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# Blucora Q3 2015 Management's Prepared Remarks

The following is Blucora management's prepared remarks on a conference call October 29, 2015 at 2 p.m. PDT / 5 p.m. EDT to discuss Blucora's third quarter 2015 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 afternoon, and welcome to Blucora's investor conference call to discuss third quarter 2015 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 businesses and growth initiatives, and anticipated financial performance for the fourth quarter and future periods.

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 Bill Ruckelshaus. Following his comments, Eric Emans will review second quarter results and third quarter outlook. Then we'll open up the call to your questions.

**BILL RUCKELSHAUS, PRESIDENT AND CHIEF EXECUTIVE OFFICER**

Thank you, Stacy. Good afternoon and thank you for joining us.

On today's call we will address our operating results, the Q4 outlook and highlight our pending acquisition of HD Vest and the strategic transformation underway at Blucora.

First, our operating performance and outlook:

Third quarter performance is in line with our expectations. Consolidated revenue of $84.8 million is driven in large part by continued downward pressure at InfoSpace.

On a year-over-year basis, tax revenue increased 16%, Search and Content was down 42% and E-Commerce was up slightly. Consolidated adjusted EBITDA loss of $1.6 million reflects the topline trends of our businesses and includes one-time charges associated with our acquisition of HD Vest.

Turning first to TaxAct.

The TaxAct team continues to gear up this off season, focusing on reinforcing its value leadership position in consumer DIY, and maximizing opportunities in ancillary services and adjacent markets - like SMB and assisted prep.

On the consumer front, TaxAct is introducing newly aligned product packages and refreshed branding this season, which will enable filers of all types to more easily identify TaxAct as the best deal in tax.

TaxAct's new product packages will include competitive offers for simple returns. Additional TaxAct packages for more complicated returns will be personalized to specific tax situations and emphasize easy experiences for filers to access the forms and schedules needed to successfully complete their returns.

The comprehensive accuracy, maximum refund, price lock and satisfaction guarantees that Tax Act has long offered will continue. Priced well below similar DIY online products, TaxAct's new product packages will continue to make it easy for individuals and business owners to choose a solution to help do their taxes fast, easily and at fair prices.

We are looking forward to the upcoming tax season and excited to now be working with HD Vest to test new opportunities to bring more value to our TaxAct customers.

Search and Content continues to be a mixed story. Core search is declining consistent with recent trends. Over 30% of our network partners are now migrated to Bing and the financial uplift of this transition is positive. Overall, the core search business continues to transition to new policies from our search engine partners but signs of stabilization are evident and the model is intact.

At HowStuffWorks, the team is making great progress on several fronts – highlighted by the recent launch of an advanced publishing and revenue optimization platform built for the social age. The work done by this team in a short time is impressive and includes:

- Tools providing real-time insights into relevant content
- A lightweight platform enabling editorial publishing of modern articles
- Underlying data an analytics to optimize site monetization and customer ROI.

Soft-launched in September, the results are showing. Monthly page views are up over 50% compared to June. Programmatic revenue is up 31% over Q2.

In October the team launched HowStuff Now, a new HSW online publication to deliver enlightening, trending content to smart social media consumers. In its first week, Now is contributing over 150,000 incremental weekly unique sessions. Now is built on a new technology stack that extends the tremendous HowStuffWorks content to new, engaged audiences.

At Monoprice, the team continues to advance against its goals of product innovation, operational enhancement and channel development.

Recent product introductions in core categories like cables and battery back-ups have been well reviewed and are generating customer excitement. New launches in pro-audio, display, camera, home theater and security position Monoprice well for the coming holiday season and onward.

On the operational front, Monoprice opened a new distribution center in Kentucky, providing faster delivery times and better value to eastern US customers.

Last, third party channels continue to provide growth outside of Monoprice.com, expand our reach to new domestic and international customers and demonstrate the value proposition of our extensive CE product offerings.

The outlook for Infospace and Monoprice is encouraging. As we announced earlier this month, our plan is to divest both businesses in connection with our strategic transformation. We are close to launching both sales processes and expect each to generate interest from multiple parties and unlock value. The plan is to complete both divestitures no later than mid next year.

Now for a few words on our pending acquisition of HD Vest. This transaction builds around our strongest asset - TaxAct - and creates opportunities to realize significant synergies: in 2017 we estimate $5 million in revenue synergy and $7M in cost reductions as a result of our narrowed focus. Our anticipated divestitures of InfoSpace and Monoprice will facilitate our strategic transformation and in turn enable us to reduce operating expenses and focus concertedly on the growing financial services and technology market.

I am thrilled about the plans for HD Vest to join forces with Blucora. Led by Roger Ochs, the HD Vest team brings decades of experience in providing financial planning and wealth management solutions to tax professionals and their clients.

Our experience in providing tech-enabled financial services through TaxAct, positions Blucora to accelerate the distinct HD Vest vision of empowering tax professionals with financial planning and wealth management solutions. Blucora will enable HD Vest to strengthen its commitment to helping individual clients pursue a holistic approach to their financial well-being.

The combination provides HD Vest with the advantages of operating as part of a publicly-traded company, including greater access to capital markets for growth opportunities and enhanced flexibility in compensation and employee ownership participation.

For over 30 years, HD Vest's independent advisors have focused on the mass affluent market, which has been greatly underserved by the financial advisory community. HD Vest has more than 4,500 advisors across the 50 states.

The HD Vest mission statement has not waivered over the years: "Helping Americans Retire with Financial Dignity." HD Vest delivers holistic financial planning that considers both taxes and investment choices. HD Vest calls this approach "Tax Alpha" and it represents the value added to a client's financial plan by optimizing sound tax strategies.

HD Vest's business is built on the relationship that tax professionals have with their clients. It starts with the tax return itself. They teach advisors how to upload data into a financial planning tool called 1040 Analyst, and identify investment opportunities, whether it's helping them retire with financial dignity, making sure they have the right investments to fund their children's education or maybe the right insurance in place.

They do that by starting with the tax return and then ultimately going through a financial planning process, and then in the end managing the assets to help them get there.

The tie-ins with TaxAct are obvious and compelling. TaxAct delivers a valuable service to 5.5 million consumers, many of them millennials. These consumers may or may not believe that they need a financial advisor today. But as they get older and they get married and have kids, buy a house, they are going to start thinking about retirement planning, or they're going to start thinking about putting their kids through school, or they're going to start thinking about the need for insurance to protect against some catastrophic event. This progression of financial management needs creates an exciting lifetime opportunity for the new Blucora.

TaxAct also provides tax software to more than 19,000 tax professionals. Directly engaging with these tax professionals should help accelerate HD Vest's recruiting efforts and bring added value by growing the practices of the current TaxAct paid professional customers.

In summary, we are excited about our future as a financial services and technology company. Following completion of our strategic transformation, the new Blucora will be well positioned in markets that benefit from positive secular trends. On top of that, the combined company will benefit from proven growth, strong cash flow generation and synergy opportunity.

I'd now like to turn the call over to Eric for more details on the financials.

**ERIC EMANS, CHIEF FINANCIAL OFFICER**
Thanks Bill.

Consolidated results for the third quarter were in line with our guidance expectations when normalized for transaction related expenses and other one-time charges. Third quarter revenue was $84.8 million and Adjusted EBITDA was a negative $1.6 million. Non-GAAP net loss was $5.5 million or a loss of $0.13 per share and GAAP net loss was $10.6 million or a loss of $0.26 per share.

We exit the third quarter with cash, cash equivalents and short-term investments of $292.3 million and net cash of $61.1 million.

**Turning to our third quarter segment performance, I want to touch briefly on tax preparation, which is in its seasonally slow period.**

Revenue in the quarter was $2.9 million and segment loss was $2.5 million – both exceeding the high-end of our guidance expectations. We are tightening our full-year 2015 tax segment expectations to the high-end of the range. We expect revenue of $117.0 to $117.5 million and segment margin of 47.5% to 48%.

Looking ahead to 2016, we expect first half tax segment revenue of $122.0 to $125.0 million at a segment margin of 55 to 56%. We expect approximately 72% of our first half revenue to hit in the first quarter at a segment margin of approximately 54%.

**Now turning to the search and content and ecommerce segments.**

Given our stated intention to divest both businesses, their results will be reported as discontinued operations beginning in the fourth quarter. As such, I will provide some color on their respective third quarter results and then provide combined fourth quarter outlook for these segments.

Starting with search and content – third quarter revenue was $43.1 million and segment income was $4.5 million which included a one-time charge of $650 thousand associated with a 10% reduction in workforce.

Owned and operated revenue was down 37% sequentially due to the new marketing practices, referenced in our last call, which pressured margins and resulted in our pulling back on marketing spend in the quarter. The team has successfully optimized and stabilized performance exiting the third quarter and we expect growth from owned and operated in the fourth quarter.

Distribution revenue was down 7% sequentially in part driven by the new marketing changes noted above. We are encouraged by these results, although we again expect a step down in the fourth quarter, we are optimistic that we are nearing the bottom.

Moving to e-commerce - revenue for the third quarter was $38.8 million and segment income was $2.2 million for a segment margin of approximately 6%. Segment margin came in lower than expected driven by promotional activity and product mix shifts in certain marketplace channels. Revenue was up 2% versus prior year on a 5% decrease in orders offset by an 8% increase in average order value.

Combined fourth quarter outlook for the search and content and e-commerce segments are as follows – revenue of $83.4 to $89.1 million and segment income of $7.5 to $9.2 million.

The revenue outlook reflects expectations of sequential growth for e-commerce and the potential for growth in search and content. Additionally, the revenue outlook reflects a path to double digit growth for e-commerce. With that being said, with our announced intent to divest Monoprice we will be less inclined to sacrifice profitability to chase revenue. We expect sequential segment income growth from both segments and expanded margin in search and content.

**Finishing off the third quarter results.**

Unallocated corporate expenses came in at $5.8 million and included one-time charges of $1.5 million primarily driven by transaction expenses associated with the announced acquisition of HD Vest.

For the fourth quarter we expect unallocated corporate expenses of $9.6 to $9.3 million which includes approximately $5.9 million in charges associated with the announced acquisition of HD Vest and the Blucora transformation - charges include employee severance and retention related expenses, non-contingency based transaction expenses and other non-recurring costs.

It is worth nothing that our fourth quarter expectations for unallocated expenses exclude contingency-based transaction expenses which will be triggered at the close of the HD Vest acquisition. Further, certain corporate costs that are related to the search and content and e-commerce segments, may also be reported as discontinued operations beginning in the fourth quarter.

**Closing with our consolidated fourth quarter expectations.**

We expect consolidated revenue between $85.9 and $91.9 million; adjusted EBITDA between negative $7.7 million and negative $5.2 million; non-GAAP net loss of $9.1 to $6.5 million or a loss of $0.22 to $0.16 cents per share; and GAAP net loss of $16.0 to $14.3 million or a loss of $0.39 to $0.35 cents per share.

With that, let's turn the call over to the operator and we'll gladly take your questions.