**Intuit Inc.**
**Fourth-quarter Fiscal 2018**
**Conference Call Remarks**
**August 23, 2018**

## Introduction

Good afternoon and welcome to Intuit's fourth-quarter fiscal 2018 conference call. I'm here with Brad Smith, our chairman and CEO, and 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 2017 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.

We are reporting fiscal year 2018 results today under the historical revenue recognition standard, ASC605. We adopted the new revenue recognition standard, ASC606, in fiscal year 2019, which began August 1, 2018. We elected to adopt ASC606 under the full retrospective method for comparability, and we have provided restated financials for fiscal years 2017 and 2018 in the press release issued today, and on our fact sheet. We also posted a slide deck to the Investor Relations section of Intuit's website at intuit.com highlighting the significant changes under ASC606. Michelle will discuss the impact of this change during her prepared remarks.

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 2018 Overview**

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

As you read in our press release today, I'll be stepping down as the Chief Executive Officer of Intuit at the end of 2018 and will continue to serve as our Executive Chairman. I'm happy to announce that Sasan Goodarzi will become Intuit's next CEO on January 1, 2019. Sasan is also with us on the call today. I'll share more thoughts about Sasan and why I feel it's the right time to pass the baton to him in January at the end of this call. But first, let's talk about our results in fiscal year 2018 and our outlook for fiscal year 2019.

We had an excellent fourth quarter capping off a very strong fiscal year 2018. Fourth quarter revenue grew 17 percent, and full-year revenue grew 15 percent. We are one year into our multi-year change journey, and our results affirm that our refreshed One Intuit Ecosystem strategy is positioning the company for durable growth as we look ahead.

Revenue growth accelerated across our businesses in fiscal year 2018. This growth was fueled by 18 percent growth in the Small Business and Self-Employed Group, and 14 percent growth in the Consumer Group. As you can see reflected in our guidance for fiscal year 2019, we expect to deliver another year of strong revenue growth in the coming year.

With that overview, let me share some observations on our business performance.

We delivered another successful quarter in our Small Business and Self-Employed Group. Online Ecosystem revenue grew 43 percent in the fourth quarter and 40 percent for the fiscal year, exceeding our target to grow better than 30 percent.

We added over one million QuickBooks Online subscribers in fiscal year 2018, exiting with more than 3.4 million subscribers, a 43 percent increase year-over-year. Growth remains strong across multiple geographies, with U.S. subscribers growing 38 percent to approximately 2.6 million, and international subscribers growing 62 percent to over 800,000.

Within QuickBooks Online, Self-Employed subscribers grew to nearly 720,000, up from roughly 390,000 one year ago.

As we move into fiscal year 2019, we are placing a greater focus on additional services and penetrating a broader range of customers. Online Ecosystem revenue growth has emerged as the best gauge of the health and success of this business, and now represents more than one billion dollars. Even at this scale, we continue to expect Online Ecosystem revenue to exceed 30 percent growth year-over-year, with subscriber growth beginning to moderate some as we shift our emphasis in the next chapter of the business model evolution.

With the focus on Online Ecosystem revenue growth, we will no longer be providing forward-looking guidance for subscriber growth, but we will continue to share our actual QuickBooks Online subscriber count on our fact sheet.

Turning to the Consumer Group…

As we shared last quarter, we had a successful tax season. Consumer revenue grew 14 percent in fiscal year 2018 as innovation drove customer and revenue growth, and we made encouraging progress behind each of our strategic priorities. Our team is actively developing the next wave of innovation to better serve our customers next season. We're excited about the opportunities ahead for TurboTax Live to further transform the assisted category, and for our Turbo and Mint offerings to expand our business beyond tax.

With regards to the external environment, I want to share our thoughts on the tax legislation changes that go into effect next season. We have long advocated for tax simplification, as we think anything that makes taxes easier to understand is good for consumers. As you know, the new legislation increased the standard deduction so a larger number of people won't be required to itemize their deductions. This change does introduce some trade-down risk from our paid offerings to our free offering, but in aggregate, we believe tax simplification will be an overall catalyst for DIY category and TurboTax growth as more assisted tax customers choose to adopt digital solutions.

In addition, the Internal Revenue Service has been working on developing a streamlined tax filing form, consisting of one summary form and six supporting schedules. We are working closely with the IRS to fully understand the changes to the 1040 forms, and we will ensure that all of the forms in our products are up-to-date, as we do every year. We'll share more information later this year when we introduce our offerings for next tax season.

In the Strategic Partner Group, our professional tax revenue was slightly ahead of our expectations as revenue grew 4 percent in fiscal year 2018. We continue to focus on multi-service accounting firms that do both books and taxes. This enables us to drive our accountants' success while growing our small business ecosystem at the same time.

Putting a bow around fiscal year 2018, we're one year into our refreshed One Intuit Ecosystem strategy, with our business gaining momentum and significant opportunity ahead. We're activating our ecosystem by connecting our customers, our partners, and our products across business lines through value-creating solutions. This includes offerings such as our ProAdvisor matchmaking platform, TurboTax Live, and our TurboTax Self-Employed bundle. We see many more opportunities to connect our ecosystem with newer offerings such as QuickBooks Capital and Turbo, as well as others on the horizon. We'll share progress on each of these offerings at our upcoming Investor Day.

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.

As Jerry mentioned at the beginning of the call, I'll review our fourth quarter and fiscal year 2018 results under ASC605. I'll also provide guidance under both the new revenue recognition standard, 606, and the historical standard, 605, for comparability.

Let's start with results for the fourth quarter of fiscal 2018. We delivered:

- Revenue of $988 million, up 17 percent year-over-year.
- A GAAP operating loss of $81 million, versus a $10 million loss a year ago.
- Non-GAAP operating income of $104 million, versus $78 million last year.
- GAAP diluted earnings per share of $0.18, versus $0.09 a year ago.
- And non-GAAP diluted earnings per share of $0.32, up 60 percent versus $0.20 last year.

For full fiscal year 2018, we delivered:

- Revenue of $6.0 billion, up 15 percent year-over-year.
- GAAP operating income of $1.5 billion, versus $1.4 billion a year ago.
- Non-GAAP operating income of $2.0 billion, up 14 percent versus last year.
- GAAP diluted earnings per share of $4.64, up 25 percent versus $3.72 last year.
- And non-GAAP diluted earnings per share of $5.61, up 27 percent versus $4.41 last year.

As previously announced, our GAAP earnings per share for the fourth quarter and fiscal year 2018 include a $79 million charge from the sale of our data center in Quincy, Washington. The impact of this charge on net income and EPS was offset by tax benefits that we recognized in the quarter.

## **Business Segment Results**

Turning to the business segments:

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

Total Small Business and Self-Employed revenue grew 20 percent for the quarter and 18 percent for the year. This compared to 14 percent growth in fiscal year 2017.

Online Ecosystem revenue growth remains strong, and grew 43 percent in the fourth quarter, up from 41 percent in the third quarter. For fiscal year 2018, Online Ecosystem revenue grew 40 percent, up from 30 percent in fiscal year 2017.

QuickBooks Online subscribers grew 43 percent, ending the quarter with over 3.4 million subscribers. As Brad mentioned, 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.

Desktop Ecosystem revenue grew 7 percent in the fourth quarter and in fiscal year 2018. Desktop units fell 7 percent in the fourth quarter and 15 percent in fiscal year 2018, which was in-line with our expectations. For fiscal 2019, we expect QuickBooks desktop units to decline single digits and Desktop Ecosystem revenue to be roughly flat.

Including both online and desktop customers, our total QuickBooks paying customers grew 26 percent in fiscal year 2018. Total QuickBooks paying customers includes QuickBooks Online customers, QuickBooks desktop units, and QuickBooks desktop subscribers.

## **Consumer and Strategic Partner Groups**

The Consumer Group had a strong year with revenue up 14 percent compared to 8 percent revenue growth in fiscal year 2017. TurboTax units grew 4 percent and TurboTax Online units were up 6 percent. The Strategic Partner Group posted $453 million of professional tax revenue for fiscal year 2018, up 4 percent.

## **Financial Principles and Capital Allocation**

Turning to our financial principles, 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.

During fiscal year 2018, we focused on reallocating resources to strengthen our investments in several key priorities, 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

At the beginning of fiscal year 2018 we told you that we expect these initiatives to set us up to deliver strong growth in the coming years. We saw this momentum begin in fiscal year 2018. Revenue growth accelerated approximately 5 points to 15 percent. GAAP operating income grew 7 percent including the $79 million charge from the sale of our data center. Non-GAAP operating income growth accelerated approximately 2 points to 14 percent.

We finished the year with $1.7 billion in cash and investments on our balance sheet. Our first priority for that cash remains investing in the business to drive customer and revenue growth. Next, we use 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 repurchased over $270 million of stock during fiscal year 2018. The board approved a new $2 billion repurchase authorization, giving us a total authorization of $3.2 billion to repurchase shares, including the remaining amount on our prior authorization.

- The board approved a quarterly dividend of $0.47 per share, payable October 18, 2018. This represents a 21 percent increase versus last year.

**Revenue Recognition Under ASC606**

As I mentioned, we are adopting ASC606, the new accounting standard for revenue recognition, in fiscal year 2019. We will be reporting our results under this standard going forward and will be restating the financial statements of previous years to provide comparability. The new standard will result in an increase in revenue for fiscal year 2018 of $61 million and a decrease in expected revenue of $30 million in fiscal year 2019.

While we're changing how we account for revenue under 606, this is an accounting change only, and has no impact on customer billings or cash flow. In addition, how we recognize revenue for all online offerings, supplies, and desktop payroll and payments will not change.

What will change under the new rules is how we account for revenue associated with QuickBooks desktop units, QuickBooks desktop subscription offerings, and consumer and professional tax desktop offerings. I'll highlight the changes briefly, but please review the materials in the investor section of our website for more detail.

- The primary change for our QuickBooks desktop unit and subscription offerings under 606 is that more revenue will be recorded in earlier periods.
- The primary change for our consumer and professional tax desktop offerings is that more revenue will be recognized at the beginning of the tax season under 606.

- We expect the net impact of adopting 606 to be approximately a two point reduction in our revenue growth in fiscal year 2019, versus the prior standard.

**Q1 and Fiscal 2019 Guidance Under ASC606**

Under 606, Q1 fiscal 2019 guidance includes:

- Revenue growth of 5 to 7 percent,
- A GAAP loss per share of $0.17 to $0.19, and
- Non-GAAP earnings per share of $0.09 to $0.11.

While we're not providing quarterly guidance under 605, our Q1 fiscal year 2019 revenue guidance would have been approximately $30 million higher than it is under 606. You can find additional Q1 and fiscal 2019 guidance details under 606 in our press release and on our fact sheet.

One more comment on Q1. We expect Desktop Ecosystem revenue to decline single digits in Q1 of fiscal year 2019. This reflects a change we made in fiscal year 2018, moving our QuickBooks Enterprise subscription offering from a perpetual license to a term license, to better serve our customers.

Under 606, our full year fiscal 2019 guidance includes:

- Total company revenue growth of 8 to 10 percent,
- GAAP earnings per share of $5.25 to $5.35, and

- Non-GAAP earnings per share of $6.40 to $6.50.

We expect a GAAP tax rate of 21 percent and a non-GAAP tax rate of 23 percent for fiscal 2019.

**Fiscal 2019 Guidance Under ASC605**

To help you compare with the forecasts you have in your models, we're also providing guidance under ASC605. Our full year fiscal 2019 guidance under the historical 605 standard includes:

- Total company revenue growth of 10 to 12 percent,
- GAAP earnings per share of $5.35 to $5.45, and
- Non-GAAP earnings per share of $6.50 to $6.60.

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

**Closing Comments (Brad)**

Thanks, Michelle.

In summary, we delivered a strong year in fiscal 2018, posting a faster pace of revenue growth than we've seen in several years as our One Intuit Ecosystem strategy takes shape. We continue to have our sights set on next year and beyond as we pursue our mission of Powering Prosperity Around the World.

With that overview, let's now shift to the other news we announced today. Sasan Goodarzi is the right executive to lead Intuit into our next chapter. During his 13 years with the company, he has successfully led each of our major businesses and served as our CIO. He's been instrumental in the transformation of our company and a key architect of our One Intuit Ecosystem strategy. He leads with intellectual curiosity and humility, as well as strategic and operational rigor. At every stop, Sasan has built high performing and highly engaged teams who deliver amazing results. I am confident in his ability to lead the company to new heights, and I'm looking forward to working with him in his new role.

When Sasan steps into the role of CEO on January 1st, he will be succeeded by Alex Chriss as the general manager of the Small Business & Self-Employed Group. Alex is another Intuit veteran with a stellar track record of success over the past 14 years.

We also announced today that Tayloe Stansbury will be stepping down as our Chief Technology Officer on January 1, 2019. This move is another thoughtful transition in a multi-year succession planning process that has been in the works for some time. I want to thank Tayloe for his many contributions over the past nine years, having led our evolution to a platform company, advanced our leadership in artificial intelligence and machine learning, and accelerated our journey to the cloud. Tayloe has built an amazing leadership bench which successfully prepared Marianna Tessel, our current Chief Product Development Officer for the Small Business and Self-Employed Group to be his successor as CTO in January.

On a personal note, it has been a privilege to serve as Intuit’s CEO since 2008. Together, we’ve built on the strong foundation that those before us had put in place. We’ve transformed the company from a North American desktop software company to a global cloud-driven product and platform company. We’ve delivered consistent topline and bottom line growth, and we’ve cultivated a strong and enduring culture of innovation and self-disruption. Today’s announcement is a continuation of our long history of leadership development and that has built a deep bench of leaders who will take their place as the next generation of Intuit’s management team. As I look ahead, I’ve never felt better about Intuit’s future.

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 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 2019 Guidance Under ASC606" and "Fiscal 2019 Guidance Under ASC605."

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 or any of our businesses; 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 and our business information and data; our ability to develop, manage and maintain critical third-party business relationships; our dependence on third party technology and services; increases in or changes to government regulation affecting 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 fraudulent activity, even if it does not directly involve our products or services; 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; effect of tax reform legislation; 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 2017 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 23, 2018, and we do not undertake any duty to update any forward-looking statement or other information in these materials.