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Blucora Q2 2015 Management's Prepared Remarks

The following is Blucora management's prepared remarks on a conference call July 30, 2015 at 2 p.m. PDT / 5 p.m. EDT to discuss Blucora's second 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 second quarter 2015 earnings.

Before we begin, I'd like to remind you that during the course of this call, Blucroa 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 third 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 CEO

Good afternoon and thank you for joining.

Second quarter performance for Blucora was consistent with our expectations. Consolidated revenue of $119M declined vs. Q2 2014, reflecting continued pressures at Infospace. On a year-over-year basis, Search and Content revenue was down roughly $28M, E-Commerce was up slightly and TaxACT increased by $4.4M. Consolidated adjusted EBITDA of $25M tells a similar story – downward pressure in Search and Content offset by positive growth in tax and e-commerce.

The teams executed well in the quarter. Our goal across our businesses is to accelerate free cash flow generation through sensible investment and disciplined expense management. We continue to evaluate opportunities for capital allocation – in our businesses and through M&A and buybacks – guided by assessments of long-term shareholder return.

The formula we have outlined on prior calls continues to apply:

- Grow profitability over the medium term
- Transform Infospace through innovation and cost discipline
- Identify and evaluate opportunities to expand and diversify the Blucora portfolio; and
- Communicate with candor and transparency along the way.

This transition is admittedly bumpy. Our focus on value creation guides our decision making at each step. Now, to discuss our business segments in more detail:

<u>Starting with Tax Prep</u>

TaxACT completed the season in Q2 and finished strong. Revenue was up 17% year-on-year for the quarter and 13% full season - reflecting ARPU gains and increases in attach rate to ancillary services. Segment income increased 16% for the quarter and 17% full season.

We are gearing up this off season, focusing on revitalizing our value leadership position in consumer DIY and maximizing opportunities in ancillary services and adjacent markets like SMB and assisted prep. TaxACT is well positioned and just getting started. There is considerable runway in tailoring our products to specific consumer and assisted prep segments and bringing additional value to filers through value-added financial services offerings.

In July TaxACT acquired SimpleTax, a web-based tax-preparation software company headquartered in Vancouver, Canada. SimpleTax was founded in 2012 and is growing fast in the Canadian market with an innovative product, flexible technology stack and clean UI / overall design. This acquisition is small from a financial perspective, but attractive longer-term. Simple Tax increases our footprint in North American DIY and positions TaxACT for further growth in years to come.

Moving now to Search and Content

Infospace performed in-line with guidance this quarter. Transitions continue in owned and operated and our partner syndication network - where tightened rules around downloadable applications, reduced economics in mobile and emerging challenges in buying traffic in search are combining to limit opportunities.

As discussed previously, our focus this year is on maintaining the core business while re-directing to a pivot strategy. We continue to see opportunities with HowStuffWorks and have maintained their rate of content production and leveraged social channels to grow the HSW audience.

HowStuffWorks award-winning podcasts - Stuff You Should Know and Stuff You Missed in History Class - remain consistently in iTunes top 10 and HSW is expanding into new podcast and video markets aided by an exciting new partnership with Spotify.

In May we launched a new HowStuffWorks mobile application for iOS and Android. The app - featuring videos, articles, podcasts, and quizzes updated daily - was selected by Apple as a ‘best of month’ in June.

HSW content is seeing double and triple digit growth on Facebook, Instagram, Pinterest and Twitter. We are just scratching the surface in delivering mobile experiences to reward HSW’s passionate readers, listeners & viewers with experiences that both entertain and educate.

HowStuffWorks is also serving as a test-bed for new forms of traffic acquisition and monetization. Once proven, solutions are brought to market through our sales team to a wider group of content publishers. Content publishers still represent a small portion of our partner network but we can grow this segment going forward. The innovation and velocity of the team is impressive and will drive our diversification.

On other fronts, I am pleased to announce Infospace has entered into a direct deal with Bing to offer their search and advertising content though our network of search properties and partner websites. Terms of this agreement are outlined in our associated filing today. Generally, this partnership strengthens the value proposition of our metasearch offering, improves mobile monetization and provides important business model flexibility.

Overall, to drive to stability, we are reducing our dependencies by adding alternative search partners, managing expense levels, and leveraging HowStuffWorks and pursuing sensible investments in our pivot initiatives. During these transitions we will guide conservatively in the second half of 2015 and remain focused on profitability.

Now turning to E-Commerce

The turnaround at Monoprice is advancing and we remain on track for double digit growth in the fourth quarter. Our focus continues to be on product innovation, marketing and site optimization and channel development.

Monoprice is reinvigorating core CE categories with a wider assortment of offerings for use with the most sought-after devices. As we mentioned last quarter, Monoprice was first to market with the USB-C, a new specification and connector that will eventually replace all existing USB cables. In the quarter we added more than 350 new sku's in 2 primary areas - cables and adapters, including the debut of two collections of Apple MFi Certified Lightning Cables. Both lines allow compatibility with all lightning-enabled devices and Apple laptops, including the new MacBook, MacBook Air and MacBook Pro.

Today's consumers know the products they want and what prices are fair. They want comprehensive reviews and information, inventory availability and fast shipping. The Monoprice price/value position is a long-standing advantage. We are launching an east coast distribution center this fall, in addition to our facility in California, to reduce costs and speed delivery times for the holiday season.

Monoprice is an emerging brand with significant upside in a growing e-commerce category. The Monoprice team is first rate and their progress is measurable. I look forward to their results ahead.

In conclusion, despite the transitions underway at Infospace, Blucora remains well-positioned. We have a strong balance sheet that gives us flexibility to invest. The acquisition opportunity is a near-term focus and we remain disciplined in our approach. There is significant value to be gained in our existing businesses and the right acquisition can be a major catalyst for shareholders.

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

<u>Eric Emans, Chief Financial Officer</u>

Thanks Bill, consolidated results for the second quarter were in line with our guidance expectations. Second quarter revenue was $119.0 million and Adjusted EBITDA was $25.0 million. Non-GAAP net income was $20.0 million or $0.48 per diluted share and GAAP net income was $4.3 million or $0.10 per diluted share.

We exit the second quarter with cash, cash equivalents and short-term investments of $296.9 million and net cash of $65.6 million.

<u>Turning to our second quarter segment performance starting with tax preparation.</u>

Revenue for the quarter was $30.9 million and segment income was $19.9 million for a segment margin of 64%-exceeding our expectation. Putting these results in context of the tax season and the first half of 2015, revenue was $112.0 million - up 13% versus first half 2014 and segment income was $64.0 million - up 17% year over year for a segment margin of 57%.

First half 2015 tax segment revenue growth was primarily driven by consumer ARPU gains of approximately 14% as a result of pricing actions, increases in ancillary product attach rate and an overall mix shift to paid software products. First half 2015 revenue for assisted prep software and DIY small business finished strong growing 16% and 59%, respectively, versus prior year.

Segment income growth for the first half of 2015 reflects revenue gains and operating leverage. Operating expenses grew approximately 9% primarily from increased personnel related costs and marketing expenses.

For the full year, we confirm our tax segment revenue expectation of $116.0 to $117.5 million. We are updating our segment margin expectation to a range of 47 to 48% as we are evaluating additional investment opportunities and the addition of the Simple Tax business.

Now turning to the search and content segment.

Revenue for the quarter was $52.1 million and segment income was $6.8 million. Both Owned and Operated and Distribution revenue were down 11% sequentially.

Entering the third quarter search and content volatility has persisted. Most recently, one of our search engine partner’s adopted new marketing practices that impacted both owned and operated and distribution. The team is working to optimize and stabilize revenue performance of the impacted revenue streams but as of now we expect continued downward pressure.

On the product and diversification initiatives front, we are progressing but the revenue contribution at this stage is still relatively small.

As we continue to push toward stabilization we are being disciplined – balancing cost management and investment in product and diversification initiatives is our focus as we navigate through this transition. For the third quarter, we are targeting segment income of $4.0 to $6.0 million at a segment margin of 9.5% to 12.5%. To provide a little color on the fourth quarter, we are targeting a similar segment income range.

With that let’s move onto ecommerce.

Revenue for the second quarter was $35.9 million, while segment income was $2.6 million for a segment margin of approximately 7%. Revenue was up 2% versus prior year on a 2% decrease in orders offset by a 3% increase in average order value.

In the third quarter, we are focused on execution and delivery of key initiatives that are expected to provide benefit in quarter and position us for success for the holiday shopping season in the fourth quarter. Broad strokes, the initiative priorities are new product additions, user experience, traffic acquisition and conversion on Monoprice.com, launching the east coast distribution center and lastly sales channel and B2B expansion. Execution in the third quarter is paramount to keeping us on target to meet our goal of double digit revenue growth in the fourth quarter. For the third quarter, we expect Monoprice revenue of $38.0 to $39.5 million and segment margin in the 7 to 8 percent range.

Finishing off the second quarter results, unallocated corporate expenses came in at $4.3 million. We expect a sequential increase in the third quarter primarily driven by increased professional services.

With that, let's finish with our consolidated third quarter expectations. We expect consolidated revenue between $82.5 and $90.3 million; adjusted EBITDA between negative $1.0 million and positive $1.6 million; non-GAAP net loss of $5.7 to $2.6 million or $0.14 to $0.06 cent loss per share; and GAAP net loss of $11.2 to $9.4 million or $0.27 to $0.23 cent loss per share.

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