



**Blucora, Inc. Fourth Quarter 2020  
Earnings Conference Call**

**Dee Littrell, INVESTOR RELATIONS**

Thank you and welcome, everyone, to Blucora's fourth quarter 2020 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 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 our press release and our other SEC filings, including our Form 10-K and other reports, for more information on 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 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**

2020 was a challenging, but more importantly, a transformative year for Blucora.

Even as we navigated an unprecedented global pandemic, the company's new leadership team and refreshed Board of Directors repositioned our unique portfolio of profitable, tax-focused, tech-enabled businesses to sustainably grow long-term and build shareholder value, as an integrated company that helps consumers build and preserve their wealth.

This is a big opportunity. It addresses an enormous untapped and underserved market for consumers whom taxes are one of life's biggest expenses, but who have traditionally not had access to effective, long-term tax planning strategies and tools.

Blucora's unique solution integrates powerful but easy-to-use, tax-focused technology, an extensive and highly trusted network of tax and financial professionals, and valuable data at scale to deliver holistic tax-focused planning and financial guidance that can efficiently enable wealth preservation and creation.

Blucora's compelling mission, opportunity and solutions are the reason I was so excited to become CEO a year ago. They are also the reasons I am even more optimistic about our long-term outlook today, as I look back on the lessons we have learned and tremendous progress we have made over the past 12 months.

This morning I'd like to review fiscal 2020, beginning with the short-term impact of the pandemic on our results and then turning to the long-term progress we are making, strengthening the foundation of our business and the connections between them, for sustainable, long-term growth.

Marc will then review our financial results in more detail.

Before diving into our results and outlook, I first want to thank our employees for not wavering in their dedication to our customers, despite the challenges of the pandemic. And I want to thank our financial professionals, who have worked tirelessly to position their clients for success, both from a tax and wealth management perspective, through this uncertain time. Finally, I want to thank our customers for placing their trust in us to ensure their financial well-being.

So let me begin first by reviewing the impact of the pandemic, which we have discussed on earlier investor calls this year ...

In addition to the hardships and loss it has caused for many of our customers, employees and financial professionals, the COVID-19 pandemic had a significant short-term impact on last year's results.

First, the unexpected tax filing extension resulted in approximately \$20 million of incremental costs in our Tax Preparation segment. These included increased marketing spend, extended call center staffing and other costs as we worked to finish a longer tax season, while simultaneously planning for the next.

Second, beyond these direct COVID impacts, we decided to strategically invest in our future by spending approximately \$20 million on additional marketing to overcome the weaker performance through the first peak but also to more effectively drive sustainable unit growth.

Third, in our Wealth Management segment, as the Fed funds rate fell to zero at the start of the pandemic, the equivalent of 6 25 basis point reduction in interest rates. This caused sweep revenue for the year to decline 87%, for an approximately \$21 million impact on our segment and consolidated operating income.

In total, these items impacted 2020's adjusted EBITDA by \$61M.

Now, let me turn to our progress and momentum in each of the businesses and across the company.

## **TaxAct**

First, our Tax Prep segment ...

With \$208.8M in revenue, TaxAct delivered its 23rd consecutive year of revenue growth last year, when adjusting for the sale of SimpleTax.<sup>1</sup>

Overall, excluding the impact of the pandemic, 2020 was a positive year for the TaxAct business as we refocused its strategy on growing monetized units and feature driven ARPU and invested once again in marketing and product enhancements to drive near- and long-term growth.

Last quarter I shared a number of actions we took during the off-season to position our Tax Prep business for the long-term and ensure a strong start to the tax year. I'll reiterate those for you today:

First, we have worked to optimize and rationalize our entire marketing approach. We have moved from a costly agency model to a talented internal marketing team that holistically manages the tax season and, most importantly, continually builds in-house expertise. Our newly implemented marketing stack enables lead scoring, multi-touch attribution and a more rigorous approach to sales funnel management. We have refreshed our messaging, centered around our value position and our ability to deliver a premium experience at a reasonable price point.

Second, we have continued to enhance our core consumer product offering, including refinements to drive conversion of visitors who's tax situations match to the appropriate SKU's to paid customers. Once we have acquired a visitor, it's vital we get them to start their taxes and then convert to a paid customer. And then return the following year. These all represent big levers to drive top- and bottom-line growth in this business.

On this front, we achieved significant improvement in 2020 and are building on that success in 2021. We track NPS as a proxy for our product quality, and we know that it correlates well with the conversion of starts to paid completes, as well as with long-term retention.

Third, and something we're very bullish about, we officially launched our hybrid assisted offering last month. As a reminder, this product is for customers who are looking for professional help alongside a DIY product. In light of the pandemic, demand for this product was significant as customers that would have gone into a store instead chose to do their taxes virtually with the help of an advisor. Not having this available to all customers in 2020 limited our opportunity to capitalize on market growth. We're excited to have addressed this opportunity in time for the current tax season, and have received very positive feedback from our customers and our base of experts who service them.

And fourth, we have made targeted, strategic improvements to our TaxAct Pro software, including coverage for more tax situations and an improved onboarding experience for tax professionals.

Usually at this point in the season, we can offer an updated view of guidance for the Tax Prep business, since Peak 1 would have been completed and we'd be preparing for Peak 2 later this season. However, with the delayed start of the tax season this year, which just officially began on Friday, the business is really just getting going, so an update would be premature.

For fiscal 2021, we can reiterate the full-year guidance we provided during Q3 earnings, which was for low single-digit revenue growth and a segment operating income increase of at least \$20 million relative to 2020. We remain confident that we will deliver at least this level of financial performance.

More importantly, thinking beyond 2021, as the actions we are taking to reposition the business continue to gain traction, the targeted result is sustainable growth in this business, with the goal of returning it to above-market top-line growth and EBITDA flow-through. First, by increasing conversion in our user funnel through continued improvements in the product. This is an area where small improvements can drive significant incremental EBITDA. Second, to increase retention – again through product improvements that are validated by higher NPS scores. This too has outsized impact on total customer values and long-term EBITDA growth.

So, while we don't have immediate visibility into the current tax season, the actions we have taken and continue to take align with our plan for the season which is why we are reaffirming our guidance and further, we believe there are multiple reasons to be optimistic about the mid to long-term outlook for our Tax Prep business.

## **Avantax**

I'd now like to turn to Wealth Management. Last year, we made further progress toward our longer-term priority of offering our financial professionals the industry's most flexible models and most powerful and easy-to-use, tax-focused wealth management technology and services. We also continued to integrate previous acquisitions, building a strong foundation to resume long-term organic asset growth.

As we have discussed, Blucora's independent financial professionals have experienced a significant amount of change over the last several years, which has resulted in some predictable turnover. While we expect additional turnover this year, I'm excited that virtually all of the significant changes in the financial professionals experience are behind us. Going into 2021, this allows us to focus on improving the experience of financial professionals and their clients and on retaining and strengthening our relationship with our financial professionals.

Today, we remain as optimistic about the growth potential of our differentiated, tax-focused wealth management strategy as ever. Avantax's key competitive advantage is combining tax and wealth management, and we believe that investments in our technologies, home office support teams and our financial professionals and their practices will drive sustainable long term growth in our wealth management business.

To remind everybody, some of Avantax's unique selling points with regard to financial professionals and their clients include:

- We are the only firm to marry tax planning and preparation with financial planning and advisory for all U.S. taxpayers, not just ultra-high net worth taxpayers.
- We have the largest network of tax-focused financial professionals – from sole proprietors to large multi-partner CPA firms.

- We offer multiple affiliation models for tax professionals to provide wealth management services, either as an independent financial professional or through an affiliate model where our in-house financial professionals take on the work of the wealth manager.
- Lastly, we offer tools, training, support and community that are uniquely tailored to the needs of tax-focused financial professionals.

I'm very encouraged by the progress we are making within Avantax to strengthen that business. This progress should drive increased value of the company through our continued shift to advisory, where it is in the clients best interests, greater retention of client assets and lastly freeing up our financial professionals to drive additional asset acquisition.

First, our newly organized product management team has partnered with our financial professionals and identified the key pain points that were not addressed over the last several years, when the business was benefitting from higher interest rates. We have made addressing these pain points a priority and expect our financial professionals to begin to see concrete improvements by the end of the second quarter.

Second, we have moved forward integrating both 1<sup>st</sup> Global and HKFS. Our acquisition of HKFS, an RIA which we have rebranded as Avantax Planning Partners or APP, allowed us to enter into a fast-growing and high-margin segment of wealth management with a platform that is aligned with our tax-focused wealth management strategy.

Just as importantly, the combination of Avantax Planning Partners and Avantax Wealth Management creates a hybrid suite of wealth management capabilities, which we believe positions our business for even greater asset growth and value creation for a couple of reasons:

First, the combination enables us to offer multiple options to interested tax professionals seeking greater engagement with their clients through wealth management services. We now have the ability to convert these professionals into financial professionals, place financial professionals in their practices, or work with them on a referral basis. The additional affiliate model increases the potential of bringing more of our TaxAct Pros into the wealth management business.

Second, in addition to offering an affiliate model that removes the burden of running an independent wealth management business and allows financial professionals to focus on client servicing and growth, our in house RIA makes it possible to offer our independent financial professionals a turnkey succession solution.

During the fourth quarter, we began executing this strategy by acquiring one of our top independent firms, which is now key to expansion of the Avantax Planning Partners affiliation model in Southern California. We also completed a succession acquisition from a retiring independent financial professional. These acquisitions provide multiple benefits for the company including, offering a compelling alternative affiliation model for high performing independent advisors, offering a glide path for those financial professionals looking to retire and shifting revenue to the compelling captive RIA financial model.

The third area of progress for our Wealth Management business last year was the launch of our unified advisory program, which was one of my top priorities for last year. Though promised to financial professionals as part of the acquisition, it had been previously delayed, which was one of the major complaints shared during my 1:1 interactions with our top financial professionals.

We believe the program's incentive structure and pricing are fair across our business and ensure our end customers receive the options and advice that make the most sense for their financial goals. Our expectation is that we will see an acceleration of the shift toward advisory assets throughout this year and will share more on specific targets during our Q1 earnings call.

To summarize, I'm very pleased with the progress we are making but also want to emphasize the team's focus on significant opportunities for improvement ahead, including around service levels, the technology experience for both financial professionals and their customers, the integration of our core systems and processes, and creating greater stability by ensuring future progress is focused on better experiences for our financial professionals and their customers rather than major changes.

We have much to be excited about in our Wealth Management business. Our business model and financial professionals continue to shift toward higher-growth, higher-margin and more strategic advisory models. We are executing on a platform roadmap that delivers truly differentiated benefits for our financial professionals.

With our integration of Avantax Planning Partners moving forward on plan, we are already seeing promising early results associated with our RIA and the multiple affiliation and succession-planning options it provides our Financial Professionals, as well as newly expanded initiatives like Retirement Planning Services.

## **Blucora**

I'd now like to step back to look at the progress we've made strengthening our company and laying the ground work to realize the potential of our two businesses together.

As a foundation for the new, repositioned Blucora, last year we began with the company's leadership, hiring or elevating an almost entirely new executive leadership team. We also reorganized to create scale in areas for which we previously did not have any, technology being the greatest example. In 2020, we also added 3 new board members with valuable and differentiated experience in wealth management, tax, digital technology transformation, and product development, whose expertise and diverse backgrounds align particularly well with our strategies to drive value within and between our businesses. Our refreshed board now includes 7 out of 9 directors who have joined in the last 4 years. Lastly, we made significant progress organizing our company-wide team around common goals and culture, as we move to a truly integrated vision for Blucora and our stakeholders.

I'm very excited to be part of this team, starting 2021 with the opportunity to execute together for our first full fiscal year.

Also, as I have discussed, last year we shifted our strategic focus toward sustainable growth across our tax prep and wealth management segments. In addition we are focused on a number of key opportunities to drive growth across the enterprise:

First, we are moving forward with a plan to begin converting our more than 23,000 TaxAct Pro users into Avantax financial professionals or referral partners, via Avantax Planning Partners. While the company has considered this opportunity for some time, we believe the addition of Avantax Planning Partners provides a much greater pathway to success than had existed in the past. We intend to accelerate execution on this front immediately after tax season.

Second, TaxAct represents a unique asset to be leveraged within our Wealth Management business. It brings an at-scale digital marketing team and technology development group that financial professionals crave but can't readily access at most firms. We have begun executing a plan to leverage our TaxAct business to help financial professionals with dedicated self-service tools and playbooks; generate high-value warm leads; and provide a full-service agency offering that designs and executes a firm's marketing strategy.

Lastly, we are developing plans to leverage the product and technology leadership from TaxAct to enhance Financial Professionals productivity. I look forward to sharing more on future calls.

It is an exciting time at Blucora. We have finished the challenging but productive year, one that saw dramatic change for our business at the start and a return to stability and purposeful planning for the future toward the end. We believe the steps we have taken to reposition each business for sustainable growth, coupled with continued execution of our strategy, have the potential to create tremendous shareholder value. With 2020 behind us – and our company stronger for it – I am more optimistic than ever about the future and look forward to sharing our progress throughout the year.

With that I'll turn it over to Marc to review our Q4 performance and Q1 outlook.

### **MARC MEHLMAN, CHIEF FINANCIAL OFFICER**

Thank you Chris, and good morning everyone.

I'd like to provide some additional detail on our fourth quarter results and our outlook for Q1 2021.

Starting with fourth quarter results:

Total revenue of \$155.2 million, which was above the upper-end of our guidance range.

A GAAP net loss of \$50.7 million, or negative \$1.05 per share. Our GAAP net loss was below our target ranges due to two main factors:

- A higher than forecasted impact of the accounting true-up associated with the HKFS earn-out. As I discussed last quarter, the change up or down in expectation associated with the earn-out payments will run through the P&L. The strong performance of the Avantax Planning Partners business in Q4 has

resulted in a more optimistic forecast for the business resulting in a higher view of the total earn-out consideration.

- The second factor relates to higher than forecasted tax expense relating to a valuation allowance on our NOLs. This accounting driven result relates to a review of the three year accumulated position with the impact of the write-down of the HD Vest brand name, when we shifted to the Avantax brand, materially driving the calculation.

Adjusted EBITDA, which excludes both of these factors, was \$2.2 million, above the high-end of our target range.

Non-GAAP net income was negative \$9.0 million, or (\$0.19) per share, both better than the high-end of our target range.

## **Tax Preparation**

Turning now to tax preparation. TaxAct revenue in the seasonally small fourth quarter was \$5.8 million, and segment operating income was negative \$11 million, both just above the high-end of our target range.

## **Wealth Management**

Moving to wealth management. Results were meaningfully higher than the top-end of our target range. Fourth quarter reported wealth management revenue was \$149.4 million, up 10% sequentially and included a 10% increase at Legacy Avantax. This revenue growth was primarily driven by market improvement, an 8% increase in trailing revenue and a 18% increase in transaction commission revenue.

On a year-over-year basis, total wealth management revenue was up 3% which included revenue of \$10.5 million from Avantax Planning Partners.

Wealth management segment operating income came in at \$20.4 million, above the high-end of the target range, primarily due to better than expected top-line performance.

Total client assets increased 17% year-over-year to \$83 billion, which included approximately \$5 billion from the addition of Avantax Planning Partners. Fee-based advisory assets were up 29% year-over-year to \$35.6 billion. This is a new record for advisory assets, even excluding APP, and advisory assets as a percentage of total client assets ended the quarter at 42.9%, up about 380 basis points from the same quarter last year, also hitting a high-water mark.

We saw net outflows in advisory assets of \$140 million, consisting of \$203 million of net inflows at Avantax Wealth Management more than offset by outflows of \$343 million at HKFS, which were driven, in part, by the departure of in-house financial professionals. We always understood there could be a certain amount of attrition when we acquired HKFS, as some financial professionals prefer to operate in a smaller environment and achieve, for instance, a partner path. We continue to partner with our in-house financial professionals to create an environment supportive of continued growth.



Total client assets had net outflows of just under \$600 million, which consisted of net outflows of about \$260 million from Avantax Wealth Management, combined with the net outflows from Avantax Planning Partners that I just mentioned.

At the Corporate level, unallocated corporate expenses came in at \$7.1 million. During the quarter, we had about \$2.5 million in integration costs related to HKFS and 1G, and \$9.5 million of transaction costs, the majority of which relates to the accounting impact of the earn-out calculation.

### *Liquidity*

We ended the quarter with cash and cash equivalents of \$150.1 million, and net debt of \$413.0 million. Our reported net leverage ratio at the end of the quarter was 4.3x, compared to 4.5x at the end of the prior quarter.

We continue to be prudent from a capital allocation perspective. Our ongoing priorities, aside from unique strategic opportunities, are to support organic growth, invest in our Financial Professionals who are interested in a different affiliation model or want to retire and pay down debt. Our long-term net-leverage goal remains to be below 3x and until we get closer to this target, we do not have plans to repurchase shares.

### **Q1 Outlook**

With that, let's turn to our first quarter 2021 outlook.

- As Chris discussed, given the delayed start of the tax season, we are not providing a Q1 outlook for TaxAct revenue or segment operating income but are reaffirming our full year outlook of low single digit revenue growth and a minimum of \$20 million of additional segment operating income relative to 2020.
- For our wealth management business, we expect first quarter revenue, of between \$150 to \$155.5 million and segment operating income of between \$17 to \$19.5 million
- Lastly, we expect corporate unallocated expenses to be between \$7.5 and \$8.5 million

As the year progresses, our expectation is to hold an Investor Day, likely late in Q2, where we will be able to share longer term growth and margin targets, a deeper view of the metrics driving performance for our businesses and lastly the metrics by which we can track the success of our synergistic endeavors.

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.