Intuit Inc.
First-quarter Fiscal 2018
Conference Call Remarks
November 20, 2017

Introduction

Good afternoon and welcome to Intuit's first-quarter fiscal 2018 conference call. I'm here with Brad Smith, our chairman and CEO; Neil Williams, our CFO; and Michelle Clatterbuck, our incoming 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 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.

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 2018 Overview

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

We're off to a strong start in fiscal year 2018. In the first quarter, we grew revenue 14 percent and exceeded our overall financial targets. Small Business and Self-Employed Group revenue grew 17 percent, with QuickBooks Online subscribers growing 56 percent and online ecosystem revenue growing 35 percent. Both the Consumer Group and Strategic Partner Group revenues were also in-line with our expectations.

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

QuickBooks Online subscriber growth continues at a rapid pace, with online ecosystem revenue accelerating.

We exited the quarter with over 2.5 million QuickBooks Online subscribers, surpassing the 2 million subscriber milestone during the quarter in the United States, while our non-U.S. base grew 70 percent year-over-year, to approximately 550,000 subscribers.

Within QuickBooks Online, Self-Employed subscribers grew to roughly 425,000, up from 390,000 last quarter, and 110,000 one year ago.

The strong growth in QBO customers and online ecosystem revenue reflects our focus on improving the customer experience and delivering what matters most in their lives when choosing our products: more money, no work, and complete confidence. Our teams are laser focused on delivering these customer benefits, and have produced a steady flow of new features and capabilities, many of which were showcased at our QuickBooks Connect conference last week.

Our QBO innovations are resonating with customers, with our most recent net promoter scores once again improving by more than 6 points, on top of the 22-point improvement we drove last year. These improvements are reflected in each geography around the globe, positioning us well versus local alternatives, and giving us confidence in continuing our expected QBO subscriber growth north of 40 percent, with online ecosystem revenue growth of more than 30 percent.

Turning to the Consumer Group, first quarter revenue finished in-line with our expectations, up 7 percent year-over-year. We're gearing up for the upcoming tax season, and remain focused on delivering an outstanding end-to-end customer experience for do-it-yourself taxpayers. We're also launching our new TurboTax Live offering, leveraging technology for those seeking access to a tax expert on demand. Our experience with October tax extension filers gave us an opportunity to run some water through the pipes, and we are encouraged by the results as we head into the season.

As we discussed last quarter, our Consumer Group now includes Mint and personal financial management. We unveiled our new Turbo platform at the Money 20/20 conference in mid-October. Turbo is the first step towards expanding beyond a tax offering to a consumer platform that will improve the overall financial health of the end user. Turbo goes beyond a credit score, and unleashes the power of verified IRS-filed income, the credit score and the debt-to-income ratio to show customers who give consent where they truly stand. We announced an exciting slate of initial partners who will use the platform to provide offerings for participating customers starting early in calendar 2018.

Moving on to the Strategic Partners Group, our professional tax revenue was also in-line with our expectations for the quarter. We continue to focus on multi-service accounting firms that do both books and taxes. This is in service to driving our accountant' success, while growing our small business ecosystem.

Putting a bow around the quarter, we're off to a strong start to fiscal 2018, and we're excited about our prospects for the year. With that overview, 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 first quarter of fiscal 2018, we delivered:

- Revenue of $886 million, up 14 percent year-over-year.
- A GAAP operating loss of $57 million, versus $61 million a year ago.
- Non-GAAP operating income of $43 million, versus $32 million last year.
- GAAP loss per share of $0.07, versus $0.12 last year.
- And non-GAAP diluted earnings per share of $0.11, up from $0.06 last year.

Business Segment Results

Turning to the business segments:

Small Business and Self-Employed Group

Total Small Business and Self-Employed revenue grew 17 percent in the quarter, up from 14 percent in fiscal 2017.

QuickBooks Online subscriber growth remains strong at 56 percent, ending the quarter with 2.552 million subscribers.

Small business online ecosystem revenue accelerated to 35 percent in the first quarter, from 30 percent in fiscal 2017. Online accounting continues to drive this revenue growth.

We expect year-over-year QBO subscriber growth to slow in the second half of the year due to the introduction of the Self-Employed bundle last tax season. We remain confident in our outlook for growth in QBO subs, as reflected in our fiscal 2018 guidance of 3.275 to 3.375 million subscribers. We also continue to expect online ecosystem revenue to grow better than 30 percent.

Desktop ecosystem revenue grew 8 percent in the quarter, driven by QuickBooks Enterprise strength. QuickBooks Desktop units fell 35 percent. Remember that operating system changes in the year ago period led customers to upgrade to the newest desktop version, which drove strong unit growth last year. For fiscal 2018, we expect QuickBooks desktop units to decline mid-teens and desktop ecosystem revenue to be up mid-single digits.

Consumer and Strategic Partner Groups

Total Consumer revenue was up 7 percent for the quarter, while professional tax revenue within the Strategic Partner Group grew 2 percent. Looking ahead, I'm excited about the opportunity TurboTax Live provides to address the needs of more tax filers. We typically see 3 million prior year TurboTax customers go to a pro each year. TurboTax Live provides us the opportunity to keep more of these customers in our franchise.

Financial Principles and Capital Allocation

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

We finished the quarter with approximately $780 million in cash and investments on our balance sheet. Our first priority for 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 cash that we can't invest profitably in the business to shareholders via both share repurchases and dividends.

- We repurchased $170 million of shares in the first quarter. Approximately $1.4 billion remains on our authorization. We expect to be in the market each quarter this year.
- The board approved a quarterly dividend of $0.39 per share, payable January 18, 2018, an increase of 15percent over last year.

Fiscal 2018 Q2 Guidance

Our Q2 fiscal 2018 guidance includes:

- Revenue growth of 14 to 16 percent,
- GAAP diluted earnings per share of $0.08 to $0.11, and
- Non-GAAP diluted earnings per share of $0.31 to $0.34.

You can find our Q2 and fiscal 2018 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, Neil.

We're pleased with the strong start to the fiscal year, and look forward to accelerating our momentum as we head into peak season. I couldn't be more proud of our employees and the work that they do.

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 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 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 2018 Q2 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; changes in the total number of tax filings that are submitted to government agencies due to economic conditions or otherwise; 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 and global trends; our ability to adequately protect our intellectual property rights; our ability to develop and maintain brand awareness and our reputation; disruptions, expenses and risks associated with our acquisitions and divestitures; we may issue additional shares in an acquisition causing our number of outstanding shares to grow; any failure to properly use and protect personal customer or employee information and data; a security breach could result in third-party access to confidential customer, employee and business information; privacy and cybersecurity concerns relating to our offerings, or online offerings in general; 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; availability of our products and services could be impacted by business interruption or failure of our information technology and communication systems; our ability to develop, manage and maintain critical third-party business relationships; our ability to attract, retain and develop highly skilled employees; any significant product accuracy or quality problems or delays; any problems with implementing upgrades to our customer facing applications and supporting information technology infrastructure; increased risks associated with international operations; increases in or changes to government regulation of our businesses; the cost of, and potential adverse results in, litigation involving intellectual property, antitrust, shareholder and other matters; the seasonal and unpredictable nature of our revenue; unanticipated changes in our income tax rates; adverse global economic conditions; amortization of acquired intangible assets and impairment charges; our use of significant amounts of debt to finance acquisitions or other activities; any lost revenue opportunities or cannibalization of our traditional paid franchise due to our participation in the Free File Alliance; and changes in the amounts or frequency of share repurchases or dividends 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 November 20, 2017, and we do not undertake any duty to update any forward-looking statement or other information in these materials.