Intuit Inc.
Fourth-quarter Fiscal 2017
Conference Call Remarks
August 22, 2017

Introduction

Good afternoon and welcome to Intuit's fourth-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.

Fourth-quarter Fiscal 2017 Overview

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

As you read in our press release today, we've announced a chief financial officer succession plan. Neil has served as CFO since January of 2008, and plans to step down at the end of January 2018. I'm pleased to share that Michelle Clatterbuck will assume the role of chief financial officer on February 1, 2018. It is a well-crafted succession plan that we'll cover more in a few minutes, but let's start with the business.

We had an excellent fourth quarter and a strong finish to fiscal year 2017. Fourth-quarter revenue grew 12 percent, and full-year revenue grew 10 percent. We're encouraged by the accelerating momentum in Small Business, including continued strength in both our QuickBooks Online subscribers and online ecosystem revenue growth. We're also pleased with our results in both Consumer and Professional Tax, which delivered at the high end of our expectations in a complicated tax season.

Across the company, we continue to innovate and improve our product experiences to deliver meaningful benefit for our customers. For example:

- We improved the end-to-end experience for QBO customers, which resulted in a 22-point increase in our Net Promoter Score.
- We solved important pain points for self-employed business operators, such as the ability to separate personal and business expenses, send invoices and

receive payments, and track mileage. This led to a quadrupling of our QuickBooks Self-Employed customer base.

- We expanded our SmartLook video chat capability to help our TurboTax Online customers answer that one nagging question that could cause them to abandon the product. Customers who used SmartLook rated their care experience nearly 20 points higher than those who did not.

Our One Intuit Ecosystem has evolved into an active ecosystem, creating greater value for our customers, while building new sources of competitive advantage for Intuit. Let me share a few examples.

- First, our new QBO matchmaking platform is connecting small businesses with the right accountant. We know that 89 percent of small businesses believe they're more successful when they work with an accountant, and this year, 53 percent of our small business customers are now doing so. That's a 10-point increase versus last year. This has the potential to be a key driver of small business success, and a catalyst for our own growth over the long term.
- Second, we're helping accountants grow their practices, delivering three times more client leads than a year ago.
- Third, our TurboTax and QuickBooks Self-Employed bundle is putting more money in our self-employed customers' pockets – eliminating work and making it drop-dead simple to track and deduct business expenses. As a

result, we're generating more than $4,300 in tax savings for self-employed customers, which is 8 percent of their income on average.

We'll share more about our plans to further strengthen and accelerate our One Intuit Ecosystem at our upcoming Investor Day in early October.

Now, let's talk about our fourth-quarter and fiscal year 2017 results, starting with Small Business.

We delivered another strong year, with subscriber growth continuing at a rapid pace and online ecosystem revenue accelerating.

We added over 870,000 QuickBooks Online customers in fiscal 2017. That's twice as many as we added in fiscal 2016. We finished the year with over 2.3 million customers, driving subscriber growth to 58 percent, up from 41 percent last year.

We continue to deliver strong QBO growth in the U.S. and international markets:

- Our U.S. subscriber base grew 53 percent year-over-year, to nearly 1.9 million subs, up from 40 percent growth last year.
- Outside the U.S., our subscriber base grew 75 percent year-over-year, to over 500,000 subs, up from 45 percent growth last year. We've also seen our Net Promoter Scores improve year-over-year in every country, giving us confidence that our international growth formula is working. As a reminder, our playbook when entering a new market is to focus on product-market fit first. Then, we lean heavily into marketing to drive subscriber growth.

- We continue to feel good about our position in Canada, the U.K. and Australia, surpassing the 100,000 subscriber mark in all three countries this year.
- Our teams in France, Brazil and India are working hard to reach product-market fit in their respective countries. We’ll share more on our progress in coming quarters.

Within QuickBooks Online, Self-Employed subscribers grew to approximately 390,000, up from 360,000 last quarter, and 85,000 a year ago. Our bundled Self-Employed offering in TurboTax has contributed approximately 170,000 subscribers to this total

Summing it up, our momentum in QBO subscriber growth continues to drive top-line revenue, with Online Ecosystem revenue growth accelerating to 33 percent. That's up from 30 percent last quarter. We expect subscriber growth to continue north of 40 percent, and online ecosystem revenue to grow more than 30 percent over the next few years, which is up from the previous guidance of 25 to 30 percent.

Turning to Tax:

Consumer Tax revenue finished the year up 9 percent in a complex season that was defined by below-normal IRS returns growth, and a highly competitive environment in the free category. We performed well with our paid customers driving our revenue growth this season. Our team is already hard at work reimagining our tax business and building the next wave of innovation to better serve our customers in both the free and paid segments. There is no question there is still a ton of opportunity in this business, especially as we leverage technology to provide even more value to our customers. We're excited as we look ahead to next season, and will share more when we see you at Investor Day.

On the ProConnect side, revenue also finished the year at the top of our guidance range. We continue to focus on multi-service accounting firms that do both books and taxes. This is in service to driving our accountant customers' success, and growing our Small Business ecosystem.

Taking up the nose of the plane, let me set some context for where we're headed. Over the past nine months, our senior leadership team has invested significant time completing an extensive outside-in, future-back exploration to set the foundation for our next chapter of growth. The end result is the most comprehensive collection of market and customer insights we've ever amassed. This has led to a complete refresh of our company's game plan to win, from our mission to our metrics.

Our One Intuit Ecosystem strategy will power the next chapter of growth. It capitalizes on our tens of millions of active customers and the vast amounts of data we steward on their behalf. When matched with our leading technology and machine learning capabilities, we are able to deliver deeply personalized experiences, through a trusted open platform, creating indispensable connections between people and products that is not easily matched by rivals. As new participants enter the Intuit ecosystem, the value increases for everyone, unleashing the power of the many for the prosperity of one.

In support of our refreshed strategy, we've made deliberate decisions to target investments in several key areas during fiscal 2018, which you'll hear more about from Neil in a moment. We expect these initiatives to further accelerate our long-term revenue growth.

With that setup, let me hand it to Neil to walk you through the financial details.

Financial Results and Segment Details

Thanks, Brad and good afternoon everyone.

For the fourth quarter of fiscal 2017, we delivered:

- Revenue of $842 million, up 12 percent year-over-year.
- A GAAP operating loss of $10 million, versus a $56 million loss a year ago.
- Non-GAAP operating income of $78 million, versus $36 million last year.
- GAAP diluted earnings per share of $0.09 versus a loss of $0.16 last year.
- And non-GAAP diluted earnings per share of $0.20, up from $0.08 last year.

You will note that our GAAP earnings per share includes the tax impact of early adoption of the new accounting standard update for share-based compensation. This added $0.13 to our GAAP earnings for the quarter, and $0.28 for the full year.

For full fiscal year 2017, we delivered:

- Revenue of $5.2 billion, up 10 percent year-over-year.
- GAAP operating income of $1.4 billion, up 12 percent versus a year ago.
- Non-GAAP operating income of $1.7 billion, also up 12 percent versus last year.

- GAAP diluted earnings per share of $3.72 versus $3.69 last year. As a reminder, our GAAP results in fiscal 2016 included a net gain of $0.65 per share from the sale of discontinued operations.
- And non-GAAP diluted earnings per share of $4.41, up from $3.78 last year, for an increase of 17 percent.

Business Segment Results

Turning to the business segments:

Small Business

Total Small Business revenue grew 14 percent for the quarter and 13 percent for the year.

QuickBooks Online subscriber growth remains strong and we exceeded our guidance for the quarter and the full year, reaching 2,383,000 subscribers, up 58 percent year-over-year. TurboTax was a significant channel for QuickBooks Self-Employed for the year, accounting for 11 points of QBO subscriber growth – a great example of the power of the One Intuit Ecosystem that Brad just mentioned.

Small Business online ecosystem revenue accelerated to 33 percent in the fourth quarter, and grew 30 percent for the year. This is above the high end of the 25 to 30 percent growth range we've talked about, and is driven by continued growth of online accounting revenue. Our online payroll and payments businesses remain healthy, growing revenue 21 percent and 12 percent for the year, respectively.

As Brad mentioned, our outlook over the next few years calls for over 40 percent growth in QBO subs. We expect online ecosystem revenue to grow better than 30 percent. That subscriber growth is on top of the 58 percent increase we posted in fiscal 2017, demonstrating confidence in our strategy.

Our small business desktop ecosystem total revenue grew 8 percent for the year, despite desktop units being down 8 percent. For fiscal 2018, we expect QuickBooks desktop units to decline low double-digits and desktop ecosystem revenue to be up mid-single digits. That revenue growth is driven by continued strength in our QuickBooks Enterprise business.

Consumer and Professional Tax

Consumer Tax revenue was up 9 percent for the year, reflecting 2 points of unit growth. ProConnect revenue grew 2 percent for the year.

Financial Principles and Capital Allocation

Turning to our financial principles, we continue to take a disciplined approach to capital management.

With approximately $800 million in cash and investments on our balance sheet, our first priority is investing for customer growth. Our goal is to drive double-digit revenue growth and to grow operating income faster than revenue.

We return cash that we can't invest profitably in the business to shareholders via both share repurchases and dividends.

- We repurchased over $360 million of shares in the fourth quarter and over $830 million for the year. Approximately $1.5 billion remains on our authorization.
- We returned approximately 85 percent of our free cash flow to shareholders last year, and more than 100 percent over the last five years. That level is not sustainable, so you'll notice the share count guidance for FY '18 reflects a slightly more moderate buyback program than in recent years. We expect to be in the market each quarter and will continue to keep an eye on investment alternatives and overall market conditions as we manage our program.
- In fiscal 2018 we expect to pay a cash dividend of $1.56 per share, with the first dividend of $0.39 per share payable on October 18, 2017. This represents a 15 percent increase versus last year.

As Brad mentioned, we are reallocating over 10 percent of our annual spend to strengthen our investment in several key priorities over the next three years, including:

- Increasing our capability in artificial intelligence and machine learning.
- Accelerating our transition to Amazon Web Services.
- Enhancing our brand and marketing effectiveness globally, and
- Enabling our engineering organization to increase effectiveness and efficiency.

We expect these initiatives to set us up to deliver strong growth in the coming years. Even with these investments, we expect our operating margin to expand modestly in fiscal 2018.

Q1 and Fiscal 2018 Guidance

Our full-year fiscal 2018 guidance includes:

- QBO subscribers of 3.275 million to 3.375 million,
- Total company revenue growth range of 9 to 11 percent,
- GAAP earnings per share of $4.00 to $4.10 and
- Non-GAAP earnings per share of $4.90 to $5.00.

Our Q1 fiscal 2018 guidance includes:

- Revenue growth of 8 to 11 percent,
- A GAAP loss per share of $0.17 to $0.19, and
- Non-GAAP earnings per share of $0.03 to $0.05.

You can find our Q1 and fiscal 2018 guidance details in our press release and on our fact sheet.

We are making a few changes to our segment reporting in fiscal 2018. Our principle is to align our segments with our core customers and business partners. We are creating a Consumer segment by combining our Consumer Ecosystem offering – which includes our Mint business – with the Consumer Tax segment. We are renaming the Small Business segment as Small Business & Self-Employed, and renaming ProConnect as the Strategic Partner segment. This segment will manage our professional tax offerings while also focusing on partners instrumental to the success of our ecosystem. All these changes are reflected on our fact sheet.

On a personal note, over the last several years it has been a priority for me and my team to think about our long-term strategy that includes finding and nurturing awesome talent. As we announced today, I'll be stepping down in January. I'm really confident in Michelle. She thinks and acts like a chief operating officer, demonstrating a unique blend of partnering and influencing skills that are backed by deep domain expertise. She brings credibility as a strategic thinker who connects dots that others often don't see. I look forward to working with her over the next five months to ensure a smooth transition.

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

Closing Comments (Brad)

Thanks, Neil. I know the CFO transition isn't official until February, but I wanted to take this moment to express my sincere admiration and appreciation for all that you have contributed over the past decade. Our financial foundation has never been stronger, having successfully navigated a business model transition with double-digit revenue growth, expanding margins and a strong investment grade rating. Your commitment to recruiting and developing top talent has created a deep bench of strong financial leaders, making a seamless transition of our leadership team possible.

Michelle has risen to the occasion at every step along her journey, consistently delivering an outstanding performance across multiple strategic leadership roles and business units over the past 14 years. We're excited to have her succeed you as our next CFO in February.

So with that said, let me bring our introductory comments to a close. Another strong year is in the books for Intuit, reflecting increasing momentum in our QuickBooks Online ecosystem and strength in tax. I am proud of the innovations the team continues to deliver every day, and I look forward to sharing more with you in October.

With that summary, 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 2018 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 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 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 “Q1 and Fiscal 2018 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 August 22, 2017, and we do not undertake any duty to update any forward-looking statement or other information in these materials.