 2016 revenue of \$138.8 to \$139.1 million at a segment margin in the mid-47 to low 48-percent range.

Looking ahead to 2017 our plans are coming together nicely, and we will be able to give significantly more detail during our next call. With that being said, given where we are in our planning process, I'm comfortable sharing some color on our first half 2017 revenue growth and segment margin expectations. We expect first half 2017 revenue growth of 8 to 10-percent versus last year and segment margin in the 57 to 58-percent range.

Finishing up on the third quarter performance, unallocated corporate operating expense was \$4.9 million.

Before we get into forward looking expectations for unallocated corporate operating expenses I would like to take a moment to talk a bit about the financial impact of our headquarters move from Bellevue, Washington to Irving, Texas. First, the move will result in cash restructuring charges ranging between \$5.6 to \$8.7 million and a non-cash restructuring charges of \$1.9 to \$2.6 million for a total charge of \$7.5 to \$11.3 million.

The cash restructuring charges primarily relates to employee severance and lease termination costs associated with the departure from our Bellevue office space. It is worth noting that the majority of the delta between the low and high end of the cash restructuring range is driven by lease termination costs. We believe our lease is well positioned against the current real estate market landscape and therefore it is more likely that we will end up being closer to the low end of the cash restructuring range. The non-cash portion of the restructuring charge primarily relates to stock based compensation and fixed asset write-offs. We expect that the majority of restructuring expenses will be recorded over the next three to four quarters and will be excluded from our non-GAAP financial measures. For the fourth quarter we expect to record a restructuring expense in the range of \$4.4 to \$5.2 million of which we estimate \$400 thousand to \$1.2 million to be non-cash.

Additionally, we will incur \$3.0 to \$4.0 million in costs associated with the transitioning of roles from Bellevue to Irving and these primarily relate to the overlap in staffing required for a smooth transition and recruiting search fees. These costs are not classified as restructuring expenses for accounting purposes and therefor will be included in our unallocated corporate operating expenses and our non-GAAP financial measures. The majority of these transition

costs will be recorded over the next three quarters. We will provide commentary on the progress of these costs as we go.

As a result, we expect our fourth quarter unallocated corporate operating expenses to be between \$5.3 and \$5.6 million which translates to \$19.4 to 19.7 million for the full year. In the fourth quarter we expect non-recurring costs of approximately \$1.0 million of which approximately \$300 thousand relate to the transitioning of roles to Irving. One last comment here with regard to our goal of a \$12 million run rate target for unallocated corporate operating expense – with this move we have further conviction that we can achieve this run rate but given the transition we expect to shift the timing of this achievement from the first half to the second half of 2017.

Before we leave this topic, I would like to reiterate that this move will accelerate our transition from a holding company to an operating company. In doing so we will drive stronger collaboration across the firm by improving operational efficiencies and effectiveness and allowing us to maximize cost savings opportunities. Obviously there is a price tag in the near-term to ensure a smooth transition but we believe that this is in the best interest of our Company and its shareholders.

With that let's turn to the consolidated outlook for the fourth quarter and full year. For the fourth quarter we expect revenue between \$82.2 and \$85.5 million, adjusted EBITDA between a negative \$1.5 million and a positive \$800 thousand, non-GAAP net loss from continuing operations of \$12.7 to \$9.7 million or a \$0.30 to \$0.23 cent loss per share and GAAP loss from continuing operations of \$17.7 to \$15.6 million or a \$0.42 to \$0.37 cent loss per share. As a reminder, GAAP loss from continuing operations outlook includes a fourth quarter restructuring charge estimate.

For the full year, we are raising our outlook as follows – we expect revenue between \$451.3 to \$454.6 million, adjusted EBITDA between \$89.9 to \$92.2 million and non-GAAP net income from continuing operations of \$39.9 to \$42.9 million or \$0.93 cents to \$1.00 per diluted share. We are revising down our outlook for GAAP loss from continuing operations, due to the fourth quarter restructuring charge estimate, to \$5.2 to \$3.1 million or a \$0.13 to \$0.07 cent loss per share.

Before I turn the call back over to John for his closing remarks, I would like to take a moment to comment on my decision not to relocate my family to Irving. This was an extremely difficult decision for me given my enthusiasm around the direction of the company, especially given my belief in John and the leadership team he is assembling. This simply came down to a family decision given the ages of my daughters. Nonetheless, I see great things in Blucora's future and I am 100% committed to being fully engaged well into 2017, ensuring a smooth transition to a new CFO. John.

JOHN CLENDENING, PRESIDENT AND CHIEF EXECUTIVE OFFICER

Thanks, Eric. As evidenced by our results and announcements today, we are building a strong leadership team, rethinking our operating model to align with our new vision, acting to lift business unit performance, and driving synergies between HD Vest and TaxAct. We see encouraging signs of progress across our operations, and are committed to investing in technology, our teams and advisors to strengthen our business.

I am pleased with the progress we have achieved over the last six months and I'm excited about additional opportunities as we successfully transition to a tech-enabled financial solutions company. With that, I'll turn it over to the operator for your questions.