



**Blucora, Inc. First Quarter 2021  
Earnings Conference Call**

**Dee Littrell, INVESTOR RELATIONS**

Thank you and welcome, everyone, to Blucora's first quarter 2021 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](http://Blucora.com). I'm joined today by Chris Walters, Chief Executive Officer, and Marc Mehlman, 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 that 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 Risk Factors in our most recent Forms 10-K and 10-Q, for more information on some of these specific risks and uncertainties. We assume no obligation to update our forward-looking statements, except as required by law.

We will discuss both GAAP and non-GAAP financial measures today. Our earnings release and supplemental financial information are available on [blucora.com](http://blucora.com) and include full reconciliations of each non-GAAP financial measure discussed to the nearest applicable GAAP measure.

With that, let me hand the call over to Chris.

## **CHRIS WALTERS, PRESIDENT AND CHIEF EXECUTIVE OFFICER**

Thank you Dee, and good morning everyone.

### **Opening**

It has been a busy, but productive first quarter of 2021 as we continue to execute on the vision we have laid out for the business. We have made great strides in positioning the business for long-term sustainable growth, all while focusing on expanding profitability.

Before I delve in to the details of the quarter, I would like to address the annual meeting. First, on behalf of the board, I want to thank shareholders for their support as we continue to execute on the strategy for the company. That said, I want to acknowledge the valuable engagement and feedback we received during extensive conversations with investors and reiterate the Board's and management's commitment toward effecting positive change and maximizing value for all shareholders.

Transparency is essential to this commitment. During our Investor Day, planned for June 15<sup>th</sup>, we will dive into the long-term financial projections for our two business segments, including both the significant value that can be created by executing sustainable growth strategies for each segment as well as the cross-over benefits between them that can deliver incremental growth and value to our shareholders, financial professionals and consumers. Now that we are nearing the

end of the extended 2020 tax season, we are looking forward to engaging with our investors around the KPIs and financial expectations of the strategy on which we are executing.

I want to reiterate our commitment to driving shareholder value, in whatever form that may take. Our board takes diversity of thought and perspective seriously – within the boardroom, across the Company and from our shareholders – and has and will continue to evaluate all avenues for driving maximum shareholder value.

With that, let's turn our attention toward the highlights of the first quarter:

## **TaxAct**

As you know, the IRS extended the 2020 tax filing deadline to May 17 for most states, and for Texas, Louisiana and Oklahoma to June 15. While this has some impact on our business, having learned from our experience last year, we are in much better position to manage the effects of this change. As Marc will discuss shortly, during the current 2020 tax season we haven't seen a material financial impact from this change, relative to the 2019 tax season, other than as expected a change in the timing of revenue, which Marc will address. As it relates to the season, with a critical 12 days left, we are upping our guidance for segment income driven by improved ARPU and more efficiently executing on our revenue growth performance. We will provide more detail on the drivers of performance during Investor Day.

A few observations on the TaxAct business that we can share at this point:

1. We have embraced our value position. We lowered federal pricing this year for the first time in at least 5 tax seasons. Depending upon the point in the season, we had a 20% to 50% discount relative to the market leader. We believe this pricing advantage, and messaging campaign, will grow in awareness over the next several tax seasons.
2. We continue to have strong NPS scores, which should translate into attractive retention metrics for the business – which is what we have seen off of last year’s NPS improvements through this point of the season relative to last year.
3. Further, as expected, the launch of our Hybrid Assisted Offering has enabled us to drive ARPU this season. For the first full year, we are pleased with the results and the learnings, and see this as a launching pad for even greater adoption and growth in the future.
4. As we have discussed in the past, there are meaningful governmental restrictions in place limiting our ability to use customer data for marketing purposes without customer consent. Our goal of driving consent across our user base has been largely successful with approximately 72% of customers providing consent as of April 30<sup>th</sup>. This customer consent facilitates engagement throughout the year.
5. Lastly, our new marketing team has made great strides in their first full season. As a reminder, we revamped virtually the entire marketing organization and launched new technology tools this season. We have been able to execute on a number of tests throughout the season that have provided us with insights that helped us to maximize the cost effective growth potential of the business. There is more work to be done, but we are pleased with the way this team has executed this season.

We look forward to providing more detail on our progress in these areas and others, including their impact on KPIs and financial results, at the upcoming Investor Day.

## **Avantax**

Moving on to Wealth Management:

As we have discussed, Blucora's independent financial professionals have experienced a significant amount of change over the last several years, as would be expected with clearing platform changes, integration of acquisitions and changes in the regulatory environment. This has resulted in some predictable turnover, including during the first quarter, but in most cases attrition has been in line with our expectations as we continue to improve financial professional relationship management, accelerate service and operational improvements, and roll-out technology-related experience enhancements throughout the year. We remain optimistic about the potential of our differentiated, tax-focused wealth management strategy. We are also very encouraged that top-quality financial professionals from other firms are taking notice of all of our efforts and choosing to affiliate with us.

And now a few highlights for the quarter:

1. The business set a record in March for the greatest amount of gross inflows into Advisory, at \$2.1B. We believe this is evidence that our efforts and focus toward comprehensive financial planning and advisory are starting to take hold.
2. Of the 143 departing Financial Professionals in Q1, 117 or approximately 82% were non-producing Financial Professionals (which is defined as less than \$50K in rolling gross production). This compares to 71% of departing financial professionals in Q4 2020.
3. Our production retention rate in Q1 was at 98%, compared to 96% in Q4 2020.
4. Our business reached a significant milestone in Q1 with our first financial professional exceeding \$10M in gross dealer concession (advisor driven revenue). While at the same time during the quarter, we brought on 67 new Financial Professionals with 18 of them newly licensed affiliates entering the wealth management industry. We continue to be a destination for both large, experienced firms as well as those who seek a pathway toward greater diversification in their revenue streams.
5. Our RIA growth and in-house succession plan, whereby we provide an opportunity for independent Financial Professionals to be acquired into the RIA continues to accelerate with more than \$3B in assets in our pipeline as of April 30. Early acquisitions executed as part of this strategy have delivered above expectations through Q1. The opportunity is compelling for independent Financial Professionals who want to continue to serve their clients and grow their business with a different affiliation model or those who are interested in a turn-key succession plan,

6. We acquired two critical technology and service capabilities year-to-date. The first, Guidevine Technologies, announced in March, is designed to help our financial professionals with one of their most in demand needs: increased client prospecting. The second is our recent acquisition of Signifi, which accelerates our ability to offer value added marketing services to our Financial Professionals, through customized agency-style marketing services. These two acquisitions provide more resources to our Financial Professionals to drive growth in their practices over time.

Stepping back, we remain committed to our strategy to improve the Financial Professional and end-customer experience, to complete the integration work from 1st Global and HKFS (now Avantax Planning Partners) and lastly to facilitate a natural evolution of our assets toward comprehensive financial planning and, where in the best interests of the client, an advisory relationship. Ultimately, we believe this will benefit end clients, our Financial Professionals and Avantax.

## **Blucora**

The environment within which we operate continues to pose challenges, and I am proud of the team for their unwavering focus on execution. Whether it be IRS-triggered challenges with stimulus payments, natural disasters affecting our employees based in Iowa and the Dallas-Fort Worth area, a proxy contest or another extended tax season, our team continues to focus on executing the strategy. Our business is in a strong position, our strategic shift within Wealth

Management is well underway and our plans to drive growth and expanding margins within Tax are on track.

With that I'll turn it over to Marc to review our Q1 performance and Full Year outlook.

**MARC MEHLMAN, CHIEF FINANCIAL OFFICER**

Thank you Chris, and good morning everyone.

I'd like to provide additional detail on our first quarter results and our outlook for Q2 2021 and full year. As a reminder, on last quarter's call we did not provide Q1 full business guidance in light of the potential delay in the tax season, but did provide guidance for revenue and segment income for wealth management along with expense for unallocated corporate activity. I will reference in my comments comparisons to our guidance ranges where applicable.

Starting with first quarter consolidated results:

1. Total revenue of \$278.4 million.
2. GAAP net income of \$27.6M million, or \$0.56 per diluted share. Embedded within our

GAAP net income figure are:

- A \$6.3M true-up associated with the Avantax Planning Partners (formerly HKFS) earn-out which, as I have mentioned on previous calls, we expect to be at the full \$30M amount for the first of two payments but accounting treatment doesn't reflect that number until we approach the earn-out date.



- An approximately \$2.75M impact associated with the proxy contest (where we expect an additional approximately \$750 thousand in costs as the final fees are paid).
- Income tax provision expense of \$1.7M.

Adjusted EBITDA, which excludes these and certain other factors, was \$64.6 million.

Non-GAAP net income was \$51 million, or \$1.04 per diluted share.

## **Tax Preparation**

Turning now to tax preparation, similar to Q1 2020, the timing of revenue generation was impacted by the delay in filing deadlines and demand shifting out of Q1 2021. TaxAct revenue was \$123.9 million, and segment operating income was \$50.9 million.

## **Wealth Management**

Moving on to wealth management. First quarter reported wealth management revenue was \$154.5 million, at the high end of our guidance range and up 3% sequentially, which included a 5% increase at Avantax Wealth Management. This revenue growth was primarily driven by market improvement and a 13% sequential increase in transaction commission revenue. APP revenue declined modestly sequentially, related to a loss of assets stemming from post-acquisition attrition.

On a year-over-year basis, total wealth management revenue was up 7% which included revenue of \$9.3 million from Avantax Planning Partners.

Wealth management segment operating income came in at \$19.4 million, close to the high-end of the target range, driven by revenue performance and in-line expense expectations.

Total client assets increased 39% year-over-year to \$84.8 billion, which included approximately \$5 billion from the addition of Avantax Planning Partners. Fee-based advisory assets were up 56% year-over-year to \$36.8 billion with advisory assets as a percentage of total client assets ending the quarter at 43.4%.

We saw net inflows into advisory assets of \$369 million with total client assets having net outflows of \$869 million which relates to a shift to on platform assets, which has increased the ROA for the business.

At the Corporate level, unallocated corporate G&A expenses came in at \$5.7 million, considerably better than the guidance range. During the quarter, we had about \$8.1 million in acquisition and integration related costs primarily associated with HKFS and 1G. With \$6.3 million attributed to the mark to market of the HKFS earn out provision.

## *Liquidity*

We ended the quarter with cash and cash equivalents of \$191.8 million, and net debt of \$370.9 million. Our reported net leverage ratio at the end of the quarter was 3.5x, compared to 4.3x at the end of 2020.

As we assess our priorities for capital allocation, we will focus on ROI accelerators such as investments in RIA acquisition opportunities, and will assess these versus alternatives such as debt paydowns or other opportunities. We remain committed to having a long term net leverage ratio of below 3x.

## **Q2 and Full Year Outlook**

### **With that, let's turn to our second quarter and FY 2021 outlook:**

For the second quarter, we expect tax software segment revenue of between \$82.5 to \$87.5 million and segment income of \$53.0 million to \$58.0 million. For our wealth management segment, including APP, we expect second quarter revenue of \$155.5 to \$161.5 million and segment income of \$17.5 to \$19.5 million. On a consolidated basis for the second quarter, again, including APP, we expect total Blucora revenue of between \$238.0 to \$249.0 million, adjusted EBITDA of between \$63.0 and \$70.5 million, non-GAAP net income of \$47.0 to \$55.5 million or \$0.94 to \$1.11 per share and GAAP net income attributable to Blucora of \$22.5 to \$31.5 million or \$0.45 to \$0.63 per share. This outlook includes expected second quarter unallocated corporate-level operating expenses of \$7.5 to \$7.0 million.

For the full year, we expect tax software segment revenue of between \$212.5 and \$218.0 million and segment income of \$72.0 to \$76.5 million. For our wealth management segment, we expect full year revenue, which includes APP, of between \$631.5 to \$649.5 million, and segment income of \$79.0 to \$83.5 million. This translates to consolidated full year outlook, again including APP, of revenue of between \$844.0 and \$867.5 million, adjusted EBITDA of \$122.5 to \$132.5 million, non-GAAP net income of \$67.5 to \$80.0 million or \$1.34 to \$1.60 per diluted share and a GAAP net loss attributable to Blucora of \$12.5 million to net income of \$2.0 million or a net loss of \$0.25 to net income of \$0.04 per diluted share with \$28.5 to \$27.5 million in corporate unallocated expense.

This concludes our prepared remarks; we will now turn the call over to the operator for Q&A.

Operator?

**CHRIS WALTERS, PRESIDENT AND CHIEF EXECUTIVE OFFICER**

Thank you all for joining us today and for your interest in Blucora. Speak with you next quarter.