Intuit Inc.
Second-quarter Fiscal 2019
Conference Call Remarks
February 21, 2019

Introduction

Good afternoon and welcome to Intuit’s second-quarter fiscal 2019 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 2018 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.

Second-quarter Fiscal 2019 Overview

Thanks Jerry, and thanks to all of you for joining us. I will start by reviewing our results for the quarter and outlook for the year. I will then spend a few minutes sharing my thoughts about the future.

Starting with the results, we're half-way through the fiscal year and continue to see good momentum across the company. Second quarter revenue grew 12 percent overall, fueled by 17 percent revenue growth in the Small Business and Self-Employed Group and 11 percent revenue growth in the Consumer Group. Revenue for the Strategic Partner Group was in-line with our expectations. With this strong performance, we remain on pace to deliver against our full-year revenue and operating income outlook.

With that context, let me start with tax.

Every tax season is different and this one is no exception. We believe the new tax legislation and the extended partial government closure impacted consumer behavior resulting in a slower forming season.

As a reminder, there are four key drivers of our Consumer 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.

Our Consumer Group strategy is to expand our lead in the DIY category, transform the assisted tax preparation category and expand beyond tax to build a consumer platform. This is all in service of helping our customers make ends meet and get their largest tax refund.

Based on the latest IRS data, the DIY category is performing better than assisted. Through February 8 IRS data shows self-prepared e-files declined 3.2 percent. In comparison, TurboTax e-files through the same period declined 3.5 percent. We are confident in our strategy, and I'm proud of our team.

Let me share a few specific examples of how we are delivering for our customers this season.

- Within DIY, we've invested in delivering the best experience for our customers who file simple returns by including year-over-year data transfer for no charge in our Free Edition. We are already seeing an improvement in product recommendation scores. TurboTax Self-Employed is again part of our line-up this season and comes with a 12-month subscription to QuickBooks Self-Employed, enabling customers to benefit by tracking their financials throughout the year. This product was one of our fastest growing offerings last season.
- In the assisted tax category we're transforming the customer experience with TurboTax Live. We introduced a range of price points within the product line this season to offer access to an expert for even the simplest filers. For the

first time we are offering mobile access to these experts. We also improved the onboarding experience and tools for the approximately 2,000 pros on our platform, the majority of whom are returning from last season. We are excited to see significant increases in net promoter scores from the pros.

- Beyond tax, our consumer platform is aimed at helping customers make ends meet. With their consent, Turbo provides customers a view of their overall financial health by combining a credit score, verified income data and a debt-to-income ratio showing customers where they truly stand. This platform gives us the ability to connect our customers with the best financial products to save them money.

Turning to small business…

We delivered another strong quarter in our Small Business and Self-Employed Group with Online Ecosystem revenue growth of 38 percent, again exceeding our target to grow better than 30 percent. We continue to place an increased emphasis on online services to deliver more value for our small business and self-employed customers. I would like to share a few proof points that demonstrate our progress.

- We are focused on solving the most important problems for our customers by helping them get paid fast, manage capital and pay employees with confidence. Within payments, last fall we launched next business-day payments allowing our customers to receive their funds much faster than previously experienced. We have seen 8-point higher product recommendation scores among customers who have access to this product. Within payroll, we introduced next-day and same-day direct deposit to enable customers to hold onto their money longer and better manage their cash flow. We have already seen over one-third of our online payroll customers benefit from this feature.
- QuickBooks Capital has funded $277 million in cumulative loans since launching publicly a little over a year ago. QuickBooks Capital leverages QuickBooks Online customers' data to provide loans to small businesses, nearly 60 percent of which may not qualify for loans elsewhere. Our QuickBooks Capital business has a default rate half the industry average, and we remain excited about this opportunity.

- Finally, we are encouraged by initial results for QuickBooks Online Advanced, as we take our game to the mid-market to serve those businesses with 10 to 100 employees. We continue to roll out new features, including custom user permissions and batch invoices. The team is using customer feedback to iterate fast and add functionality.

Within our Strategic Partner Group, our professional tax revenue was down 1 percent year-over-year. We continue to focus on multi-service accounting firms that do both books and taxes, enabling us to drive our accountants' success while growing our small business ecosystem.

To wrap up, we are pleased with the continued momentum of our Small Business and Self-Employed Group, and we remain laser focused on executing as we head toward the tax filing deadline. With that overview, let me hand it over to Michelle to walk you through the financial details.

Financial Results and Segment Details

Thanks, Sasan. Good afternoon everyone.

For the second quarter of fiscal 2019, we delivered:

- Revenue of $1.5 billion, up 12 percent year-over-year.
- GAAP operating income of $233 million, versus $194 million a year ago, a 20 percent increase.
- Non-GAAP operating income of $339 million, versus $294 million last year, a 15 percent increase.
- GAAP diluted earnings per share of $0.72, versus $0.70 a year ago.
- And non-GAAP diluted earnings per share of $1.00, up from $0.84 last year.

Business Segment Results

Turning to the business segments:

Consumer and Strategic Partner Groups

Consumer Group revenue was $461 million for the second quarter. While the season got off to a slow start, we remain confident in our overall plans for the year, and for consumer revenue to grow 9 to 10 percent in fiscal 2019.

IRS total e-files through February 8 are down 7.1 percent, assisted e-files are down 12.5 percent and DIY e-files declined 3.2 percent. In comparison, TurboTax e-files declined 3.5 percent through the same period. As a reminder, we'll provide a final tax update in late April after the tax season ends.

Strategic Partner Group reported $208 million of professional tax revenue for the second quarter. We continue to expect revenue in this business to grow two to four percent in fiscal 2019.

Small Business and Self-Employed Group

Total Small Business and Self-Employed revenue grew 17 percent during the quarter.

Online Ecosystem revenue remains strong, with growth of 38 percent. We believe the best measure of the health and success of our strategy going forward is Online Ecosystem revenue growth, which we continue to expect to grow better than 30 percent.

QuickBooks Online subscribers grew 38 percent, ending the quarter with nearly 3.9 million subscribers. Growth remains strong across multiple geographies, with U.S. subscribers growing 32 percent to approximately 2.9 million, and international subscribers growing 56 percent to over 980,000.

Within QuickBooks Online, Self-Employed subscribers grew to approximately 845,000, up from roughly 489,000 one year ago.

We continue to expect total subscriber growth to moderate as we place a greater focus on additional services and penetrating a broader range of customers.

Desktop Ecosystem revenue was up 3 percent in the second quarter. Within the Desktop Ecosystem, our QuickBooks Enterprise customers continued to grow at a double-digit pace in the second quarter. This further reinforces our interest in the mid-market customer with our QBO Advanced offering. During fiscal 2019, we continue to expect QuickBooks desktop units to decline single digits and Desktop Ecosystem revenue to be roughly flat.

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 a return on investment greater than 15 percent.

Our first priority for the cash we generate is investing in the business to drive customer and revenue growth. Next, we consider acquisitions to accelerate our growth and fill out our product road map. 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 $1.3 billion in cash and investments on our balance sheet.
- We repurchased $177 million of stock in the second quarter. Approximately $3.0 billion remains on our authorization. We expect to be in the market each quarter this year.
- The board approved a quarterly dividend of $0.47 per share, payable April 18, 2019. This represents a 21 percent increase versus last year.

We’ve gotten a lot of questions about the impact of a potential downturn. At this time we're not seeing any evidence of a macro-inspired slow-down in our business. Charge volume trends remain strong, and the number of employees being paid in our ecosystem remains on trend.

<u>Fiscal 2019 Q3 Guidance</u>

Let me turn to our guidance. Our third quarter fiscal 2019 guidance includes:

- Revenue growth of 10 to 12 percent,
- GAAP diluted earnings per share of $5.03 to $5.08, and
- Non-GAAP diluted earnings per share of $5.35 to $5.40.

You can find our Q3 and our reiterated fiscal 2019 guidance details in our press release and on our fact sheet.

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

Closing Comments (Sasan)

Thanks, Michelle.

With that overview of the quarter, let me take a step back and share my perspective on Intuit's future. I will start with what matters most to our customers. All of our customers have a common set of needs. And those who've made the bold decision to become entrepreneurs - and go into business for themselves - have an additional set of needs. All our customers are trying to make ends meet, maximize their tax refund, save money and pay off debt. For those who are small businesses, they have additional needs. They want to find and keep customers, get paid, access capital to grow and ensure their books are right.

That's why our mission is to Power Prosperity Around the World and our strategy is the One Intuit Ecosystem strategy, which focuses on unlocking the power of many for the prosperity of one.

This strategy is a continuation of Intuit's 10-year transformation led by Brad, from a North American desktop company to a global cloud company. As we advance our strategy, we're taking steps toward becoming an A.I.-driven expert platform.

Let me unpack what I mean by A.I.-driven expert platform. It's a platform where we and others solve the most pressing customer problems and deliver awesome experiences. It's about significantly accelerating our application of Artificial Intelligence which progressively learns from the large data sets across the platform, and delivers the benefits customers seek with speed. And it's about solving the largest problem customers face - confidence - by connecting them with experts on our platform.

With that context, let me provide a few examples to bring this to life. When it comes to connecting people to experts, we are doing this today with TurboTax Live. Imagine the opportunity we have to expand live expertise across the platform to serve consumer, self-employed and small businesses. It's our chance to digitize the service industry.

For small business owners, we are focused on being the center of small business growth, using A.I. across our platform to accelerate faster funding in payments, and to help our customers access capital. Over time, we see an opportunity to better serve product-based businesses as they find and sell to customers across channels.

We're also focused on helping customers make smart decisions with their money by connecting our customers to financial products to make ends meet. This is our vision for Turbo, where we are increasing active use and engagement so we can offer value beyond tax with our consumer platform.

Last but not least, we're focused on disrupting the mid-market with QBO Advanced. Our A.I.-driven expert platform will help provide what mid-market customers need at a disruptive price. We are excited about the opportunity in front of us and we are off to a running start on this journey.

Before I close, I would like to thank our co-founder Scott Cook for creating such an extraordinary company 35 years ago and Brad for the incredible foundation he has left behind. It's a true honor and privilege to lead Intuit.

I want to thank our employees, customers and partners for another strong quarter. We're pleased with our results through the first half, and look forward to the future.

Now let's open it up for questions.

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 2019 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; and all of the statements under the heading "Fiscal 2019 Q3 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: our ability to compete successfully; our participation in the Free File Alliance; governmental encroachment in our tax businesses, our ability to adapt to technological change; our ability to predict consumer behavior; our ability to protect our intellectual property rights; our reliance on third party intellectual property; any harm to our reputation; risks associated with acquisitions and divestitures; issue of additional shares as consideration or incurring 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; failure to process transactions effectively; interruption or failure of our information technology; ability to maintain critical third party business relationships; our ability to attract and retain talent; deficiency in quality, accuracy or timely launch of products; 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; seasonal nature of our tax business; changes in tax rates and tax reform legislation; global economic changes; exposure to credit risk of the businesses we provide capital to; amortization of acquired intangible assets and impairment charges; our ability to repay 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 the risks that may impact our business are included in our Form 10-K for fiscal 2018 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 21, 2019, and we do not undertake any duty to update any forward-looking statement or other information in these materials.