Intuit Inc.
Second-quarter Fiscal 2017
Conference Call Remarks
February 23, 2017

Introduction

Good afternoon and welcome to Intuit's second-quarter fiscal 2017 conference call. I'm here with Brad Smith, our chairman and CEO, and Neil Williams, our CFO.

Before we start, I'd like to remind everyone that our remarks will include forward-looking statements. There are a number of factors that could cause Intuit's results to differ materially from our expectations. You can learn more about these risks in the press release we issued earlier this afternoon, our Form 10-K for fiscal 2016 and our other SEC filings. All of those documents are available on the Investor Relations page of Intuit's website at intuit.com. We assume no obligation to update any forward-looking statement.

Some of the numbers in these remarks are presented on a non-GAAP basis. We've reconciled the comparable GAAP and non-GAAP numbers in today's press release.

Unless otherwise noted, all growth rates refer to the current period versus the comparable prior-year period, and the business metrics and associated growth rates refer to worldwide business metrics.

A copy of our prepared remarks and supplemental financial information will be available on our website after this call ends.

With that, I'll turn the call over to Brad.

Second-quarter Fiscal 2017 Overview

Thanks Jerry, and thanks to all of you for joining us.

Our second fiscal quarter once again reflected strong momentum across the business. QuickBooks Online subscribers and online ecosystem revenue demonstrated continuing acceleration from prior periods. As a result, we now expect third quarter QBO subscribers to be roughly 2.0 million, which had been the low end of our original guidance for the full fiscal year. Looking beyond Q3, we now expect to exit the fiscal year with 2.2 million subs, which had been the high end of that range.

I'll talk more about what's driving these results in a minute, but given it's tax season, let's focus here first.

Despite the slow start to tax season, we remain confident it is simply a shift in timing, with the do-it-yourself software category and TurboTax performing well season-to-date. This timing shift did lead us to update our outlook for the quarter, while reaffirming our full-year guidance.

Every tax year is different, and this one is no exception. The Internal Revenue Service data released this morning shows total e-filed returns are down 13 percent, self-prepared e-files are down 11 percent, and assisted e-files are down 16 percent. When you compare that to the results we released today, the DIY category is performing better than assisted, and we are performing well within the do-it yourself category. So it is helpful to put our season-to-date results into this context.

Let me take a minute and remind you of the four main drivers for the Consumer Tax business:

- The first is the total number of returns filed with the IRS,
- the second is the percentage of those returns filed using DIY software,
- the third is our share within the DIY software category, and
- the fourth is the average revenue per return.

Total returns filed with the IRS have grown on average 1 percent per year over the last five years. We've grown quite a bit faster than that, by focusing on growing the DIY software category and growing our share within the category. So, despite the slow start to this season, DIY software is once again growing faster than other methods, and our volume suggests we are performing well within the category.

The question on everyone's mind is, "What's behind the slow start to the filing season?" There could be several reasons. The IRS suggested in its release that the PATH Act has led some to delay their tax filing. As a reminder, the PATH Act is new legislation in service to fighting tax fraud that delayed refund processing to February 15 or later for anyone filing for the Earned Income or the Additional Child tax credit.

Regardless of the root cause, we remain laser focused on making sure we have the best offering and an awesome end-to-end experience for our customers.

There's no question this is a fiercely competitive tax season, with new entrants joining the completely "free" category. Free offerings are not new to the category, or to us, and our strategy to win with free remains unchanged. We are firm believers that not all free products are the same. Having the best free offer and a delightful end-to-end customer experience is what sets us apart. With Absolute Zero, we continue to believe we have that winning experience. It is an innovative alternative for most of the 60 million Americans who file a simple return and may be overpaying for this service somewhere else.

In fact, roughly 30 million of these 60 million Americans visit a tax store or a professional simply because they have a nagging question. In the end, they pay hundreds of dollars to file their taxes. This is where SmartLook comes in, providing access to an expert at the touch of a screen for a much lower cost.

This is simply one of the many innovations our tax team delivered this season. Other innovations include:

- Improving data import through taking a picture on a smartphone, while continuing to expand available W-2 and 1099 forms for direct download;

- Applying machine learning and artificially intelligent algorithms to the data to get maximum deductions in less time;
- Transforming TurboTax from an application to a platform, with our first partner providing the ability for customers to refinance their student loan at a much lower rate;
- And delivering a free credit score to TurboTax customers.

On top of these innovations, we also introduced TurboTax Self-Employed this tax season. This offering includes a 12-month subscription to our QuickBooks Self-Employed accounting solution, connecting our market-leading QuickBooks platform to TurboTax.

To put a bow around the tax season to-date, we remain confident about the plans we have in place. When it's all said and done, we know taxpayers will still need to file by April 18, so we're focused on executing with excellence.

On the ProConnect side, we continue to focus on winning with multi-service accountants who do both books and tax. We're off to a strong start, and our important accountant relationships are helping to drive QuickBooks growth opportunities.

Shifting to Small Business, we continue to be pleased with the growth in our QuickBooks Online ecosystem. Subscriber growth is accelerating, driven by product and platform innovation, improved product-market fit outside of the U.S., and a further expansion of our addressable market by targeting the self-employed segment.

Total QuickBooks Online subscribers grew 49 percent in the quarter, up from 41 percent growth in the first quarter, to more than 1.8 million subs.

Outside of the U.S., our subscriber base grew 61 percent year-over-year to approximately 370,000 paying subscribers, up from 50 percent growth in Q1. We saw a notable pickup in markets where our product-market fit meets our test of readiness, including the U.K., Australia, and Canada. In fact, both the U.K. and Canada surpassed 100,000 subscribers in Q2.

We introduced several innovations on the QuickBooks Online platform this quarter, including a complete re-imagination of QuickBooks.com and the QBO first-time use experience to increase awareness, trials, and conversion. This is complemented by a new matchmaking service that connects small businesses with an accountant.

In addition, we're also building momentum behind QuickBooks Self-Employed. Roughly 180,000 of our QuickBooks Online subscribers are using QuickBooks Self-Employed, up from 110,000 subs last quarter, and 50,000 a year ago.

In the quarter, we expanded QBSE to Canada, adding another major geography to the current distribution in the U.S., the U.K., and Australia. Finally, we launched a new QuickBooks Self-Employed and TurboTax experience as well. While it's early days for all of these innovations, the accelerating growth gives us confidence our strategy is working. In fact, online ecosystem revenue posted 30 percent growth in the quarter, up from 26 percent in Q1.

To continue this momentum, we're investing to improve the experience for customers and partners, while getting the message out to more potential customers through events like QuickBooks Connect. Our first QuickBooks Connect conference outside the U.S. will be held in the U.K. in March, with Australia and Canada soon to follow.

With that overview I'll hand it to Neil to walk you through the financial details.

Financial Results and Segment Details

Thanks, Brad and good afternoon everyone.

For the second quarter of fiscal 2017, we delivered:

- Revenue of $1.016 billion, up 10 percent year-over-year.
- GAAP operating income of $22 million, versus $42 million a year ago.
- Non-GAAP operating income of $106 million, versus $114 million a year ago.
- GAAP diluted earnings per share of $0.05 versus $0.09 last year.

- And non-GAAP diluted earnings per share of $0.26, up from $0.25 last year.

These results reflect the revenue shift we announced on February 8.

Business Segment Results

Turning to the business segments:

Consumer and Professional Tax

Consumer Tax revenue was $285 million for Q2. Brad already walked you through our analysis of the season so far. TurboTax processed e-files were down 10 percent through February 18, performing slightly better than the DIY category. We remain confident in our overall plans for the year, and for consumer tax revenue to grow 6 to 8 percent in fiscal 2017.

ProConnect revenue was $99 million for Q2. We continue to expect revenue to be roughly flat in fiscal 2017. While the growth rate was stronger than our long-term expectation this quarter, it was driven largely by the timing of forms availability which we expect to normalize by fiscal year-end.

Small Business

Moving over to Small Business:

Total Small Business revenue grew 12 percent for the quarter. As Brad mentioned, QuickBooks Online subscriber growth remains strong and we exceeded our guidance for the quarter, reaching 1,871,000 subscribers, up 49 percent year-over-year. Small business online ecosystem revenue grew 30 percent for the quarter, accelerating from 26 percent in Q1. That online ecosystem revenue growth is at the high end of the 25 to 30 percent expectation we’ve talked about, and is evidence of our ability to improve the monetization of our online subscribers.

Our online payroll and payments businesses remain healthy. Online Payroll subscribers grew 19 percent in Q2. Online active payments customers grew 13 percent and Online Payments charge volume grew 17 percent. Note that our attach rates for both payroll and payments dipped in Q2, coinciding with continued acceleration of global and self-employed QBO subscribers. As we've discussed before, these subscribers don't have the same attach characteristics as our traditional QBO subscriber base. That's why attach rates aren't as useful as they've been in the past to predict revenue for this business.

Our desktop ecosystem revenue grew 6 percent while units declined 5 percent year-over-year. For fiscal 2017, we continue to expect units to decline modestly and desktop ecosystem revenue to be flat to up slightly.

Financial Principles and Capital Allocation

Turning to financial principles, we continue to take a disciplined approach to capital management, investing the cash we generate in opportunities that yield a return on investment greater than 15 percent.

We ended the quarter with approximately $637 million in cash and investments on our balance sheet. Our first priority is investing for customer growth. We also intend to use our strong Q3 cash flow to repay $500 million in senior notes when they come due in March.

We return cash to shareholders via both share repurchases and dividends.

- We repurchased $198 million of shares in the second quarter and $2.0 billion remains on our authorization.
- The board approved a dividend of $0.34 per share, payable on April 18, 2017.

Q3 Fiscal 2017 Guidance

You can find our fiscal 2017 Q3 guidance details in our press release and on our fact sheet. Note that this guidance takes into account the tax unit performance since January 31, as described in our unit release today. We reiterated our full-year revenue, operating income, and EPS guidance.

As a reminder, we expect to provide a final tax unit update in April after the tax season ends.

With that, I'll turn it back to Brad to close.

Closing Comments

Thanks, Neil.

To recap, we're proud of our performance in the first half of fiscal 2017. We're in the heat of another competitive tax season and there's a lot of time left on the clock. We remain confident in our ability to compete and win, driven by our laser focus on a delightful product experience that puts more money in our customers' pockets.

We're continuing to gain momentum in our QuickBooks Online franchise as well, with strong growth in the U.S. and select markets around the world, driving acceleration in subscriber growth and online ecosystem revenue. We're also expanding the category with QuickBooks Self-Employed, and our new TurboTax Self-Employed offering connecting our TurboTax and QBSE platforms, providing further runway for growth across our ecosystem.

That's the halftime report, and with that, let's open it up to you to hear what's on your mind.

Cautions About Forward-looking Statements

These materials contain forward-looking statements, including forecasts of expected growth and future financial results of Intuit and its reporting segments; the size of the market for tax preparation software and the timing of when individuals will file their tax returns; forecasts of total tax season results based on preliminary IRS and other internal and external data points that may, in certain cases, be based on small sample sizes; Intuit's prospects for the business in fiscal 2017 and beyond; expectations regarding growth opportunities from the shift to the cloud; expectations regarding Intuit's growth outside the US; expectations regarding timing and growth of revenue for each of Intuit's reporting segments and from current or future products and services; expectations regarding customer growth; expectations regarding changes to our products and their impact on Intuit's business; expectations regarding the amount and timing of any future dividends or share repurchases; expectations regarding availability of our offerings; expectations regarding our ability to detect and prevent fraudulent activities that impact our offerings; expectations regarding the impact of the early adoption of the new accounting standards update on our financial results; expectations regarding the impact of our strategic decisions on Intuit's business; and all of the statements under the heading "Q3 Fiscal 2017 Guidance."

Because these forward-looking statements involve risks and uncertainties, there are important factors that could cause our actual results to differ materially from the expectations expressed in the forward-looking statements. These factors include, without limitation, the following: inherent difficulty in predicting consumer behavior; difficulties in receiving, processing, or filing customer tax submissions; consumers may not respond as we expected to our advertising and promotional activities; the competitive environment; governmental encroachment in our tax businesses or other governmental activities or public policy affecting the preparation and filing of tax returns; our ability to innovate and adapt to technological change; availability of our products and services could be impacted by business interruption or failure of our information technology and communication systems; any problems with implementing upgrades to our customer facing applications and supporting information technology infrastructure; any failure to properly use and protect personal customer information and data; our ability to develop, manage and maintain critical third-party business relationships; increases in or changes to government regulation of our businesses; any failure to process transactions effectively or to adequately protect against potential fraudulent activities; any loss of confidence in using our software as a result of publicity regarding such fraudulent activity; any significant product accuracy or quality problems or delays; any lost revenue opportunities or cannibalization of our traditional paid franchise due to our participation in the Free File Alliance; the global economic environment may impact consumer and small business spending, financial institutions and tax filings; changes in the total number of tax filings that are submitted to government agencies due to economic conditions or otherwise; the seasonal and unpredictable nature of our revenue; our ability to attract, retain and develop highly skilled employees; increased risks associated with international operations; unanticipated changes in our income tax rates; changes in the amounts or frequency of share repurchases or dividends; we may issue additional shares in an acquisition causing our number of outstanding shares to grow; our inability to adequately protect our intellectual property rights may weaken our competitive position; disruptions, expenses and risks associated with our acquisitions and divestitures; amortization of acquired intangible assets and impairment charges; our use of significant amounts of debt to finance acquisitions or other activities; and the cost of, and potential adverse results in, litigation involving intellectual property, antitrust, shareholder and other matters. More details about the risks that may impact our business are included in our Form 10-K for fiscal 2016 and in our other SEC filings. You can locate these reports through our website at http://investors.intuit.com. Forward-looking statements are based on information as of February 23, 2017, and we do not undertake any duty to update any forward-looking statement or other information in these materials.