Blucora, Inc. Fourth Quarter and Full Year 2017 Earnings Conference Call
Management's Prepared Remarks

The following is Blucora management's prepared remarks on a conference call Thursday, February 15, 2018 at 8:30 a.m. ET to discuss fourth quarter 2017 financial results. This webcast can be accessed within the Investor Relations section of the Blucora corporate website at www.blucora.com.

BILL MICHALEK, VICE PRESIDENT INVESTOR RELATIONS

Thank you and welcome, everyone, to Blucora's fourth quarter 2017 Earnings Conference Call. By now, you should have had the opportunity to review a copy of our earnings release, supplemental information and prepared remarks. If you have not reviewed these documents, all three are available on the investor relations section of our website at Blucora.com. I'm joined today by John Clendening, Chief Executive Officer, John Palmer, Principal Accounting Officer and Interim Principal Financial Officer and Eric Emans, our former Chief Financial Officer and current consultant for the company during the CFO transition.

Before we begin, let me remind everyone that today's discussion contains forward-looking statements based on the environment as we currently see it and speak only as of the current date. As such, they include risks and uncertainties, and actual results and events could differ materially from our current expectations. Please refer to our press release and our other SEC filings, including our Forms 10-K, 10-Q and other reports, for more information on the specific risk factors. We assume no obligation to update our forward-looking statements.

We will discuss both GAAP and non-GAAP financial measures today, and the earnings release available on blucora.com includes the full GAAP and non-GAAP reconciliations.

With that, let me hand it over to John Clendening.

JOHN CLENDENING, PRESIDENT AND CHIEF EXECUTIVE OFFICER

Thanks Bill, and good morning everyone.

Before I get started, I'd like to welcome Davinder Athwal who will be joining us as our new CFO starting February 21. Davinder comes to us from UGI Corporation with great prior experience with Nortel, IBM and PriceWaterhouseCoopers. We are fortunate to have someone with Davinder's capabilities and leadership skills join the Blucora team. I am looking forward to working with him in taking Blucora to the next level of success.

As excited as we are to have Davinder, we will be sad to see Eric go when his consulting arrangement ends. He's been a terrific asset to the firm and a close partner of mine in our time together. I'm delighted he's agreed to continue to be available to assist in onboarding Davinder as well as provide counsel from time to time.

Turning to our results, Blucora capped off a very good year with strong fourth quarter performance, which exceeded the high-end of our guidance range.

- Fourth quarter revenue improved by 13% year-over-year to $97.8 million,
- Adjusted EBITDA loss was $1.3 million driven by our investments in our tax business,
- Non-GAAP net loss of $5.7 million, or $0.12 loss per share, represents a more than 30% improvement on a per-share basis, year-over-year, and
- GAAP net income was $10 million or $0.21 per diluted share, driven by the impact of tax reform, which resulted in a fourth quarter tax benefit of $31.8 million.

We also continued to strengthen our balance sheet, reducing debt by another $8.2 million during the fourth quarter and lowering the interest rate on our term-loan facility by 75 basis points. We expect this rate change to result in annual cash interest savings of $2.6 million.

Big picture, we have made good progress as we continue to build the foundation for long-term growth as laid out in the strategy we shared last November.

Wealth Management

At the business unit level, turning first to wealth management. HD Vest continued building momentum with Q4 revenue up 13% year-over-year to $93.8 million, above the high-end of our guidance expectations. Transaction revenue drove the majority of the outperformance, with better than expected advisor rep fees also contributing. Segment income also exceeded expectations coming in at $14.2 million, up 3% versus the year-ago period, driven primarily by the increased revenue and partially offset by increased operating expenses, which most notably included staging for our clearing conversion.

Total assets under administration, or AUA, increased 14% year-over-year to $44 billion– setting a new record. Advisory assets under management, or AUM, were up 21% year-over-year to $12.5 billion – also a new record. Net inflows into AUM were $180 million in Q4, and AUM as a percent of AUA increased to 28.4%, up about 150 basis points from the year ago quarter and also hitting a high-water mark.

There are a few additional updates I would call out here for HD Vest:

- First, the expected benefits of our new clearing arrangement are running ahead of schedule. We now expect that the break-even period following the conversion will be less than six months, rather than the 6-9 months we had previously estimated. A large part of this is that we are one Fed Funds increase ahead of our original forecast at this point, which increases our sweep revenue. As a result, we are becoming increasingly comfortable with the upper portions of the expected range of $60 to $100 million in ten-year benefit to segment income, and see the potential opportunity to perhaps even exceed it. We are also introducing some incremental detail on the first few years to help with modeling. For 2018 we assume breakeven to a small net benefit, which reflects the incremental investment. For 2019 we expect a net benefit between $6 and $8 million, and for 2020 a benefit of between $8 and $10 million. Let me reiterate a couple of points here. First, we believe the new clearing partner will be a significant improvement for our advisors, which in turn should drive increased growth in both AUM and AUA by making it easier for them to better serve clients. Second, as we have shared, we will be looking for opportunities to accelerate growth with incremental investments, as well as drive increased segment income. However, it's too early for us to share estimates for either of these.

- The second update is that we are expanding our addressable advisor market. For example, during the quarter we won a large advisor with approximately $220 million in assets from a large

competitor. The conversion of those accounts started in January of this year. In addition, we are expanding our available market to now serve larger accounting firms with multiple partners and multiple offices. In Q4 we added a firm with $2 million in accounting revenue and in January of this year, added another firm with $7 million in accounting revenue. A third-party rule of thumb on potential AUA for every dollar of accounting revenue is about 100:1, so these two firms could represent close to a billion dollars that the advisors at those firms, once trained, could look to serve in wealth management. While we don't plan to share this level of detail every quarter, we think it is important to share these data or proof points from time-to-time as indicators we are heading in the right direction. I attribute much of this success to the changes leadership is putting in place, to improve the advisor and client experience as well as the reputation that team and HD Vest have built in the marketplace.

- The third update relates to our advisor productivity improvements. On the front-end, early indications on our new recruiting process seem to be quite positive, with us now attracting even higher caliber advisors. As you may recall we rolled out predictive models to identify which tax pros are most likely to be successful as an HD Vest advisor. The new advisors have been getting licensed faster and ready to engage with clients earlier than we have typically seen in the past. It's very early, but this is a good sign. Our process to reduce disengaged advisors or those with little to no assets, also continues in parallel. The first stage of this process, which concluded in Q4, centered around advisors that had diminimus assets and a debit balance with us. The result lowered our advisor count by about 300 advisors in the quarter. The second stage of the process includes a mandate that advisors achieve a minimum level of AUA within certain initial intervals. For existing advisors, we have asked that they generate $1 million in AUA by May of this year and $2.5 million by next January. We expect advisor counts could trend down by another 500 give or take by the May time frame with overall performance and unit productivity continuing to improve. This should represent the bulk of the remaining reductions, although we will always look to optimize the business as we move forward.

- The last update on HD Vest that I'll call out is that we continue to invest in the business to improve our support for advisors across the full lifecycle. We have a new learning and development program that is being implemented to help new advisors be more successful faster. We are putting a new practice management program in place for the mid-term advisors and now have a dedicated succession planning team for those later in the lifecycle. We have also made strides toward improving our service levels and have brought in a new Chief Operating Officer of HD Vest, with deep industry experience, to drive operating improvements and have increased staffing for our call center support; all on top of the benefits advisors and end clients will garner from moving to a new clearing partner, which will help improve transactional support.

In summary, we continued to demonstrate progress in the quarter by improving our positioning for future quarters in the areas that drive value creation: growth in total AUA, increasing the proportion of assets that are fee-based AUM, and better participating in the economics that go with client cash.

Tax Preparation

Turning to tax preparation. TaxAct had a strong finish to the year with Q4 revenue of $4.0 million, up 7% versus last year, driven by increased ARPU. Segment loss for the quarter was $10.5 million, up 72% on a

year-over-year basis and in-line with the high-end of our guidance expectations, as we continued to prepare for tax season and invest in the business, including our cloud migration.

Tax Season Update and Outlook

Given the understandably keen interest in this year's tax season, I will jump right to that. As you may be aware, the tax season is off to a very slow start this year, with total IRS filings down 10% and DDIY filings down 7% as of February 2nd. The drivers for the slow start center on the fact that the IRS opened a week later than last year, with some forms still yet-to-be finalized, and tax payer confusion associated with tax reform, which seems to have left some filers on the sidelines. You may recall that last year's tax season was also slow out of the gates; when you put them together, so far this season the DDIY segment is down 26% from tax year 2015.

While the season is off to a slow start, competitive intensity continues to grow, in particular with the volumetric leader increasing its marketing spend and with other players, predominately storefront players, ramping focus on Refund Advance Lines, which we do not currently offer. While we see strong progress in many areas, our performance lags the overall market, with total starts down 9% through February 12th and efiles down 14%, with modest improvement in monetized mix through the same period. Two points here. First, we expect the gap between efiles and starts to naturally close in coming weeks. Second, the business tends to make up ground in second peak given our focus on paying filers, who disproportionately file later in the season.

We remain focused on driving monetized units through continue optimization of the site experience, optimized marketing, and new distribution arrangements, on which I'll provide additional color in a moment.

While it is obviously early, big picture, we see a path to achieving flat monetized units in TY 2017. This expected result, combined with various pricing strategies, enable us to narrow the revenue outlook for the first half of 2018 by taking up the low-end of the range. We are now looking at a range of 8-10% growth vs. our previous expectation of 7.5-10%. At the same time, due to the competitive nature of the industry this season we decided to dedicate additional marketing spend for the season which would put segment margin at the low-end of our previous range, or about 55.5%.

I'd draw your attention to two additional observations:

- First, while we are looking to achieve flat monetized units compared to last season, overall units are expected to decline with revenue growth being driven by ARPU
- Second, the slow start means a continued shift from the first peak to the second, which in turn means that we will see a material shift in revenue – and even more so in segment income – from Q1 to Q2.

Driving Tax Preparation Forward

As we have shared, our goal of restoring momentum in this business uniquely focuses on monetized units, with efforts mainly focused on four areas of opportunity:

- Targeting high potential DDIY segments, activated through new marketing and improved filer experiences
- Transparent pricing, with marketable advantages versus the larger players
- Leveraging enhanced capabilities
- Diversifying revenue by extending our relationship with filers, leveraging the insight we can gain, with consent, from the tax form – through partners as well as by leveraging our HD Vest unit

I'd like to touch on a few of these.

High-Potential Segments.
During the off-season we worked hard to improve our competitive positioning for this tax season focused on enhancing the value proposition, particularly around our core focus segments within the gig-economy and disaffected Turbo Tax and H&R Block filers. As a part of this, we've launched new advertising, marketing and PR campaigns targeted toward the segments of the market we believe to be the most attractive. Some improvements customers are seeing this year include:

- A $100,000 accuracy guarantee which is unique relative to what has previously been in the marketplace. Others may offer a nominal guarantee, but we are putting real money behind the accuracy of our software.
- A personalized deduction maximizer that we believe is meaningfully differentiated relative to the competition. It can intuitively guide those in freelance professions to find the deductions most relevant to their profession to help ensure they don't miss any opportunities and reduce their tax liability. This feature has helped get us off to a strong start with gig filers.
- Significantly enhanced mobile scope and capability with a fully redesigned experience that makes it easy for new users to get started with their return, including product recommendations based on the user's situation as well as touch or face ID support for quick and secure login. Nearly 100% of users can now fully complete their taxes on mobile versus less than 10% last year. This is important because about 40% of our total traffic is on mobile.
- Streamlined ability to import last year's tax information from competitors, import PDFs and upload pictures from your mobile device.

At this point in the season we are pleased with the progress in the gig segment. We launched a new Freelancer SKU this year and it is currently tracking ahead of our expectations.

Transparent and marketable pricing.
While we continue to increase our federal pricing, we have maintained a strong advantage versus the volumetric leader of about 50%. In addition, we continue to present our pricing very clearly, from the very start of the experience so filers know what our prices are.

Enhanced Capabilities.
We began work to upgrade our capabilities before last tax season had ended. This includes investments in our people as well as introducing machine learning at key parts of the filer experience. In addition:

- We significantly enhanced our customer support capabilities – including expanded chat support with tax specialists to help in completing the return; including late night and overnight hours.
- Migrated successfully to a new cloud platform, which makes us more secure, efficient and scalable.

Revenue Diversification through strategic partnerships and HD Vest.
I'd like to take a moment now to talk about our strategic partnerships, which are important in enabling us to diversify our revenue in two ways. First, by creating new sources of customer acquisition rather than a complete dependence upon consumer marketing. Second, by extending customer relationships to new products and offers while we serve them more holistically across their financial lives.

I'm pleased to share that we start this year with eight new partnerships with more on the way. For TaxAct, this is a major step, with many of these partnerships exclusive to TaxAct. I'm delighted with the traction we are gaining with firms that, like us, take a customer-centric approach to their products and services and who see the power of helping clients through understanding their situation as seen in their tax file information.

With regard to new sources of customers acquisition, I'm pleased to share we have recently put in place two new arrangements each of which features product integration that enhances the client experience. One example of this is with our exclusive relationship with a leading provider of pre-paid debit and pre-paid commercial cards. Through our integrated product, millions of customers will receive promotional offers to file their taxes with TaxAct, receive advanced customer verification, and can direct their refund directly onto their prepaid card.

I'm also happy to announce an agreement with Fidelity Investments. Through our agreement and related technology integration with Fidelity, Fidelity customers will receive discounted pricing, can import their tax forms for a faster filing experience, and have their refund deposited directly into their Fidelity account. We are excited about this offering and the value it brings to customers. As an added benefit, all TaxAct customers will be able to import their Fidelity 1099 information into our software this tax season. This is important because Fidelity customers represent a large percentage of our filers seeking to import their 1099 tax forms into our software.

These partnerships expand distribution of TaxAct through our partners' large client channels which is a first for us.

As it relates to deepening relationships with our customers, we have made significant strides in creating a cross-serve engine within the TaxAct experience for the benefit of our clients. It all starts with the BluPrint™ financial assessment, developed in partnership with HD Vest. The BluPrint financial assessment turns insights from a tax return into actionable recommendations designed to improve the filers' financial situation. With the tax filer's consent, we can use dozens of data points within the 1040 to offer financial insights and suggestions, which will save help them save on their taxes, lessen their debt burdens and improve their future financial health. We believe we can help the average U.S. filer save thousands of dollars with the insights and solutions we provide. This year, and we believe this is only the beginning, we will enable our customers to access product partnerships where they could:

- *Reduce their taxes.* Here, for example, by knowing the capital gains that a customer is paying, one of our HD Vest advisors can provide insights into tax planning and wealth strategies that may reduce that burden dramatically. Remember, this is what HD Vest has been doing for their clients for decades and we are now providing it to the self-directed filer as well.
- *Reduce student debt or get a better deal on consumer debt.* We can help identify how their interest rates and payments compare to the current market and assist them in refinancing through our product partner, potentially saving them hundreds of dollars per year.
- *Manage risk* through adding life insurance at a competitive rate.
- Generate more interest on their hard-earned money through a *high-yield deposit account.*

Currently, we believe we are the only online tax software company that offers this type of insight and guidance into the financial health of our customers and provides comprehensive solutions which can save our customers real money now and for years to come. Think about this for a second. For the nominal cost of using our tax filing software, we can give the customer ways to save thousands of dollars. This is phenomenal value creation opportunity for our customers.

For our filers with more complex tax situations, we identify potential opportunities for savings and can connect them with an HD Vest advisor do a free review of their return. We are testing this for this tax season, but we are optimistic about what this can do for our customers and our advisors.

As noted earlier, we must gain the filer's consent to use their information. I'm happy to share that we are seeing a large uptick in the percentage of filers who consent to allow us to use their tax information.

While we will look to deepen all of our relationships and product integration with our partners, we believe these relationships can become a template for us in future tax seasons. We also believe that our approach is differentiated from our competitors, not only for customers where we believe we offer a more curated experience, but also for partners as we strive to allow our partners to remain front and center with regard to their customer relationships.

Of course, we are in the early stages in the partnerships and synergies and we are not expecting material revenue contribution in the near-term, but it does give you a flavor for some of the opportunities we have and are exploring. It's also a confirmation that we are pursuing and executing on the partnerships we said we'd start to roll out this year. Over time, we expect they will be a material channel for the distribution of our tax software and diversification of revenue.

Full Year 2017

As we look back at the full year 2017, I have to say that I am incredibly proud of what the team has accomplished, including.

- Growing revenue by 12% to $509.6 million.
- Growing adjusted EBITDA by 7% to $100.9 million, or by 13% on a pro-forma basis if you were to normalize for $5.7 million in non-recurring transition expense
- Growing non-GAAP earnings by 38% to $1.46 per share
- Further strengthening the balance sheet by paying down more than $90 million in debt and reducing our net leverage ratio from 4 times to 2.8 times.
- Growing total HD Vest assets by more than $5.5 billion, or 14%, and total advisory AUM by more than $2 billion, or 21%
- Improving HD Vest revenue by 10%
- Achieving our 20th consecutive year of revenue growth at TaxAct, growing 15%
- And last but not least, bringing in great new talent throughout the organization, certainly including Bob and Sanjay as well as several new board members. Together the team developed and rolled out our strategy and generated outstanding financial results for 2017 while investing in the business to support future growth.

As I approach my second anniversary with Blucora, I am as excited as ever about the prospects of this company. We have incredible opportunities and are taking the right steps to unlock that full potential. In

2017 we demonstrated strong performance and showed the type of opportunities available to us. The change in clearing partner for HD Vest is a great example. By signing one agreement we have the opportunity to bring in an incremental 1-2 years or more worth of segment income over 10 years in one of our businesses. Overall, we are very well positioned to capture the ample opportunities we see ahead of us.

With that I will turn it over to John Palmer.

JOHN PALMER, PRINCIPAL ACCOUNTING OFFICER

Thanks John –

Good morning everyone. I am going to provide a balance sheet update, commentary regarding the impact to Blucora of the Tax Cuts and Jobs Act and outlook for the first quarter 2018.

Balance Sheet

Let's begin with an update of the balance sheet. We exited the year with cash and cash equivalents of $60 million and net debt of $285 million. With tax season upon us, we expect to pay down an incremental $80 to $100 million in Term B debt in the first half of 2018. Achieving this level of debt pay down, coupled with our refinancing and repricing actions taken in 2017, we expect cash interest expense to be approximately $14 million in 2018, down from approximately $21 million in 2017. We will continue to prioritize debt pay down in an effort to decrease interest expense and accelerate net operating loss utilization.

Tax Cuts and Jobs Act

Shifting to the Tax Cuts and Jobs Act, the impact to 2017 was a significant non-cash benefit of approximately $21.4 million to the fourth quarter and full year 2017. This benefit was driven by the revaluing our deferred tax liabilities at the new statutory rate of 21 percent versus 35 percent. The deferred tax liabilities were created for GAAP purposes and relate to intangibles associated with the stock acquisitions of TaxAct and HD Vest. For 2018, we expect our GAAP effective tax rate to be in the range of 5 to 10 percent driven by the release of the current portion of valuation allowance in first quarter 2018. Further, we expect that the Tax Cuts and Jobs Act will not change the taxable income we are able to shield through utilization of our existing our net operating loss carryforwards. As of year-end, we had approximately $518 million in NOL carryforwards, with $274 million and $135 million expiring in 2020 and 2021, respectively. And while the reduction in the statutory rate lowers the taxes payable on taxable income, we continue to expect that we will not be a federal cash taxpayer in the near-term and cash taxes are expected to be in the range of 1.0 to 2.0 percent of Adjusted EBITDA driven by state taxes.

Closing out on the Tax Cuts and Jobs Act, I'd like to direct your attention to a couple of additional items of note. First, we expect a slight increase in our cash flows over the next few years driven by the elimination of corporate alternative minimum tax and refund of prior AMT payments totaling approximately $10 million. Second, our focus on debt pay down allows us to avoid the interest expense limitation imposed by the new law.

Transitioning to the first quarter 2018 outlook.

For TaxAct, we expect that $104.0 to $106.0 million or approximately 63 percent of the first half 2018 revenue to come in the first quarter and segment income of $48.0 to $50.4 million. As John shared, we

expect the season to be more back-end loaded, especially on margin. For HD Vest, we expect revenue between $89.5 and $92.0 million and segment income of $10.5 to $12.0 million. I believe it is worth calling out that this segment income outlook includes $500 to $600 thousand in clearing conversion costs. Normalizing for this non-recurring cost and including the benefit we would receive on sweep revenue alone under the new clearing arrangement, our HD Vest segment income outlook would increase by approximately $1 million for the quarter.

We expect unallocated corporate operating expense of $5.6 and $5.9 million and includes approximately $400 to $500 thousand of non-recurring HQ transition costs. This should represent the high-water mark for the year, as we do not expect any additional transition costs and first quarter includes the predominance of our audit costs.

On a consolidated basis, we expect first quarter revenue between $193.5 and $198.0 million, adjusted EBITDA between $52.6 and $56.8 million, non-GAAP net income of $45.0 to $49.7 million or a $0.92 to $1.02 per diluted share and GAAP income attributable to Blucora of $29.9 to $36.0 million or $0.61 to $0.74 cents per diluted share.

As a reminder, our quarterly outlook reflects consideration of several factors for our wealth management segment including but not limited to the following:

- A broad range for transactional revenue due to its inherent variability; and
- Market volatility, including the impact to net flows and cash sweep balances. As a reminder any additional Fed Fund rate increases will only benefit us in the fourth quarter after the clearing firm transition has been completed.

Lastly, our consolidated expectations for GAAP net income attributable to Blucora outlook excludes any impact to tax expense for discrete items and variable stock-based compensation granted to non-employee advisors.

In closing, we expect to provide a full year outlook during our first quarter call and upon the completion of tax season. With that being said, the 3-5 year growth ranges shared during our third quarter call are still applicable at the mid-to-high end of the ranges this year. As a reminder, here are those ranges: revenue growth of 5 to 8 percent, adjusted EBITDA growth of 6 to 9 percent and non-GAAP EPS growth of 15 to 18 percent.

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