Intuit Inc.
First-quarter Fiscal 2017
Conference Call Remarks
November 17, 2016

Introduction

Good afternoon and welcome to Intuit's first-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.

First-quarter Fiscal 2017 Overview

Good afternoon everyone, and thanks for joining us.

Fiscal 2017 is off to a strong start, building on the momentum we developed in fiscal 2016. In the first quarter, we grew revenue 9 percent, exceeded our QuickBooks Online subscriber guidance and beat our overall financial targets.

With that backdrop, let me begin by sharing a few reflections on our business performance, starting with small business.

QuickBooks Online continues to gain traction, as we pursue a large global market opportunity. Our goal remains to be the operating system behind small business success, helping small businesses save time and improve their cash flow, so they thrive when times are good, and remain resilient when times are tough.

Total QuickBooks Online subscribers grew 41 percent in the quarter to more than 1.6 million subs.

We drove acceleration in our small business markets outside the U.S., where QuickBooks Online grew 50 percent to 323,000 subscribers, up from 45 percent in fiscal 2016. The increase came in Canada, the U.K., and Australia, with subscriber growth in the U.K. accelerating to 87 percent, up from 78 percent. We continue to focus our efforts on improving product-market fit in India, Brazil, and France, and will report on our progress with these efforts in the coming quarters.

QuickBooks Self-Employed is also contributing to the acceleration of subscribers. Roughly 110,000 of our QuickBooks Online subscribers are using QuickBooks Self-Employed, compared to 85,000 last quarter, and 35,000 a year ago. We've now launched QBSE in the U.K. and Australia as well.

I'm encouraged by the strong start in our Small Business Group, and expect our momentum to continue accelerating in the second half as we drive toward our QBO subscriber target of 2 million to 2.2 million subs for the year. I'm confident in this acceleration because of the innovations we have coming to market, including:

- Improvements in the core QBO platform that simplify the first-time use experience, including enabling small businesses to generate their first profit-and-loss statement in less than five minutes;

- A new, smart invoicing capability that allows for real-time tracking of the invoice status in QuickBooks Online and QuickBooks Self-Employed;
- An enhanced QuickBooks Self-Employed user experience, with the ability to receive payments on mobile devices and always-on mileage tracking; and
- Our recently announced partnership with Google to enable seamless integration between QuickBooks Online and Google calendar.

Based on strong product-market fit for QBO in Canada, the U.K., and Australia, we're leaning into greater go-to-market activity in these countries. These factors support our confidence in the continued acceleration of QBO subscribers in the back half of the fiscal year.

With that overview on small business, let's talk tax. We're gearing-up for another exciting tax season in TurboTax by continuing our multi-year investments in product innovation that remain focused on reimagining the tax prep process, while driving customer growth and increasing market share. We also continue to promote a set of best practices and standards within the industry that enable the Internal Revenue Service and the states to improve their ability to combat tax fraud.

In ProConnect, we're focused on serving multi-service accountants who do both books and taxes for their customers. Our goal is to be the operating system behind the accountant's success. In service to this goal, we're providing one location within QuickBooks Online Accountant, where accountants can access all of their workflows.

Several exciting innovations are underway that begin to leverage capabilities we've developed in TurboTax with our accountant offerings, including increasing the number of documents that can be automatically uploaded, reducing data entry. We expect these innovations to help us further strengthen our accountant relationships, while helping drive QuickBooks growth opportunities over time.

So across the board, we're off to a nice start in all of our businesses.

With that, let me turn it over to Neil to walk you through the financials.

Financial Results and Segment details

Thanks, Brad and good afternoon everyone.

For the first quarter of fiscal 2017, we delivered:

- Revenue of $778 million, up 9 percent.
- GAAP operating loss of $61 million.
- Non-GAAP operating income of $32 million.
- A GAAP loss per share of $0.12.
- And non-GAAP diluted earnings per share of $0.06.

Note that our GAAP earnings per share includes the impact of the early adoption of the new accounting standard update for share-based compensation. This update requires excess tax benefits realized upon the settlement of a share-based compensation award to flow through the earnings statement instead of the balance sheet. We expect this accounting change to reduce our GAAP tax rate from approximately 34 percent to approximately 32 percent for full fiscal 2017. The impact on GAAP earnings per share is an increase of approximately 7 cents in the first quarter and 12 cents for the full year.

Business Segment Results

Turning to the business segments:

Small Business

Total Small Business revenue grew 11 percent for the quarter. As Brad mentioned, QuickBooks Online subscriber growth remains strong and we exceeded our guidance for the quarter, reaching 1,638,000 subs, up 41 percent year-over-year. Small business online ecosystem revenue grew 26 percent for the quarter.

As we discussed at Investor Day, we are focused on driving customer growth first, followed by online ecosystem revenue. We expect online ecosystem revenue to grow 25 to 30 percent this year, accelerating as the year progresses.

QuickBooks desktop remains a resilient and important part of our business. The first quarter was exceptionally strong for desktop units, up 23 percent, as unusually high renewals from existing desktop customers were driven by operating system upgrades. Our plan does not assume this growth continues throughout the year. Desktop ecosystem revenue grew 6 percent in the quarter.

<u>Consumer and Professional Tax</u>

Moving to Tax:

Consumer Tax revenue for Q1 was $60 million and ProConnect revenue was $112 million. This was in line with our expectations in a seasonally light quarter.

To help with your modeling, we expect second quarter Consumer Tax revenue to grow about a point faster than last year, given the way the calendar falls in January 2017.

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.

<u>Financial Principles and Capital Allocation</u>

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 over five years.

We ended the quarter with approximately $600 million in cash and investments on our balance sheet. Our first priority for the use of that cash is investing for customer growth.

When it's the best use of cash, we'll return cash to shareholders via share repurchases and dividends.

- We repurchased 1.8 million shares in the first quarter for $192 million, and $2.2 billion remains on our authorization.
- The board approved a dividend of $0.34 per share, payable January 18, 2017.

Q2 Fiscal 2017 Guidance

You can find our fiscal 2017 Q2 guidance details in our press release and on our fact sheet. We reaffirmed our full-year guidance, with the one exception being higher GAAP earnings per share guidance due to the early adoption of the accounting standard update mentioned earlier.

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

Closing Comments - Brad

Thanks, Neil.

I'm pleased with the strong start to the fiscal year, and I remain optimistic about the path we're on to grow our QuickBooks Online franchise here in the U.S., and in prioritized markets around the world.

We're building on our QBO momentum in Canada, the U.K., and Australia, and we've further expanded the category with relevant offerings like QuickBooks Self-Employed.

Our third annual QuickBooks Connect conference in late October was a great success, with attendance up year-over-year, reinforcing the power of the ecosystem by creating indispensable connections between small businesses, accountants, and developers.

In a headline, we like how we've come out of the gates in Q1, and remain focused on delivering another great year.

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; 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 "Q2 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 November 17, 2016, and we do not undertake any duty to update any forward-looking statement or other information in these materials.