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Blucora, Inc. Fourth Quarter 2018 Earnings Conference Call

<u>BILL MICHALEK, VICE PRESIDENT INVESTOR RELATIONS</u>

Thank you and welcome, everyone, to Blucora's fourth quarter 2018 Earnings Conference Call. By now, you should have had the opportunity to review a copy of our earnings release and supplemental information. If you have not reviewed these documents, they are available on the investor relations section of our website at Blucora.com. I'm joined today by John Clendening, Chief Executive Officer and Davinder Athwal, our Chief Financial Officer.

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.

<u>JOHN CLENDENING, PRESIDENT AND CHIEF EXECUTIVE OFFICER</u>

Thanks Bill, and good morning everyone.

We have a lot to cover today, including record annual performance for TaxAct and HD Vest, and an update on tax season. I'll start with our results. Blucora concluded a very strong 2018 with fourth quarter results that were generally in-line or better than our target ranges.

- Fourth quarter revenue improved by 3% year-over-year to $101.3 million.
- Adjusted EBITDA loss was $750 thousand, a 44% improvement year-over-year.
- Non-GAAP net loss of $7.5 million, or $0.16 loss per share, was a penny better than the high-end of our target range, although down relative to the year-ago quarter, which included a $3 million adjustment associated with recording tax benefits for equity awards.
- GAAP net loss was $16.0 million, or $0.38 per diluted share, also better than expected, although down relative to the year-ago quarter, which had included a $32 million benefit from tax reform.

Beyond the quarterly financials, in 2018 we took a number of important steps that we believe will build a stronger business go-forward.

Tax Season Update and Outlook

Moving to the business unit discussion, I'll start first with Tax Preparation. As you may be aware, the tax season is off to a very slow start this year, with total IRS filings down 12% and DDIY filings down 9% as of February 1. The drivers for the slower start include customer uncertainty around the impacts of tax reform as well as the timing of tax refunds given the government shutdown. In addition, competitive intensity continues to be high, with the volumetric leader increasing its marketing spend, particularly around its assisted DIY offering, and with the storefront players focusing on refund advance.

Against this backdrop, we came into this year with a goal of building on the success of last season and hopefully further grow monetized units, despite the headwind of tax reform. To do so, we launched both new marketing campaigns and made important advances in our offering, which I will discuss in more detail in a moment.

At this relatively early point of the season, our performance lags the overall market, with total starts down 4% through February 11 and e-files down 22%. A few things I would note here are 1) it is natural to see a lag between starts and e-files as people wait for tax forms; 2) our business tends to make up ground in second peak given our focus on paying filers, who disproportionately file later in the season, and 3) we delayed our ramp in marketing spend substantially when compared to last year.

Here is how I would decompose the season so far, into challenges and bright spots. On the former, our challenges center upon free and low price-point offerings. We are out of the gates very slow on free filers and our 'basic' sku lags expectations as well. You may recall that we introduced 'basic' last year on March 1 and so some returning filers who last year filed for free are now in the basic offering. We didn't see any elasticity on 'basic' in the second peak last season, but clearly we are seeing it in this year's first peak.

At the same time, there are a number of bright spots, including:

- Our start rate is rapidly improving as the season progresses which means the gap is closing after a very slow start; completions are also improving as we get deeper into the season.
- Despite the challenges on 'basic,' we are monetizing a significantly higher portion of our customers this year.
- We are ahead of expectations in total on completes for our highest priced skus, and are thus somewhat ahead on ARPU.

All factors considered, we remain comfortable with our outlook for the first half of 2019 which includes revenue growth of 7.5-10% with segment margin of 56.7%-57.7%. While overall units are expected to decline, with revenue growth being driven largely by ARPU including favorable sku mix, our outlook assumes we are able to grow monetized units modestly based upon our experience early in season as well as our expectation that 'basic' performs similar to last year in the second peak.

We've unveiled a number of advances and new benefits for customers to make the tax filing experience easier and more rewarding, as part of a multi-year effort to improve the client experience. I'd like to touch on a few of these.

Enhanced Customer Experience
In addition to bringing back some of our most popular features like our personalized Deduction Maximizer and $100,000 Accuracy Guarantee, some improvements customers are seeing this year include a **newly refreshed and improved website** - that allows customers to quickly identify the product that best fits their needs. This also includes aligning the names of our comparable product names with those of others in the industry for easier comparison. We've also upgraded our mobile experience, with the app earning a 4.5-star rating in Apple's app store, up from 4 stars last year. We also introduced **Ten minute taxes** – a streamlined and intuitive process to guide certain filers with simple returns to complete their returns in just ten minutes or less. We want to enable our customers to do more in less time so they can get back to the things that matter most to them.

We're also excited to see the launch of our **refund marketplace** - which rewards filers with a bonus amount on a gift card, up to a maximum of $599, when they allocate a portion of their refund to gift cards from an assortment of national retailers. This bonus can make the tax filing process 'better than free' – where the filer can end up walking away from TaxAct filing experience with more bonus money than they paid us to file. Participating retailers for our initial season so far include Amazon, Starbucks, Nike, Bed Bath and Beyond, Apple's iTunes, Home Depot, Carnival Cruise Lines, Lowes and several more. We also continue to add new data import partners, with Commonwealth and National Financial on the list of new additions this season.

Partnerships

In addition to the enhanced customer experience, we have some new and expanded partnerships this season. As you'll recall, last year was our first year testing several types of new partnerships. We were pleased to announce recently that KeyBank, seeing the value of our partnership last season, was interested to expand the relationship. For this season, in addition to KeyBank offering and merchandising TaxAct software to their customers, TaxAct filers will have access to several KeyBank products, including CDs, loans and credit cards, as well as the option of depositing their tax refund directly in to a KeyBank high-yield savings account. Consistent with our mission to provide the most value to customers across their financial lives, many of these products will be offered with monetary or other bonuses or at discounted rates. For example, a 50-basis point discount on loans or no interest for 15 months on credit cards.

A couple other partner updates include a renewed agreement with Fidelity for this season, which includes better offer placement and broader exposure with their platform and constituent base. My Secure Advantage, a corporate EAP provider, was also renewed and expanded this year, and increased by a factor of more than 10 the number of total possible end customers to which they could make the TaxAct product available through their employer clients – this year up to possible 28 million versus 2 million last year. We've also just gained distribution on Amazon and are moving to optimize merchandizing and placement.

Our BluPrint financial assessment, which utilizes our proprietary software to turn insights obtained from a tax return with customer consent, into actionable recommendations to improve their financial situation, will also be back this season. Last year more than 2 million customers asked us to help them and requested a BluPrint analysis. While we saw excellent interest, some customers found the list of opportunities overwhelming and may not have known where to start. This year we are introducing many new enhancements to bring a much more engaging, content-rich and guided experience to help customers capture more value. From reducing their tax expense to lowering their rate on debt or increasing their rate on savings, we'll make it easier along with a new roster of partners. The full experience, which includes these improvements, is planned for launch later this month. Meanwhile we have been successful gaining consents.

We believe we're the only online tax software company that offers this level 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. This is phenomenal value creation opportunity for our customers.

Our sense is these initiatives will become much more meaningful in tax year 2019, after a season plus of experimentation.

I'll close on Tax Preparation by noting that we've also made significant improvements in our capabilities on this business in just the past few months, with regard to leadership, marketing, product management and engineering. The team is moving aggressively to optimize all levers for a strong tax year 2018, as well as to set us up for next season.

Wealth Management

Turning now to wealth management. As I mentioned earlier, HD Vest had an excellent 2018 despite the market volatility. For the year, revenue grew by 7% and we achieved nearly $1 billion of net flows in to advisory assets, at $957 million, setting a new record. More importantly, 2018 in this business was about positioning, and laying the groundwork for future growth. As we have consistently shared, we look to build long term value through driving increased total client assets and increased monetization of those assets through the adoption of advisory services and maximizing the capture of the economics of client cash. Our approach is straightforward: 1) adopt best practices 2) provide the best tools and services to allow advisors to maximize their productivity practices and 3) extend our unique reason-to-win around the creation of tax alpha, In 2018, we made substantial progress in setting the stage for step-function increases in client, advisor and shareholder value, and we expect to build on each of these in 2019 despite the challenges we are all seeing around market valuations and a less-certain economic and interest rate environment.

The degree of change we achieved cannot be overstated, and with change comes a degree of initial variability and uncertainty. As we look back on the prior year, it occurred to me that it would be useful to divide our progress around setting the stage for future growth and value creation into three areas: 1) **unequivocal progress** – areas where we just nailed it and are full-speed ahead, 2) **line of sight** - areas where we made clear progress and can see our goal, but there is still some work to be done, and 3) **Ramping** - areas where we also made clear progress, but are still on the journey to achieving the maximum value.

In the *unequivocal progress* category:

- Recruiting. While adding new advisors tends to drive value in the medium-plus time frame, rather than the short-term, I could not be more pleased with our results last year. In 2018 we recruited roughly double what we did in 2017 in terms of total new client assets at more than $700 million.
    - First, we added about 120 new advisors in our core strategy of turning tax pros into wealth advisors. This includes our efforts to penetrate larger accounting practices, a new focus for us. For example, last quarter, we added another large accounting firm with 6 locations, 13,000 individual clients and 600 business customers. Once fully up and running, that would be about another $100 million prospecting opportunity in total client assets.
    - Second, we also earned the business of about 175 established advisors. Two of these advisors, which were particularly large, joined in the fourth quarter, with the associated assets continuing to onboard this quarter.
    - And our partnership with Drake continues to yield results, with more than 1,100 leads generated to date. We have a handful of them already on board, representing a $250 million or so total client asset opportunity at this point.
- I'd also put advisory growth in this category, which as I noted approached the $1 billion mark at $957 million, including about $350 million in the fourth quarter. Advisory assets as a percentage of Total Client Assets ended the year at a new high-water mark at just about 30%. As advisory assets continue to grow faster than the total, it is one component, along with trailing commissions and sweep revenue, that further reduces our dependence on transactions and increases our recurring revenue rate. Our recurring revenue rate reached 83% in the fourth quarter, up nearly 400 basis points year-over-year. And we have new initiatives that will be ramping up throughout 2019 that will accelerate this shift.
- Lastly in this category, our conversion to Fidelity's National Financial results in a step-function increase in revenue from cash sweep.

In the *line of sight* category:

- Speaking of conversion, as you know the conversion efforts not only increase our revenue, it is also an important part of our effort to accelerate growth and provide the best technology, service and support to HD Vest advisors. We embarked on an ambitious conversion project over more than 15 months that has created a transformed advisor experience with next generation technology and new capabilities like highly integrated business processing, data aggregation, and a world-class client portal. The conversion, which went live at the end of September, was unique in that it was essentially three conversions in one, including Fidelity's National Financial, Envestnet and Fidelity's eMoney. This was a big change for advisors, one that has taken longer to adapt to than we, and they, anticipated. To bring you fully current:
    - The asset conversion is essentially complete with over 99.9% of assets converted, a very positive outcome.
    - However, we saw a clear increase in cycle times in the fourth quarter as advisors and our home office team worked to get accustomed with the new technologies, policies and processes that came along with the simultaneous conversions. This tended to increase response times and also had the effect of lowering transaction activity as advisors turned inward to support existing clients rather than business development.

  - As you all know from our prior calls, we take very seriously the concept that over time we win more for shareholders when we deliver great value to clients and advisors. It became clear in the fourth quarter that we needed to better support advisors on these conversions, so we decided to take contract support to an elevated level to help smooth out the process, in addition to committed resources from our platform partners. We're making good progress on this front, and I expect that it won't be too long before we get back to form and then significantly exceed our pre-conversion productivity and capabilities - but we expect to see elevated expenses, and possibly a continuation of the subdued transactional activity, through the first half of the year.

  While there are start-up costs, the stack of National Financial, eMoney and Envestnet represents a large upgrade over our prior capabilities. We believe we have one of the best commercial grade platforms in the industry and will be making proprietary improvements to our advisors' experience over time. We are already seeing strong adoption in new capabilities like eMoney, with clients representing 25% of total client assets enabled on the portal. We are also seeing conversion of new advisors who simply would not have come to us without these improvements. It will also be an important financial driver. The National Financial portion alone, as we have indicated in the past, is expected to generate more than $120 million in incremental segment income over the 10-year contract duration, which will allow us to provide end-customers with higher interest income over time, while splitting the bulk of the benefit between growth initiatives and enhancing bottom-line earnings. The sweep portion of this is large, even if rates don't continue to go up.

  On balance, we've taken a small step back in the immediate wake of the conversion for the opportunity to take three steps forward. The overall benefits we expect to see from this conversion in terms of benefits to advisors, clients and the company are hard to overstate. And, importantly, the majority of our larger advisor offices are fully past the transition and are 100% focused on growth. This gives us strong conviction around getting rest of our advisors to the same spot.

- Also in this *line of sight* category - Advisor Productivity
  - Our introduction of predictive models to assess advisors and bring on those with the highest potential continues to bear fruit. Advisors brought on using this process continue to reach early milestones in a fraction of our historical average, at 120 days versus the prior 800. We had almost 80 new advisors join in the fourth quarter utilizing this assessment.
  - New tools and training, including consultative sales simulations using virtual reality, have been piloted and have shown great promise, and we expect will have a positive impact in 2019. These will be part of an overall productivity effort to include a realignment of service capabilities to provide the right service to advisors in the right way, which is now in pilot.
  - You'll recall last year, we actively pruned the advisor base by setting engagement requirements, which led to the termination of our affiliation with hundreds of advisors. This is creating more capacity for our team to focus on driving productivity with our engaged advisors and continuing to enhance our experience and support for our most productive advisors and teams. Overall, our average production per advisor was up 14% in Q4 relative to a year ago, and we believe we are just in the early stages in this regard.
  - As we continue to bring on larger established advisors and enable stronger growth from our current advisors, advisors are moving up the payout grid, with our top teams outperforming and growing relatively faster. We applaud their growth and specifically the way they are growing, through embracing the advisory model. While we are fully happy with the acceleration of growth at the high-end, the relative imbalance of the recent growth has led to payout rates increasing over the past few quarters. We maintain a strong relative payout advantage relative to the industry because of our balance of advisors at each stage of the advisor lifecycle. Yet, we are focused on a number of steps to extend and accelerate growth among the high potential, middle group of advisors, which, when effective, should serve to moderate overall payout rates.

Finally, in the *ramping* category, most notably, we recently launched our Tax Smart Innovation incubator, with the first innovation already in beta testing. It's a new proprietary tax-smart investing software platform to help advisors systematically capture tax-alpha for clients. This is key, as investors give up 1-2 percentage points of performance each year to taxes. The beta was oversubscribed within 24 hours of launch, and is now in testing with about 150 advisors. We are in the very early stages here, but the reaction and the results thus far are quite encouraging, and the feedback we are receiving is helping us make the product even more beneficial. Our feeling is we can create a far more useful set of capabilities than are currently available in the marketplace, giving our advisors an incredible edge in driving value for clients.

So, big picture in wealth management, while we demonstrated excellent results in 2018, perhaps even more important were the foundational elements we put in place to drive future growth. We're bringing in great new advisor talent, arming them with a powerful set of technology and productivity tools that will represent a step-function increase in capability, rolling out new training and support as well as developing the next-generation of tax-smart tools to drive even greater client value. Net flows have been strong, the shift to advisory continues and sweep revenue run-rate has never been higher for HD Vest – these are the major drivers of value, and they are our focus.

FY 2018 Highlights

For the company as a whole, as we look back at the full year 2018, I have to say that I am incredibly proud of what the team has accomplished, including:

- Growing total revenue by 10%,
- Growing adjusted EBITDA by almost double that rate at 19%,
- Growing non-GAAP earnings by an even stronger 30% and approaching $2 per share,
- Generating nearly $100 million in free cash flow,
- Further strengthening the balance sheet by paying down $80 million in debt and reducing our net leverage ratio to 1.5 times from 2.8 times,
- Improving HD Vest revenue by 7%,
- Achieving record net flows at HD Vest, including almost $1 billion into advisory at $957 million,
- Transitioning to a new clearing platform and technologies which will benefit advisors and clients while enabling us to capture more than $120 million in additional benefit over the 10-year term,
- Achieving our 21st consecutive year of revenue growth at TaxAct, growing 16% and meeting our goal of stabilizing monetized units,
- And last but not least, bringing great new talent in to the organization up to and including the management team and Board of Directors.

In 2018 we advanced our strategic goals of **A**ccelerating growth, **B**uilding tax-smart leadership, **C**reating one Blucora and **D**elivering results. We strengthened our platform, we invested for future growth, we generated outstanding financial results and we laid the groundwork to capture the significant opportunities we see ahead. In short our strategies are working and on track.

As I approach my third anniversary with Blucora, I have never been more excited about our prospects. With that let me turn it over to Davinder.

<u>DAVINDER ATHWAL, CHIEF FINANCIAL OFFICER</u>

Thanks John –

I'll jump right in and cover fourth quarter results and some additional color on our current revenue and segment margin expectations for the upcoming tax season.

As John mentioned, our overall results were generally in-line or better than our target ranges.

- Revenue was up 3% year-over-year to $101.3 million, at about the midpoint of our guidance range
- Adjusted EBITDA loss improved to $750 thousand driven by the increase in revenue as well as lower TaxAct operating expense, and was above the high-end of the guidance range.
- Non-GAAP loss per share of $0.16, was just at, or slightly-above, the high-end of our guidance range, although down relative to the year-ago period due to a $3 million adjustment in the year-ago period associated with recording tax benefits for equity awards.
- And finally, GAAP loss per share was $0.38, also above guidance but down relative to the year-ago quarter, which included a $32 million benefit from tax reform.

Shifting to the balance sheet, we had cash and cash of equivalents of $84.5 million, and net debt of $180.5 million, and our net leverage ratio was 1.5 times, which was down from 2.8x in the year-ago period and flat vs. the prior quarter. Overall, our capital allocation focus has been on organic investment and debt pay down, so absent any strategic opportunity that may present itself, we'd expect further de-levering in 2019. Also, as a reminder, the non-controlling interest in HD Vest becomes redeemable this quarter, so we expect an associated cash outlay of approximately $25 million in the first quarter, with no P&L impact.

Wealth Management

Let us turn to our segment performance beginning with Wealth Management. HD Vest fourth quarter revenue was $97.2 million up 4 percent when compared to prior year and at about the mid-point of our guidance range. Fourth quarter revenue growth was highlighted by fee-based advisory revenue, which was up 13 percent year-on-year driven by strong net flows and the market growth in the first three quarters of the year. Reflecting some of the early, and significant, benefits of the clearing transition, mutual fund revenue share revenue was up 19% and sweep revenue was up 96%.

Also reflective of the conversion, but in the other direction, our transaction and commission revenues were subdued relative to where they could be, as advisors, and our home office team, acclimated to the new procedures, tools and technologies and cycle times increased. As John mentioned, we brought in additional resources to help smooth out the advisor experience and have been making good progress.

Segment income in this unit for the quarter was down about 1% year-over-year and short of our targeted, range due to the items John mentioned. These included 1) a legal reserve of about 450 thousand dollars that was recorded during the quarter, 2) clearing-related impacts of lower transaction volumes, and increased level of support personnel, which together were about $350 thousand, and 3) a higher advisor payout rate, which was about a $700 thousand impact and was driven primarily driven by market performance and product mix, as well as advisor mix with higher payout advisors growing relatively faster.

In short, while we are seeing the long-term economic benefits of the clearing conversion begin to flow through, particularly in our asset-based revenue line, they were offset in the short-term by incremental cost and lost productivity. We expect increased stability related to conversion over the coming months, and look to be fully stabilized by the end of the first half, at which time incremental expenses are expected to roll off.

The fact that we were able to absorb these additional costs and still beat our total Adjusted EBITDA guidance is a good example of the opportunities we may have, as we run the business both to optimize for Adjusted EBITDA at the consolidated level as well as meet our financial commitments. In this case we were able to more than offset the increased cost on the HD Vest side with savings opportunities elsewhere.

Continuing on, net new client assets for the quarter were $181 million and net flows in to advisory were $347 million. We continue to be pleased with our advisory net flows as this is an area of focus for us as we continue to convert existing brokerage assets to fee-based advisory assets where appropriate for clients, while also driving new-to-firm fee-based assets. Despite the strong flows, the significant market decline in Q4 resulted in Advisory Assets coming just slightly higher year-over-year at $12.6 billion, and Total Client Assets being down about 4% on a year-over-year basis to about $42.2 billion. The continued relative strength in advisory drove advisory as a percentage of total up by about 130 basis points to 29.7%.

For the full year, HD Vest Revenue came in at $373.2 million, up 7% over the prior year, and segment income was $53.1 million, an increase of 4% over 2017. Summing up the year, market conditions were favorable through most of the year, and that upward movement grows our total client and advisory assets, on top of the record flows we achieved, and that benefits fee-based and trailer revenue. We typically see increased flows in times of S&P 500 growth. We also saw four increases in the Fed Funds rate in 2018, which benefitted us in the fourth quarter following the clearing conversion, and will be an even bigger benefit as we look forward. But overall, the big story for 2018 was the significant strides we made in positioning the company for the future, with all of the items John mentioned including the record flows, recruiting, conversion, advisory productivity, and the very promisingtax-smart initiative.

Tax Preparation

Transitioning to our Tax Prep segment, TaxAct revenue for the fourth quarter was $4.1 million, up 2 percent versus prior year. Segment loss was $8.7 million, an improvement of 17% versus prior year as the prior year quarter included incremental spend related to marketing as well as our cloud conversion.

For the full year, TaxAct revenue came in at $187.3 million, an increase of 16% over the prior year. Segment income was $87.2 million, an increase of 20% over the prior year, resulting in a segment margin of 47%, a 130 basis point improvement vs. 2017.

First quarter 2019 outlook

For the first quarter TaxAct, we expect that $124.5 to $126.5 million or approximately 64 percent of the first half 2019 revenue to come in the first quarter and segment income of $66.0 to $68.0 million.

For HD Vest, the significant market decline we saw in December did not have a material impact on the fourth quarter, but will show up in first quarter results, again primarily in advisory as fees for Q1 are based on Q4 ending assets, as well as trailers and revenue share. For the first quarter, we expect HD Vest revenue between $89.0 and $92.0 million and segment income of $10.5 to $12.0 million. In addition to a more conservative view on transaction volumes, this outlook includes a few incremental items including:

- First approximately $1 million in advisor bonus recognizing top advisors based on production and advisory assets. This will decline to $700 thousand in Q2, $400 thousand in Q3 and go away thereafter.
- Second, $400 thousand in short-term contract support costs as we continue to keep support elevated for the benefit of advisors. We would expect this to be at about $100 thousand in Q2, then go away, and
- Third, an additional $300 thousand in legal reserve, that we would not expect to see again in Q2.

On a consolidated basis, we expect first quarter revenue between $213.5 and $218.5 million, adjusted EBITDA between $68.5 and $72.5 million, non-GAAP net income of $60.0 to $63.5 million or $1.19 to $1.26 per diluted share and GAAP income attributable to Blucora of $48.0 to $50.5 million or $0.95 to $1.00 per diluted share. This includes unallocated corporate operating expense of $7.5-$8.0 million.
As we have done in the past, we expect to provide a full year outlook during our first quarter call upon the completion of tax season. There are a couple of items I'll mention now that may be helpful as you look ahead or for modeling purposes.

- Clearing – We continue to expect the new clearing arrangement to generate more than $120 million in incremental segment income over the 10-year contract duration. For 2019, assuming no additional increases in the fed funds rate, we expect an incremental benefit of approximately $12 million, which represents the high-end of our previous target range of $10-$12 million. This $12 million benefit is compared to our previous clearing firm run-rate. Compared to 2018, which included a $1 million clearing benefit, this would represent an $11 million increment. Should rates change, for modeling purposes it would be fair to assume a $2.5 million annual segment income impact for every 25 basis point change in the fed funds rate.
- 'Flex Spend' – As we previewed last quarter, we expect leverage this incremental clearing benefit to flex our investment in the business in 2019 and capitalize on significant organic growth opportunities we see, particularly the tax-smart innovation initiatives that John referenced. For the full-year, we are targeting an investment of $4-$5 million which will show up in our unallocated corporate expense line.
- NOLs - In 2018, we utilized approximately $67 million in NOLs, leaving a gross or pre-tax balance of $454 million.
- Debt reduction – as a reminder, given the seasonality of the tax business and strong cash generation, we tend to pay down debt in the first half of each year.

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

JOHN CLENDENING, PRESIDENT AND CHIEF EXECUTIVE OFFICER
Actually, before we do that, in my tax season discussion I referenced the February 1 IRS data, but wanted to make sure I also noted the February 8 data that came out yesterday showed a similar story, but to a lesser degree, with IRS filings are now down 7% with DDIY down 3%.

Let's go ahead now and open it up to questions.

JOHN CLENDENING, PRESIDENT AND CHIEF EXECUTIVE OFFICER
Thank you all for joining us today. In closing, I'd like to also thank our employees, advisors and customers that are at the heart of our success. 2018 was a great year for Blucora and we're looking forward to keeping you updated on our progress. Speak with you next quarter.