Intuit Inc.

First-quarter Fiscal 2023

Conference Call Remarks

November 29, 2022

Introduction

Good afternoon and welcome to Intuit's first-quarter fiscal 2023 conference call. I'm here with Intuit's CEO, Sasan Goodarzi, and Michelle Clatterbuck, 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 2022 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 Sasan.

First-quarter Fiscal 2023 Overview

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

We had a strong first quarter as we executed on our strategy to be the global AI-driven expert platform powering prosperity for consumers and small businesses. We continue to feel bullish about our momentum and execution across small business and tax. We are innovating at a high velocity, using the power of our platform and modern technology capabilities, to deliver new offerings at scale focusing on breakthrough adoption. We continue to be focused on putting more money in our customers' pockets, saving them time, and ensuring complete confidence in every financial decision they make. This is more important than ever in the current uncertain economic environment, and helps us penetrate our large total addressable market of over $300 billion.

Now let's turn to our first quarter results. Revenue grew 29 percent, including 13 points from the addition of Mailchimp. Total revenue growth was fueled by Small Business and Self-Employed Group revenue growth of 38 percent, or 19 percent excluding Mailchimp, and 25 percent revenue growth in the Consumer Group driven by a strong October peak with new customers and extension filers.

The scale of our platform, along with our rich data, gives us the unique ability to see charge volume growth, the number of employees paid and hours worked per small business, and cash reserves. These measures remain strong for those on our platform and inform our perspective on the health of small businesses.

TurboTax had a robust finish to the tax season, with a record number of innovations launched and tested in the October peak. I am excited about this upcoming season, particularly our strategy to transform the assisted category, including the launch of business tax, and TurboTax and Credit Karma platform integrations.

Now turning to Credit Karma. At Investor Day and on our Q4 earnings call, we shared that all Credit Karma verticals have been negatively impacted by macro uncertainty. In the last few weeks of the quarter and into November we saw further deterioration in all verticals. Consumer default rates remain relatively low by historical standards, reflecting strong consumer cash balances coming out of the pandemic. However, we continue to see partners pull back from extending credit reflecting the uncertainty in the economic environment and the risk of deterioration in credit performance. Given this context, Credit Karma revenue came in lower than expected for the quarter. We are lowering our fiscal year 2023 revenue guidance for Credit Karma to a decline of 15 percent to 10 percent, versus our previous guidance of 10 to 15 percent growth. At the same time, we are reiterating our fiscal year 2023 revenue guidance for all other segments, and reiterating our fiscal year 2023 GAAP and non-GAAP operating income and earnings per share guidance. Our ability to maintain earnings power despite the lower Credit Karma revenue guidance shows the power of our diversified platform, and our ability to balance platform and product investments for the future while delivering on our commitments. Regardless of the near-term macro volatility, we remain confident in our long-term revenue growth expectation of 20 to 25 percent for Credit Karma, driven by our vision and innovation to become the self-driving financial platform fueling prosperity for all consumers.

At Investor Day, we shared how our AI-driven expert platform strategy is accelerating our innovation and how our five Big Bets are solving the largest problems our customers face. We continue to deliver strong proof points that demonstrate our success and are well-positioned for durable growth in the future. As a reminder, these Big Bets are:

- Revolutionize speed to benefit
- Connect people to experts
- Unlock smart money decisions
- Be the center of small business growth, and
- Disrupt the small business mid-market

Today, I'd like to highlight examples of our recent progress across three of these Big Bets.

Our first big bet is to "revolutionize speed to benefit." Our platform enables us to innovate for our customers with speed and at scale, which is foundational to all of our other Big Bets. Our evolution from siloed technology stacks to a platform leveraging shared capabilities is well underway. Our development environment enables speed and innovation; engineers now have 6x the velocity of deploying code, resulting in accelerated innovation compared to 2020. Our AI and fintech capabilities are well-positioned to solve our customers' biggest problems, such as our money innovations across payments and payroll, advancements in TurboTax Live, QuickBooks Live, and QBO Advanced, just to name a few. And we're doing that today, with over 730 million AI-driven customer interactions per year, 2 million AI models in production, 58 billion machine learning predictions per day, and $465 billion in money moved during fiscal year 2022.

Our second big bet is to "connect people to experts." We are solving one of the largest problems our customers face - lack of confidence - by connecting people to experts virtually. During the October tax peak, our team launched a record 50 innovations to test and learn. Our learnings have helped us transform our go-to-market campaign for the assisted segment, revamp the end to end TurboTax Live platform experiences with faster access to money via Credit Karma, and better serve the investor, Latino, and self-employed segments. We are looking forward to the upcoming season.

Our fourth big bet is to “become the center of small business growth” by helping our customers get customers, get paid fast, manage capital, pay employees with confidence and grow in an omnichannel world. With Mailchimp, we are well on our way to becoming the source of truth for our customers to help them grow and run their business. We have three acceleration priorities with Mailchimp:

- First, delivering on our vision of an end-to-end customer growth platform,
- Second, disrupting the mid-market, by developing a full marketing automation, CRM and eCommerce suite; and
- Third, accelerating global growth with a holistic go-to-market approach.

This quarter, we launched a new brand campaign, refreshed our website, and launched an improved first-time use experience for new customers that helps them more quickly find and use the features that align with their unique business needs. We also launched a one-hour, assisted onboarding process for high-value Mailchimp customers, with the goal of guiding these customers to more advanced features to increase awareness and usage. This program was launched in a record four weeks, by leveraging components of our virtual expert platform, another example of the power of Intuit platform capabilities. As a result of these enhancements and others, we are seeing a positive impact on customer growth and expansion, and a lift in customers converting to paid.

Turning to our money portfolio, we have made a tremendous investment over the past few years to expand our suite of money offerings to help small businesses get paid, pay others, access capital and manage their money. We continue to see strength in our charge volume driven by easier discovery, auto-enabled payments, instant deposit, and Get Paid Upfront. This quarter we made it even easier for more customers to access their cash quickly, by removing friction and opening the funnel to more customers. We are also rolling out a new invoicing experience with a more streamlined workflow and improved design, which is driving an increase in the percentage of companies that send payment enabled invoices.

Looking ahead, we're tackling another big challenge for our small business customers, B2B payments. More than $2 trillion of invoices were managed in QuickBooks in fiscal year 2022. As we shared at Investor Day, we are launching the QuickBooks Business Network which connects small business customers to each other, making it easier for them to do business. It is currently in beta testing, and we expect to launch more broadly later this fiscal year. We are also building our own bill pay functionality in QuickBooks, and plan to launch this capability in the future. We are excited about our opportunities for growth with Mailchimp and payments, becoming the center of small business growth.

Wrapping up, we feel confident in our long-term business strategy and the power of our platform. In an uncertain macro environment, the benefits of our global financial technology platform are more important and more mission-critical than ever to our customers. We have a large TAM with low penetration, secular shifts working in our favor, a diversified, large-scale platform, where we continue to invest heavily in innovation across our five Big Bets to deliver benefits for our customers, resulting in top-line growth and margin expansion. We are proud to be an employer of choice, as well as the financial technology platform of choice for over 100 million customers around the world who rely on Intuit to prosper.

Now let me hand it over to Michelle.

Financial Results and Segment Details

Thanks, Sasan.

For the first quarter of fiscal 2023, we delivered:

- Revenue of $2.6 billion.
- GAAP operating income of $76 million, versus $195 million last year.
- Non-GAAP operating income of $662 million, versus $555 million last year.
- GAAP diluted earnings per share of $0.14, versus $0.82 a year ago.
- And non-GAAP diluted earnings per share of $1.66, versus $1.53 last year.

Business Segment Results

Turning to the business segments:

Small Business and Self-Employed Group

In the Small Business and Self-Employed Group, revenue grew 38 percent during the quarter and 19 percent on an organic basis, excluding $264 million in Mailchimp revenue. Online ecosystem revenue grew 60 percent in Q1, or 28 percent excluding Mailchimp.

With the goal of being the source of truth for small businesses, our strategic focus within the Small Business and Self-Employed Group is three-fold: grow the core, connect the ecosystem and expand globally.

- First, we continue to focus on growing the core. QuickBooks Online accounting revenue grew 29 percent in Q1, driven mainly by customer growth, higher effective prices, and mix-shift.
- Second, we continue to focus on connecting the ecosystem. Online services revenue - which includes Mailchimp, payroll, payments, capital and time tracking - grew 109 percent in Q1. Excluding Mailchimp, online services revenue grew 28 percent.

    - Mailchimp revenue included in online services was $264 million, up low-teens versus a year ago, in-line with our expectations.
    - Within payroll, revenue growth in the quarter reflects an increase in payroll customers and a mix-shift to higher end offerings.
    - Within payments, revenue growth reflects an increase in charge volume per customer and ongoing customer growth.
- Third, we continue to make progress expanding globally, and we began to execute our refreshed international strategy, which includes leading with Mailchimp. On a constant currency basis, total international online ecosystem revenue grew 172 percent in Q1, and 19 percent on an organic basis excluding Mailchimp.

Desktop Ecosystem revenue grew 7 percent in the first quarter. As a reminder, the subscription model for our desktop accounting solutions makes this revenue more predictable, and we raised our desktop prices for several products in September to more closely align with QBO pricing.

QuickBooks Desktop Enterprise revenue grew mid single digits during the quarter. We continue to expect the online ecosystem to be our growth catalyst going forward.

Credit Karma

Moving on to Credit Karma, revenue grew 2 percent to $425 million in Q1. This was below our expectations of mid-single digit growth we shared at Investor Day, due to further deterioration in all verticals the last few weeks of the quarter.

On a product basis, revenue growth was driven primarily by credit cards offset by headwinds in personal loans, home loans, auto insurance and auto loans. As the macro environment continues to remain uncertain, we are seeing an impact across all verticals. Sasan touched on this briefly earlier, but let me unpack what we are seeing:

- In credit cards, many financial institution partners have tightened eligibility, particularly in riskier segments.

- In personal loans, we saw continued pressure, with many partners tightening eligibility further while increasing APRs. We continue to expect personal loan revenue to decline this year after very strong growth in fiscal 2022.

As a result, we are reducing our fiscal 2023 Credit Karma revenue guidance to a decline of 15 percent to 10 percent. This embeds the current trends we are seeing and additional conservatism in the remainder of the year despite the expected continued roll-out of several new innovations.

Consumer and ProTax Groups

Consumer Group revenue was $150 million, reflecting a strong finish to the tax season. We remain focused on transforming the assisted category of the tax prep market as we head into the next tax season. We are focused on making TurboTax a compelling destination for filers who prefer assistance to complete their taxes accurately and quickly. Turning to the ProTax Group, revenue of $34 million was in-line with our expectations.

Financial Principles and Capital Allocation

Our financial principles guide our decisions, remain our long-term commitment, and are unchanged.

- We finished the quarter with approximately $2.7 billion in cash and investments and $7.0 billion in debt on our balance sheet.
- We repurchased $519 million of stock during the first quarter. Depending on market conditions and other factors, our aim is to be in the market each quarter.
- The Board approved a quarterly dividend of $0.78 per share, payable January 18, 2023. This represents a 15 percent increase versus last year.

Playbook for Operating in an Uncertain Macro Environment

As I shared last quarter, we have an operating system we use to run the company, and this includes a proven playbook for operating in both good and difficult economic times. Our first priority is to do the right thing for customers, giving them access to the tools and offerings they need most. We manage for the short and long term, and control discretionary spend to deliver strong results, while investing in what is most important for future growth. The scale of our platform, along with our rich data, gives us the unique ability to see leading indicators that allow us to be forward looking and adjust quickly.

As Sasan shared earlier, we are reiterating our operating income and earnings per share expectations for fiscal year 2023 despite our lower revenue expectations for Credit Karma. We are able to do this by reducing spend in areas where we expect to see lower returns near-term. Last quarter, I mentioned we identified several levers we can pull to deliver against our financial principles in a variety of scenarios, and the adjustments we have made are an example. Given the breadth of our offerings and the power of our diversified platform, we have the ability to maintain earnings power despite our expectation for lower Credit Karma revenue. At the same time, we have the ability to make the necessary platform and product investments for the future while delivering on our short and long term commitments. We also have a strong balance sheet that enables us to play offense. We will continue to accelerate our innovation, and our goal remains for Intuit to emerge from this period of macro uncertainty in a position of strength.

Fiscal 2023 and Q2 Guidance

Moving on to guidance. For fiscal 2023, we are lowering our revenue guidance for Credit Karma as trends in all verticals further deteriorated in the last few weeks of the quarter and into November. We now expect revenue to decline 15 percent to 10 percent, versus our previous guidance range of 10 to 15 percent revenue growth. We are reiterating our revenue expectations for all other segments, and now expect total company revenue growth of 10 to 12 percent, versus the previous range of 14 to 16 percent. For the Small Business and Self-Employed Group, we continue to expect 19 to 20 percent revenue growth, and for the Consumer Group, we continue to expect 9 to 10 percent revenue growth. In both businesses, we expect the majority of our growth this year to come from customer growth and mix.

We are reiterating our GAAP and non-GAAP operating income and earnings per share guidance for fiscal 2023. This demonstrates the resiliency of our diversified platform and business model. So to recap, for fiscal year 2023, we expect:

- Total company revenue growth of 10 to 12 percent;
- GAAP operating income growth of 9 to 13 percent;
- Non-GAAP operating income growth of 17 to 19 percent;
- GAAP diluted earnings per share to decline approximately 5 to 1 percent; and
- Non-GAAP diluted earnings per share growth of 15 to 17 percent.

Our guidance for the second quarter of fiscal 2023 includes:

- Revenue growth of 8 to 9 percent,
- GAAP loss per share of $0.29 to $0.23, and
- Non-GAAP earnings per share of $1.41 to $1.45.

You can also find our full fiscal 2023 and Q2 guidance details in our press release and on our fact sheet.

With that, I'll turn it back over to Sasan.

Closing Comments (Sasan)

As you have heard from Michelle and I, we are seeing continued momentum as a result of our strategy of being a global AI-driven expert platform, growing Intuit double digits with margin expansion. With our accelerated organic innovation and the additions of Credit Karma and Mailchimp, we are the leading global financial technology platform that powers prosperity for people and communities. Let's now open it up to your questions.

Closing Comments After Q&A

Thank you everyone for your time and questions today. We are proud of what we've accomplished, and the speed with which we continue to deliver new innovations to help our customers.

I would like to close by thanking our employees, customers and partners for another strong quarter.

Cautions About Forward-looking Statements

These materials contain forward-looking statements, including expectations regarding: forecasts and timing of growth and future financial results of Intuit and its reporting segments; the impact of macroeconomic conditions on our business, segments and products; Intuit's prospects for the business in fiscal 2023 and beyond; Intuit's growth outside the US; timing and growth of revenue from current or future products and services; demand for our products; customer growth and member engagement; Intuit's corporate tax rate; changes to our products and their impact on Intuit's business; the amount and timing of any future dividends or share repurchases; availability of our offerings; and the impact of acquisitions and strategic decisions on our business; as well as all of the statements under the heading "Fiscal 2023 and 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 risks and uncertainties may be amplified by the effects of global developments, conditions or events like inflationary pressures, the Russia-Ukraine war and the COVID-19 pandemic, which have caused significant global economic instability and uncertainty. These factors include, without limitation, the following: our ability to compete successfully; potential governmental encroachment in our tax businesses; our ability to adapt to technological change; our ability to predict consumer behavior; our reliance on third-party intellectual property; our ability to protect our intellectual property rights; any harm to our reputation; risks associated with acquisition and divestiture activity, including the integration of Credit Karma and Mailchimp; the issuance of equity or incurrence of debt to fund an acquisition; 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; our failure to process transactions effectively; interruption or failure of our information technology; our ability to maintain critical third-party business relationships; our ability to attract and retain talent; any deficiency in the quality or accuracy of our products (including the advice given by experts on our platform); any delays in product launches; 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; the seasonal nature of our tax business; changes in tax rates and tax reform legislation; global economic conditions (including, without limitation, inflation); exposure to credit, counterparty and other risks in providing capital to businesses; amortization of acquired intangible assets and impairment charges; our ability to repay or otherwise comply with the terms of our 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 2022 and in our other SEC filings. You can locate these reports through our website at http://investors.intuit.com. Fiscal 2023 full-year and Q2 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. Except as required by law, we do not undertake any duty to update any forward-looking statement or other information in this presentation.