

**Intuit Inc.**  
**First-quarter Fiscal 2019**  
**Conference Call Remarks**  
**November 19, 2018**

**Introduction**

Good afternoon and welcome to Intuit's first-quarter fiscal 2019 conference call. I'm here with Brad Smith, our chairman and CEO; Michelle Clatterbuck, our CFO; and Sasan Goodarzi, our incoming CEO.

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](http://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.

### **First-quarter Fiscal 2019 Overview**

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

As we kicked off fiscal year 2019, we entered the second year of implementing our One Intuit Ecosystem strategy, and we're off to a strong start through the first quarter. We delivered 12 percent revenue growth and exceeded our overall financial targets. Small Business and Self-Employed Group revenue increased 11 percent, with Online Ecosystem revenue growing 42 percent in the quarter. Revenue for both the Consumer Group and Strategic Partner Group was also in-line with our expectations. While this is a great start to the year, there's plenty of game to be played, with our two largest quarters ahead as we move towards tax season.

With that backdrop, let me share some observations on our business overall, starting with our Small Business and Self-Employed Group.

As we foreshadowed last quarter, we are placing an increased emphasis on our online services to deliver greater value for our small business customers. Sasan shared many of these advances at our QuickBooks Connect conference earlier this month.

- First, QuickBooks Capital, which leverages QuickBooks Online customers' data to provide loans to small businesses, nearly 60 percent of whom may not qualify for loans elsewhere. QuickBooks Capital has funded \$200 million in cumulative loans over the first 12 months since launching publicly. Customer receptivity has exceeded expectations, with 84 percent of QuickBooks Capital customers stating an intent to apply for a second loan in the future.
- We've also introduced an innovative same-day payroll capability within QuickBooks Online, enabling small businesses to pay their employees on the same day if they process their payroll by 10 a.m. eastern standard time. This allows customers to hold on to their money longer, and better manage their cash flow. Traditionally, small businesses have been required to fund payroll 2 to 5 days in advance, so same-day payroll is quite meaningful for these customers.
- In addition, we'll soon be launching next-day funding within QuickBooks Payments, allowing small businesses and self-employed customers to receive their funds the next business day, twice as fast as the 2 to 3 day waiting period they currently experience. QuickBooks Payments has also been redesigned, making critical payments functionality more easily discoverable for customers within the offering.
- We're also serving a broader range of customers with the recent introduction of QuickBooks Online Advanced. This offering is designed for 1.5 million

mid-market customers with 10 to 100 employees. Approximately 180,000 of our existing QBO customers fit this target profile, providing us with a significant opportunity to grow with them over time. While it's still early, customer feedback on QBO Advanced is quite positive, and we're optimistic about the opportunity as we introduce additional functionality in the months ahead.

Turning to the Consumer Group, the team is actively developing the next wave of innovation to better serve our customers in the upcoming tax season. Our strategy remains focused on expanding our lead in the do-it-yourself tax category while transforming the assisted tax segment with TurboTax Live. TurboTax Live eliminates the traditional trade-offs between a DIY solution or one-on-one advice from a pro. This innovative service significantly increased the confidence of our tax filing customers last season, and it's only getting better. During the upcoming tax season we're launching several new features, many of which were tested during tax extension season in October. These include:

- Mobile access to an expert on demand, given that half of online tax filers use a mobile device at some point when filing their return.
- We're introducing a wider range of price points, providing access to an expert from the simplest to the most complex of tax returns.
- Finally, we're providing additional ways for TurboTax users to access a TurboTax Live expert throughout their tax prep experience, including the

ability to submit a question and receive a response from an expert in 24 hours.

Beyond these customer-facing innovations, we've made several enhancements to the experience for the tax professionals on the TurboTax Live platform, as well. These enhancements include a new built-in help panel and expanded case management functionality, all in one place. We expect these new tools to improve the overall experience and productivity for tax professionals operating on our platform.

As we shared last quarter with regards to the external environment, we've long advocated for tax simplification and believe that anything that makes taxes easier to understand is good for consumers. While the new legislation increases the number of people who will qualify for the standard deduction, which introduces some trade-down risk from our paid to our free offering, in aggregate, we believe tax simplification will be an overall catalyst for the DIY category and for TurboTax growth as more assisted tax customers choose to adopt digital solutions.

Our expectation is grounded in historical evidence. Over the past decade, many hypothesized major legislative changes such as the Affordable Care Act would create confusion and cause a shift towards more assisted tax prep methods. That didn't happen. In fact, TurboTax filings growth over this period of time has outpaced tax pros' growth by 600 basis points, and tax stores by over 900 basis points, while total IRS returns grew at a compounded annual rate of less than one

percent. These trends reflect a secular tailwind of customers adopting digital solutions even with major changes to legislation.

Moving beyond our Consumer business to the Strategic Partner Group, our professional tax revenue grew 6 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 sum it up, the momentum we exited FY'18 with continues, and our testing during the extension filing season gives us increased confidence that we should have another successful tax season.

With that overview, let me hand it over to Michelle to walk you through the financial details.

### **Financial Results and Segment Details**

Thanks, Brad and good afternoon everyone.

For the first quarter of fiscal 2019, we delivered:

- Revenue of \$1.0 billion, up 12 percent year-over-year.
- A GAAP operating loss of \$10 million, versus a \$35 million loss a year ago.
- Non-GAAP operating income of \$102 million, versus \$65 million last year.
- GAAP diluted earnings per share of \$0.13, versus a loss per share of \$0.01 a year ago.

- And non-GAAP diluted earnings per share of \$0.29, up 71 percent versus \$0.17 last year.

Our GAAP earnings per share for the first quarter includes a \$41 million excess tax benefit on share-based compensation.

## **Business Segment Results**

Turning to the business segments:

### **Small Business and Self-Employed Group**

Total Small Business and Self-Employed revenue grew 11 percent during the quarter.

Online Ecosystem revenue remains strong, with growth of 42 percent. As we shared last quarter, 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. We're pleased with the continued growth of both online accounting and online services revenue.

QuickBooks Online subscribers grew 41 percent, ending the quarter with nearly 3.6 million subscribers. Growth remains strong across multiple geographies, with U.S. subscribers growing 35 percent to approximately 2.7 million, and international subscribers growing 61 percent to over 880,000.

Within QuickBooks Online, Self-Employed subscribers grew to approximately 745,000, up from roughly 425,000 one year ago.

As we told you last quarter, we expect total subscriber growth to begin to moderate some as we shift our emphasis in the next chapter of the business model evolution.

Desktop Ecosystem revenue was down 4 percent in the first quarter, consistent with the mid-single digit decline we indicated last quarter. Within the Desktop Ecosystem, our QuickBooks Enterprise customers continued to grow at a double-digit pace in the first quarter. During fiscal 2019, we continue to expect QuickBooks desktop units to decline single digits and Desktop Ecosystem revenue to be roughly flat.

### **Consumer and Strategic Partner Groups**

Total Consumer revenue was up 22 percent in one of our smallest quarters of the year. Looking ahead to the upcoming tax season, we have an opportunity to address the needs of even more tax filers with TurboTax Live. Last year, the product contributed to a 2-point increase in retention, brought customers into the franchise at a faster pace than our TurboTax Online offering and attracted first time filers at a higher rate. As Brad mentioned, we continue to expect tax reform to be a catalyst for the DIY category this season.

As a reminder, we expect to provide a tax unit update in late February, concurrent with our second-quarter earnings release. We'll also provide a final update in late April after the tax season ends.

Professional tax revenue within the Strategic Partner Group grew 6 percent in the first quarter, in-line with our expectations.



## **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 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.

Our first priority for the cash we generate continues to be 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 over \$101 million of stock in the first quarter. Approximately \$3.1 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 January 18, 2019. This represents a 21 percent increase versus last year.

## **Q2 Fiscal 2019 Guidance**

Second quarter guidance for fiscal 2019 includes:

- Revenue growth of 10 to 11 percent,
- GAAP diluted earnings per share of \$0.55 to \$0.58, and
- Non-GAAP diluted earnings per share of \$0.85 to \$0.88.

We're also reiterating our fiscal 2019 guidance provided last quarter. You can find our Q2 and fiscal 2019 guidance details in our press release and on our fact sheet.

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

### **Closing Comments (Brad)**

Thanks, Michelle.

Putting a bow around our performance this quarter, we're pleased with the strong start to fiscal year 2019 and look forward to accelerating our momentum as we head into peak season. Our One Intuit Ecosystem strategy continues to take shape, and I couldn't be more proud of the innovation and results our employees are delivering.

As you know, this is my last earnings call as Intuit's CEO. Effective January 1st, I will transition to the role of Executive Chairman as Sasan Goodarzi takes the reins. It's been a privilege to serve as Intuit's CEO for the past eleven years. I could not be more confident in Sasan and the next generation of Intuit's leadership team. As I look ahead, I've never felt better about Intuit's future. I want to thank you for your support over these many years, and I look forward to the continued progress the company will achieve in this next chapter.

With that, let's open it up 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; Intuit's prospects for the business in fiscal 2019 and beyond; expectations regarding timing and growth of revenue for each of Intuit's reporting segments and the Online Ecosystem from current or future products and services; expectations regarding customer growth; expectations regarding the impact of the One Intuit Ecosystem strategy on Intuit's business; expectations regarding changes to our products and their impact on Intuit's business; expectations regarding tax simplification; 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 "Q2 Fiscal 2019 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 these and other 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>. Fiscal 2019 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.

