Intuit Inc.

First-quarter Fiscal 2021

Conference Call Remarks

November 19, 2020

Introduction

Good afternoon and welcome to Intuit's first-quarter fiscal 2021 conference call. I'm here with Intuit's CEO Sasan Goodarzi and Michelle Clatterbuck, 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 2020 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 Sasan.

First-quarter Fiscal 2021 Overview

Thanks Kim, and thanks to all of you for joining us today. I hope you're all safe and well.

We had a strong start to fiscal 2021. First quarter revenue grew 14 percent. Total revenue growth was driven by 13 percent growth in the Small Business and Self-Employed Group while Consumer Group and ProConnect Group revenue was in-line with our expectations in a seasonally smaller quarter. This is a great start to the year in a challenging environment which reinforces the resiliency of our platform.

We are growing more confident in how our business is performing in the current environment, although macro uncertainty remains. We continue to see recovering trends across our platform with many QuickBooks indicators back to pre-pandemic levels. Therefore I'm happy to announce that we will provide guidance for fiscal 2021 which Michelle will cover in more detail later.

At our September Investor Day we shared the acceleration of innovation driven by our AI-driven expert platform strategy and five Big Bets, highlighting our growth potential.

During the Platform Immersion Experience we demonstrated progress against each Big Bet. I would like to highlight a few of the innovations and cover big bet number one last as it accelerates innovation across our platform and is foundational to the other bets.

- Our second Big Bet is to “connect people to experts.” We are solving one of the largest problems our customers face - lack of confidence - by connecting people to experts with TurboTax Live and QuickBooks Live. We grew the number of TurboTax Live customers on our platform by nearly 70 percent last season, while increasing our expert product recommendation scores by four points. The team is hard at work as we prepare for the season ahead. We are proud of the progress we have made with QuickBooks Live, which is built on the same expert platform. We already have more than 600 experts serving customers today, with some of these experts serving both tax and small business customers.
- Our third big bet is to “unlock smart money decisions.” We expect our pending acquisition of Credit Karma to be more important than ever as we work to help consumers save money, get out of debt and have faster access to money. We expect to complete the acquisition before the end of the calendar year.

- Our fourth big bet is to “become the center of small business growth” by helping our customers get paid fast, manage capital, pay employees with confidence and grow in an omnichannel world. Sixty percent of small businesses struggle with cash flow. QuickBooks Cash helps small businesses manage working capital by providing visibility into their financial picture, while providing them with the ability to move money instantly and ensure their money is working for them, all while leveraging the built-in accounting of QuickBooks. We launched QuickBooks Commerce in September to better serve the 1 million product-based businesses on our platform by providing inventory and order management tools they need to grow their businesses in an omnichannel world. We’ve identified 6.4 million product-based businesses in the U.S., U.K., Canada and Australia that could benefit from this solution, and we’ll innovate with high velocity to take advantage of this market opportunity. It’s still early with both QuickBooks Cash and QuickBooks Commerce, but we’re encouraged by what we’re seeing.

- Our fifth big bet is to “disrupt the small business mid-market” with QuickBooks Online Advanced, and the features we are introducing to individually tailor the offering to the needs of small businesses with 10 to 100 employees at a disruptive price point. We doubled our QuickBooks Online Advanced customers to 75,000 in fiscal 2020, and we’re continuing to build on this momentum. We continue to pursue our premium app strategy and introduced integrations with Salesforce and HubSpot. We now have two of the largest CRM solutions available for our customers.
- And finally, our first big bet, “revolutionize speed to benefit,” enables us to put more money in our customers’ pockets, eliminate friction, and deliver confidence at every touch point by using AI and customer insights. Last year, we increased use of AI and increased the number of models deployed across our platform by over 50 percent, tripled the speed of delivery on our modern development platform and increased mobile application deployments by 60 percent. We’re

building on this momentum this year as we innovate rapidly to solve our customers' biggest problems.

Across all of our big bets, we are building momentum and accelerating innovation which we believe positions us well for durable growth into the future. We also believe the current environment continues to act as an accelerant to these bets. Most everyone is looking for virtual solutions, small businesses are accelerating their shift to online and omnichannel commerce, and both consumers and small businesses are looking for ways to put more money in their pockets.

To wrap up, I'm excited about the opportunity we have ahead of us.

Now let me hand it over to Michelle.

Financial Results and Segment Details

Thanks, Sasan. Good afternoon everyone.

For the first quarter of fiscal 2021, we delivered:

- Revenue of $1.3 billion.

- GAAP operating income of $209 million, versus $10 million last year.
- Non-GAAP operating income of $334 million, versus $129 million last year.
- GAAP diluted earnings per share of $0.75, versus $0.22 a year ago.
- And non-GAAP diluted earnings per share of $0.94, versus $0.41 last year.

Business Segment Results

Turning to the business segments:

Small Business and Self-Employed Group

In the Small Business and Self-Employed Group, revenue grew 13 percent during the quarter. Online Ecosystem revenue was up 24 percent during the quarter. Growth slowed from Q4 reflecting the lagging impact of lower retention during fiscal 2020 and the lapping of price increases which began during the middle of Q1 last year. Additionally, Q4 included 4 points of growth from non-recurring revenue from the Paycheck Protection Program.

Our strategic focus within Small Business and Self-Employed is to grow the core, connect the ecosystem and expand globally. Our longer term expectation remains 30 percent or greater online ecosystem revenue growth, driven by 10 to 20 percent growth in both customers and ARPC.

- First, we continue to focus on growing the core. QuickBooks online accounting revenue grew 28 percent in fiscal Q1, driven mainly by customer growth and mix-shift. We began lapping a partial quarter of a price increase last year, driving slower year over year growth versus last quarter.
- Second, we continue to focus on connecting the ecosystem. Online Services revenue - which includes payments, payroll, time tracking and capital - grew 17 percent in fiscal Q1.
    - Within payments, revenue growth reflects continued customer growth, along with an increase in charge volume per customer.
    - Within payroll, we continue to see revenue tailwinds during the quarter from a mix-shift to our full service offering and growth in payroll customers.

- Third, our progress expanding globally added to the growth of Online Ecosystem revenue during fiscal Q1. Total international online revenue grew 51 percent.

Desktop Ecosystem revenue grew 3 percent in the first quarter, while QuickBooks Desktop Enterprise revenue grew mid-single digits. Desktop Ecosystem revenue growth also reflects the benefit of additional revenues from license updates and tailwinds from previously announced price increases in various products not fully reflected in the year ago quarter. We do not expect these tailwinds to recur in future quarters.

Consumer and ProConnect Groups

Consumer Group revenue grew 19 percent in Q1. Looking ahead to the upcoming tax season, we continue to focus on our strategy to expand our lead in DIY, transform the assisted segment with TurboTax Live and disrupt consumer finance.

Turning to the ProConnect Group, revenue grew 21 percent in Q1, in-line with our expectations.

Credit Karma Acquisition

Let me turn to our acquisition of Credit Karma. I'm looking forward to welcoming the Credit Karma team to Intuit, and we are excited about the unprecedented benefits we can deliver for customers. I want to remind you that we continue to expect the acquisition to be accretive over time. However, Credit Karma's business was negatively impacted over the last 7 months as lenders tightened access to credit due to economic uncertainty related to the pandemic. The business continues to recover after reaching a low point in June, with monthly revenue in October close to pre-COVID levels. Therefore, we expect the acquisition to be modestly dilutive to non-GAAP earnings per share in fiscal 2021, and neutral to modestly dilutive to non-GAAP earnings per share in the first full fiscal year after close in fiscal 2022. We are looking forward to all the innovation we can deliver together for customers.

Financial Principles and Capital Allocation

Turning to our financial principles. We remain committed to growing organic revenue double-digits and growing operating income dollars faster than revenue. We take a disciplined approach to capital management, investing the cash we generate in opportunities that yield an expected return on investment greater than 15 percent. We continue to focus on reallocating resources to top priorities, with an emphasis on becoming an AI-driven expert platform. These principles remain our long-term commitment, though we recognize that we may not be able to achieve them in the current environment or directly following the close of the Credit Karma transaction.

Our first priority for the cash we generate is investing in the business to drive customer and revenue growth. We consider acquisitions to accelerate our growth and fill out our product roadmap. We return excess cash that we can't invest profitably in the business to shareholders via both share repurchases and dividends.

- We finished the quarter with approximately $5.8 billion in cash and investments on our balance sheet. We expect to use approximately $3.6 billion of cash to fund part of the consideration for the Credit Karma acquisition.
- We did not repurchase any stock during the first quarter, as we temporarily suspended share purchases in conjunction with the Credit Karma acquisition. We have approximately $2.4 billion remaining on our authorization, and we expect to be in the market in the future.
- The Board approved a quarterly dividend of $0.59 per share, payable January 19, 2021. This represents an 11 percent increase versus last year.

As you may have seen, we reached an agreement to settle the class action litigation regarding the IRS Free File Program. We have agreed to pay $40 million to put this matter behind us. By entering into this settlement, which is subject to court approval, we are not admitting any wrongdoing.

Also as I shared at Investor Day, Intuit is the target of a law firm whose standard approach seems to involve making a demand that companies pay a settlement amount to the law firm instead of paying fees associated with arbitration. An increasing number of companies are facing similar attacks by the same law firm. We recorded approximately $10 million in arbitration fees for Q1 fiscal 2021 and $14 million in fiscal 2020. We'll be disclosing in our 10-Q that Intuit could incur arbitration fees of approximately $400 million related to those claims in future periods. We're in the process of disputing these fees, and we believe this is an abuse of the arbitration system. If the court approves the settlement I mentioned earlier, we believe it may significantly reduce exposure to mass arbitration claims being brought against us.

Q2 and Fiscal 2021 Guidance

Moving onto guidance. While macro uncertainty remains, we're growing more confident in how our business is performing in the current environment. Our guidance for fiscal 2021 includes:

- Revenue growth of 8 to 10 percent
- GAAP earnings per share of $7.00 to $7.15

- Non-GAAP earnings per share of $8.40 to $8.55

Our fiscal 2021 guidance includes 110 basis points of operating margin expansion, as we are starting to see the leverage of our platform which I shared at Investor Day.

We expect a GAAP tax rate of 23 percent and a non-GAAP tax rate of 24 percent for fiscal 2021. This compares to a GAAP tax rate of 17 percent and a non-GAAP tax rate of 23 percent for fiscal 2020. These increases are driven primarily by state and IRS changes to the R&D tax credit and expected decrease to our excess tax benefits for share based compensation. This equates to an impact of $0.53 to our GAAP earnings per share and $0.11 to our non-GAAP earnings per share guidance for the higher tax rates.

Our Q2 fiscal 2021 guidance includes:

- Revenue growth of 8 to 9 percent
- GAAP earnings per share of $0.89 to $0.92
- Non-GAAP earnings per share of $1.31 to $1.34

You can find our full Q2 and fiscal 2021 guidance details in our press release and on our fact sheet.

One final note on Q2. We are lapping a full quarter of a price increase in Q2, which we expect to negatively impact Small Business and Self-Employed revenue growth by a couple points.

Shortly after we close the Credit Karma acquisition, we will hold a call to discuss our revised guidance.

With that, I'll turn it back over to Sasan.

Closing Comments (Sasan)

Thanks, Michelle.

I'm proud of the team and all we accomplished together, and I'm optimistic about the future. Let's now open it up to your questions.

Closing Comments After Q&A

Thank you everyone for your time and questions today. I would like to close by thanking our employees, customers and partners.

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; Intuit’s prospects for the business in fiscal 2021 and beyond; 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 Intuit's corporate tax rate; 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 the impact of our strategic decisions on Intuit’s business; expectations regarding the timing, completion and impact of the Credit Karma acquisition; and all of the statements under the heading “Q2 and Fiscal 2021 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 risks and uncertainties may be amplified by the COVID-19 pandemic, which has caused significant global economic instability and uncertainty. These factors include, without limitation, the following: our ability to compete successfully; our participation in the Free File Alliance; potential governmental encroachment in our tax businesses; our ability to adapt to technological change; our ability to predict consumer behavior; our reliance on third-party intellectual property; our ability to protect our intellectual property rights; any harm to our reputation; risks associated with acquisition and divestiture activity; our ability to obtain required regulatory approvals for the Credit Karma acquisition in a timely manner or otherwise; our ability to integrate, or realize anticipated benefits of, any combined operations with Credit Karma; any unanticipated costs of acquiring or integrating Credit Karma; the issuance of equity or incurrence of debt to fund an acquisition; our cybersecurity incidents (including those affecting the third parties we rely on); customer concerns about privacy and cybersecurity incidents; fraudulent activities by third parties using our offerings; our failure to process transactions effectively; interruption or failure of our information technology; our ability to maintain critical third-party business relationships; our ability to attract and retain talent; any deficiency in the quality or accuracy of our products (including the advice given by experts on our platform); any delays in product launches; difficulties in processing or filing customer tax submissions; risks associated with international operations; changes to public policy, laws or regulations affecting our businesses; litigation in which we are involved; the seasonal nature of our tax business; changes in tax rates and tax reform legislation; global economic changes; exposure to credit, counterparty and other risks in providing capital to businesses; amortization of acquired intangible assets and impairment charges; our ability to repay or otherwise comply with the terms of our outstanding debt; our ability to repurchase shares or distribute dividends; volatility of our stock price; and our ability to successfully market our offerings. More details about these and other risks that may impact our business are included in our Form 10-K for fiscal 2020 and in our other SEC filings. You can locate these reports through our website at http://investors.intuit.com. Fiscal 2021 full-year and Q2 guidance speaks only as of the date it was publicly issued by Intuit. Other forward-looking statements represent the judgment of the management of Intuit as of the date of this presentation. We do not undertake any duty to update any forward-looking statement or other information in this presentation.