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Blucora Q1 2016 Management's Prepared Remarks

The following is Blucora management's prepared remarks on a conference call Thursday, April 28, 2016 at 5:30 a.m. PT / 8:30 a.m. ET to discuss Blucora's first 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 first quarter 2016 results.

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 second quarter and full year 2016.

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 first quarter results and 2016 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, thanks to everyone joining on our call today – and a special call out to those of you dialing in from the West Coast where the day is only now breaking.

I am thrilled to share Blucora's results for the first quarter of 2016 and the progress we are making to execute on our transformation to a technology-enabled financial solutions company.

I’m happy to share that Blucora began the year with positive momentum highlighted by our strong tax season financial performance, and today you’ll see a company that is performing well and that has great opportunities ahead of it.

Before jumping into our results, I would like to start off by saying how excited I am to have been appointed CEO of Blucora, and to share my early perspective on the enormous potential that exists within this company. Over the course of my career, I have been fortunate to work with a number of talented teams to achieve growth and the energy at Blucora is what originally attracted me to the company. Since I began in my role as CEO, I have had the opportunity to meet the vast majority of the team and it’s clear that we all know what we need to do to succeed.

Blucora has two very strong businesses that participate in attractive markets. The secular trends are favorable, and on top of that we are well-positioned to leverage the shared opportunities across TaxAct and HD Vest. We have a clear plan in place and we are driving a strategically focused company that is already capturing the significant opportunities that exist in the markets we serve.

Today marks the 25th day of a 100 day process where I am taking the time to listen and learn from the team while evaluating every aspect of the company – with a focus on identifying the best opportunities to enhance shareholder value. Over the past few weeks, I have talked with the Company’s shareholders, analysts, employees and customers. These conversations have only reinforced my confidence in Blucora and what we can achieve.

In the near-term we are 100 percent focused on what I like to call the four D’s: Divest, De-lever, Deliver and Drive:

1. First, we are committed to successfully ***divesting*** Infospace and Monoprice. Both processes are moving according to schedule. As previously announced, we hope to complete the divestitures sometime in the middle of the year. We're seeing strong interest and are optimistic that the transactions will produce substantial cash proceeds and also provide significant opportunities for the Infospace and Monoprice teams. It’s too early to get into additional details, but, given the process dynamics we remain confident in our ability to successfully divest these businesses. Once the divestitures are completed, Blucora will consist of strategically aligned businesses whose results are likely to be less volatile.

2. Second, we are committed to ***de-levering*** by aggressively paying down debt, working to achieve a 3x net leverage ratio over the next year. We are well on our way to achieving this goal. During the quarter, we retired more than $65 million of debt, reducing our net leverage ratio significantly. We will remain vigilant in paying down our debt until we meet our goal.

3. Third, we are committed to ***delivering*** on our financial commitments. I am pleased to report that our results in the first quarter were strong with consolidated revenue of $165.8 million and Adjusted EBITDA of $53.8 million, up 5 percent and 11 percent respectively.

4. Fourth, we are committed to **driving** sustainable, long-term growth. Our teams are already focused on developing the plans that will achieve such growth in 2017 and beyond.

Now, let’s turn to more details on the business updates for the quarter.

Starting with Tax Preparation

TaxAct turned in a strong performance this tax season. This was a critical year for TaxAct, given the significant changes in our go-to-market approach. These changes were positive and better position the business for the long term. Big picture, you should take away three points:

1. We have successfully rotated our strategy toward driving profitable share versus unit tonnage.
2. While consumer units are down 9 percent, we are confident that we have moved in the right direction in terms of attracting the types of consumers that drive long term value.
3. The new packaging and pricing strategy drove top and bottom line results - for the full season, representing expected results through Q2, we forecast TaxAct to generate approximately 18 percent revenue growth and 20 percent segment income growth over the same period last year.

In a year when we completely transformed our pricing and packaging, we knew it would make forecasting results less predictable. Given Blucora's priority to aggressively pay down debt in 2016, this season we focused bit more toward the type of acquisition and monetization tactics that drive cash flow generation rather than those that would optimize for total share.

So, stepping back, this was our first tax season of a multi-year pivot from total units and absolute share growth to monetizable units and lifetime value. In the first installment of this pivot, TaxAct implemented a new forms-based pricing and packaging strategy, including a Free Federal and Free State return for simple filers. This was an enormous undertaking in terms of development, implementation and messaging to customers and I am proud of what the team accomplished.

As we expected, the shift in our strategy reduced free units. That said, we are seeing the sort of performance we expected around attracting higher quality and higher value customers. Some key metrics that illustrate this are:

1. ARPU is up in total and up low double-digits for new filers.
2. Although we moved away from free federal for everyone, our returning complex filers are up high-teens versus TY14.
3. New paid filers not only beat plan but were up versus last season by mid-single digits – a clear indication that we are increasing share among paid filers.
4. Returning complex filers are anchored by mid-to-high earners and we saw a good mix shift to millennials this season – both exactly what you want to see especially when you think about the potential for cross-serving customers leveraging HD Vest.
5. We out-performed our expectations on ancillary revenue.

Each demonstrate that we are now positioned to grow with the right kind of filers who will drive strong lifetime value in the consumer business.

Additionally, we have only scratched the surface around growth *outside* of consumer.

TaxAct offers a preparers edition of its software. This year we increased the number of tax professionals using our software from 19,500 to 20,100. We also increased the number of e-files per professional with overall e-files growth of 10 percent this season. Our small and medium business offering also continues to gain traction with double-digit revenue growth. Lastly, our acquisition of Simple Tax last year is beginning to yield strong results. While small compared to our overall business, Simple Tax's KPI's are trending positively versus our buy case expectations.

Net, we believe there is significant upside and untapped potential in all three of these markets and look forward to capitalizing on that opportunity.

In Closing on Tax Prep
Looking ahead we are better positioned than ever to thrive in this space. The team is already focused on TY16, and we will be making investments – later this year - that will allow us to win across Consumer, Professional and Small and Medium Business next season.

Tax prep is a dynamic and competitive business, but the proof is always in the pudding. TaxAct posted its seventeenth straight season of revenue growth. It's a remarkable achievement, one that very few companies can claim – and this gives us strong confidence in the future of this business.

Now turning to Wealth Management
We are thrilled that HD Vest is now fully integrated into Blucora, and I'd like to warmly welcome the team, their advisors and clients to the Blucora family.

The business faced some obvious headwinds in the first quarter – with the S&P hitting a 52 week low in February and with significant volatility. It's the sort of quarter that pressure-tests wealth management businesses, and we are pleased with HD Vest's performance. Net revenues were $25M, up 5 percent and segment income of $10.9M was up 26 percent compared to the prior year validating the strong operating leverage and efficiency in our model. Given investors were skittish, our advisors did the right thing in the first quarter and focused on guiding their clients rather than driving new business.

At a strategic level, the HD Vest model is different in important ways from traditional independent brokerage firms. HD Vest advisors have earned trusted relationships with their clients enabling them to turn tax clients into tax and investment advisor clients. As the market leader among tax professionals, HD Vest is nearly twice as large as the next two competitors combined. This distinct approach paired with a dominant market position creates real economic advantage: The HD Vest model leads to lower cost to acquire advisors, higher recurring revenue and lower attrition in their advisor base. These turn into superior EBITDA margins. It's better for investors too – since outcomes should be better if tax considerations are explicitly factored in as part of overall financial planning.

As tax season has now wound down, we are already gearing up recruiting efforts, leveraging deeper segmentation, digital delivery and data driven lead generation. Leads for 2016 have thus far exceeded our expectations and indicate a strong pipeline.

HD Vest also continues to focus on advisor engagement. The HD Vest national conference, CONNECT2016 - to be held in early June, has record registration this year. The conference will focus on The Power of Your Practice theme educating our Advisors to leverage HD Vest technology, programs and platforms for higher growth, engagement and efficiency. The conference is also leveraged to bring in potential recruits to demonstrate the firm's value proposition and strong network of Advisors. Enhanced technology will be demonstrated, including a new user interface for Vest Vision, the firm's investment and retirement goal planning tool - and new applications to help advisors seamlessly transact business such as a new annuity account opening tool called AnnuityRight. The easier we make it for advisors to work with clients, the more business we win plain and simple.

On a final note, I want to touch upon the Department of Labor's recent release of its final regulation redefining the fiduciary standards under which retirement client advisors must operate. While we and the industry are still digesting the details of the final regulation, which will take some time, it's clear that the final rule has been favorably revised in a number of respects, including a longer implementation deadline, streamlined disclosure requirements, grand-fathering of existing accounts, and fewer limitations on product availability.

Based on our initial assessment, we continue to believe that the impact of the DOL rule will not be material to our financial performance in 2016 and longer-term we are positioned well to adapt to this new regulation to deliver growth.

Before I turn it over to Eric for more details on the financials I want to briefly address the opportunity for cross-serving across these two businesses. Using IRS average refunds as a proxy, our analysis suggests that TaxAct customers received more than $15 billion in tax refunds this year. And, based on estimates from the Pew Charitable Foundation, we believe that these customers have north of $100 billion in financial assets. These speak to a terrific opportunity that is unique to Blucora – and one that we will figure out how to capture.

Eric –

ERIC EMANS, CHIEF FINANCIAL OFFICER

Thanks John and let me start by welcoming you to the team – great to have you here.

For my part today I'm going to cover first quarter results and expected tax season results – I will then close with consolidated second quarter outlook and an update to full-year outlook.

As a reminder, I will be speaking to year-on-year variances using 2015 pro forma results that include the wealth management segment and I will focus my comments on the results from continuing operations. The 2015 quarterly pro forma results can be found on our IR website in our first quarter supplemental information release.

Ok, let's get started – consolidated revenue for the first quarter was $165.8 million up 5 percent versus prior year. Adjusted EBITDA was $53.8 million, up 11 percent and non-GAAP income from continuing operations was $39.3 million, up 5 percent and $0.94 per diluted share. The year-on-year non-GAAP income growth was reduced by accelerated debt discount costs associated with our first quarter de-levering activity which I will speak to in a moment.

Wrapping up consolidated results, GAAP net income was $22.7 million, up 23 percent or $0.54 per diluted share and includes $2.5 million, or $0.06 per diluted share from discontinued operations and a gain before tax of $7.7 million, or $0.19 per diluted share associated with the repurchase of $28.4 million in convertible senior notes for cash of $20.7 million. Both the results from discontinued operations and the gain on the convertible notes repurchase are excluded from our non-GAAP income from continuing operations.

Turning to the balance sheet, as of March 31, 2016, we had cash, cash equivalents and short-term investments of $79.6 million. Debt principal outstanding is $539.3 million and reflects debt pay down in the quarter of $68.4 million which consisted of a $40.0 million or 10 percent pay down of term loan b and, as previously mentioned, the repurchase of $28.4 million of convertible senior notes. This de-levering coupled with first quarter year-on-year adjusted EBITDA growth, lowered our net leverage ratio by more than a turn. We exited the quarter with net debt of approximately $460 million – as John mentioned, debt pay down remains the top priority in our capital allocation strategy and we expect our next significant pay down once we have completed divestures of Infospace and Monoprice.

Let's transition to segment performance for the first quarter starting with Tax Prep

First quarter Tax Prep revenue was $88.5 million up 9 percent versus prior year and segment income was $47.6 million, up 8 percent. Segment margin was approximately 54 percent. Both revenue and segment income exceeded the high-end of our guidance expectations.

Let me provide a bit more color on our tax results in the context of our tax season expectations which include second quarter. We had an impressive tax season and expect revenue growth of approximately 18 percent and segment income growth of approximately 20 percent for the first half of 2016. These results were driven by robust increases in average revenue per user from paid consumer software and to a lesser extent consumer add-on revenue.

As John discussed, we are explicitly focused on driving long term value and are less interested in attracting customers with little to no monetization potential. So, we pivoted to a forms based offer this year. This approach has two clear benefits: First it better diversifies our consumer software revenue which relied heavily on state attach. Second, it better aligns our pricing and packaging with the market. This is important because we are the value player and it allows consumers to see TaxAct's clear advantage versus the competition.

We also expected that this shift would challenge consumer e-file growth and we ended the tax season down 9 percent versus last season. While consumer e-files are down, I think it is important to keep in mind two points: First, we are sharpening our focus toward consumers with strong promise for monetization – and away from those that bounce around annually to the cheapest offer in the market. This increases lifetime value. Second, we believe there is a path to rebounded unit growth in the coming years. We expect a driver of this growth to be improved unit retention, which was just under 70 percent for this tax season, modestly lower than last year and expected given the pivot. In summary, it was a transition year for the consumer side of our business and we are pleased with the financial results attained and how we are positioned against the market in the future.

Transitioning to our professional prep and do it yourself SMB software offerings – both are contributing to year-on-year revenue growth in the first half of 2016. We expect professional prep to be up approximately 7 percent and do it yourself SMB to be up approximately 18 percent.

We expect first half 2016 segment income growth of approximately 20 percent attributable to revenue growth and operating expense leverage. This translates to an expected segment margin of approximately 58 percent for the first half of 2016 which is up from approximately 57 percent in first half 2015.

Let's wrap up the tax prep segment with a couple comments on full year expectations. Revenue in the second half of the year will be in line with last year's results and we expect full year segment income in the 47 to 48 percent range as we will look to continue making investments to drive growth. Looking beyond 2016, we believe our revenue growth will come down in line with our long-term growth expectations of mid-to-high single digits.

Shifting to Wealth Management

First quarter revenue was $77.3 million and segment income was $10.9 million, up 1 and 26 percent, respectively, over first quarter 2015 and within our guidance range expectations. More than 100 percent of our revenue growth came from asset based, transaction and fee revenue and drove year-on-year net revenue growth of 5 percent. Advisory revenue was down 1 percent versus prior year and we exited the quarter with advisory AUM of $9.6 billion. Advisory AUM declined approximately $100 million from the fourth quarter 2015 driven by net outflows during the first quarter. Flow performance was impacted by churn of a few high producing advisors who are expected to retire and market volatility which put our advisors on the defensive during the busiest months of the tax season as they focused more on maintaining assets rather than growing assets. Commission revenue was down 2 percent versus prior year as trailer revenue was down 7 percent tied to S&P 500 market performance which was partially offset by transaction revenue growth of 6 percent versus first quarter 2015.

Wealth management segment income was up 26 percent year-on-year driven by increased net revenue and operating expense leverage – operating expenses were down 7 percent. Looking forward into the second quarter for wealth management we expect revenue will perform in line or better than first quarter 2016 but segment margin will come down 100 to 200 basis points driven in large part by our CONNECT conference which takes place in the second quarter.

Corporate operating expenses for the first quarter came in at $4.7 million. We expect second quarter to be in-line with first quarter and no change to our full year expectation of approximately $18.5 million.

With that let's turn to consolidated outlook for the second quarter and an update to our full year outlook

For the second quarter we expect revenue between $120.5 and $124.5 million, adjusted EBITDA between $33.7 and $35.9 million, non-GAAP net income from continuing operations of $20.0 to $22.7 million or $0.48 to $0.54 per diluted share and GAAP income from continuing operations of $4.5 to $6.3 million or $0.11 to $0.15 per diluted share.

For the full year, we are raising and narrowing our outlook as follows – we expect revenue between $452.0 and 465.5 million, adjusted EBITDA between $90 and $94 million, non-GAAP net income from continuing operations of $39.9 to $44.4 million or $0.95 to $1.06 per diluted share and GAAP loss from continuing operations of $5.0 to $1.3 million or a $0.12 to $0.03 loss per share.

It is worth noting that outlook includes market assumptions for the S&P 500 and federal funds rate. While our outlook assumes a range of outcomes, to the extent market performance differs materially from these assumptions our results will be impacted.

Finally, in closing, it is my hope that you share our view that our year to date results are indicative of a financially strong company that is delivering on its stated objectives and commitments.

With that, let me turn the call back over to John for his closing remarks.

JOHN CLENDENING, PRESIDENT AND CHIEF EXECUTIVE OFFICER

Thank you, Eric.

I am honored to be serving Blucora's customers, clients, advisors and shareholders at this important time in the company's history.

It is clear that we have made significant progress in our strategic transformation. As we shape our path forward, I believe it is imperative to have a clearly defined set of core values to inform every aspect of how we will run the business. These core values – what I call our pillars for growth - are what you can expect to define Blucora moving forward.

- The first pillar is our customer-first culture. We engage customers, clients and advisors with confidence, integrity, pride and passion, and we will drive growth through earning their loyalty. We do exactly as we say we are going to do.

- Second, we are "One Company." We have one culture, and actively leverage strengths across departments, which allows us to better serve our customers. A client-centered culture matched with a highly effective, talented organization is hard to beat.

- Third, we have strategic clarity. We play in attractive markets, we target the best growth prospects, and we represent the better choice.

- Fourth, we execute with excellence, everywhere and all the time. Executional excellence is the expectation of every employee in every role.

- Fifth, we are always innovating. We continue to challenge the status quo because we owe it to our customers, advisors and clients to constantly improve every part of our company, finding a way to do things better, faster and at lower cost.

- And our sixth value is financial discipline. We are owners and responsible stewards of our financial resources, and pride ourselves in the careful planning and use of these resources to create value for shareholders.

By staying true to these principles, we put ourselves in the best position to deliver reliable financial performance, which generates attractive shareholder returns.

I look forward to meeting with and speaking to all of you in the near future.

I would now like to turn the call over to the operator to take any questions.