

Company Name: Intuit  
Company Ticker: INTU US  
Date: 2018-02-22  
Event Description: Q2 2018 Earnings Call

Market Cap: 53,239.50  
Current PX: 207.49  
YTD Change(\$): +49.71  
YTD Change(%): +31.506

Bloomberg Estimates - EPS  
Current Quarter: 0.231  
Current Year: 5.527  
Bloomberg Estimates - Sales  
Current Quarter: 953.154  
Current Year: 5928.733

## Q2 2018 Earnings Call

### Company Participants

- Jerry Natoli
- Brad D. Smith
- Michelle Clatterbuck

### Other Participants

- Michael Nemeroff
- Ross MacMillan
- Walter H. Pritchard
- Brent Thill
- Kash Rangan
- Scott Schneeberger
- Adam Holt
- Keith Eric Weiss
- Sterling Auty
- Jesse Hulsing
- Kirk Materne
- Michael Millman
- Raimo Lenschow
- Siti Panigrahi
- Brad Robert Reback
- James MacDonald
- Jennifer Swanson Lowe

## MANAGEMENT DISCUSSION SECTION

### Jerry Natoli

#### *GAAP and Non-GAAP Financial Measures*

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

### Brad D. Smith

#### *Business Highlights*

##### *Revenue Growth*

- We're midway through the FY, and we are encouraged by our performance so far

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- Second quarter revenue grew 15% overall, fueled by 19% revenue growth in the Small Business & Self-Employed Group and 12% revenue growth in the Consumer Group
- While the tax season started out slower than we expected, we remain on pace to deliver against our full-year revenue and operating income outlook

### ***Net Income and EPS***

- We expect our net income and our EPS for the full year to be above our original expectations as a result of the corporate tax legislation changes
- This was reflected in our updated guidance on February 9
- We'll talk more about that in a minute
  - But first things first, let's talk about tax
- Every tax year is different, and this season is no exception
- The IRS officially opened the start to the tax season on January 29, which is about a week later than last year
- Even with the delayed opening, we've come out of the gate strong
- The delayed opening did shift some revenue and operating income from our second fiscal quarter into our third, which led us to update our outlook for Q2 while reaffirming our full-year revenue and operating income guidance

### ***Consumer Business***

- As a reminder, there are four key drivers behind our Consumer business
- The first is the total number of returns filed with the IRS
- The second is the percentage of those returns filed using do-it-yourself software
- The third is our share within the DIY software category
- And the fourth is the average revenue per return

### ***DIY Category***

- The IRS data through February 16 shows total e-filed returns are down 1%
- Self-prepared or do-it-yourself e-files grew 1%, and assisted e-files are down 4%
- In comparison, TurboTax e-file returns through the same period grew 2%
  - While the DIY category is performing better than assisted, we are once again holding our own within the category

### ***Product Innovation***

- And product innovation is the key to our strategy
- Let me share a few examples
- We improved the TurboTax customer experience again this year by further automating data entry, improving the onboarding experience, and simplifying the help function by leveraging artificial intelligence and machine

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learning

- TurboTax Self-Employed is a part of our lineup again this season, targeting approximately 4mm self-employed who use TurboTax
- TurboTax Self-Employed also comes with a 12-month subscription to QuickBooks Self-Employed, so these customers can benefit from tracking their financials throughout the year

### ***TurboTax Live***

- We also introduced TurboTax Live, leveraging one-way video technology, enabling our customers to access an expert to answer those nagging questions that erode confidence when completing a return on their own
- We've built an end-to-end expert platform that enables approximately 2,000 certified public accountants and enrolled agents to serve our customers
- This has opened up the nearly \$20B assisted market to Intuit, providing an opportunity to grow our dollar share of the tax prep market while increasing our average revenue per return

### ***New Turbo Offering***

- Finally, we launched our new Turbo offering last month, our first step toward expanding beyond a tax offering to a consumer platform
- Turbo provides customers a full view of their overall financial health by combining a credit score, verified income data, and a debt-to-income ratio to show customers where they truly stand
- Customers have the option to transfer their tax data into a Turbo account when they complete their return this season
- With these innovations, we expect two of the four key drivers that I mentioned earlier, do-it-yourself category growth and increased revenue per return, to propel our business this season

### ***Small Business***

- Now turning to small business, we delivered another strong quarter in our Small Business & Self-Employed Group
- QuickBooks Online subscriber growth continued at a rapid pace and online ecosystem revenue grew 39%
- We exited the quarter with over 2.8mm QuickBooks Online subscribers, a 51% increase y-over-y
- And growth remained strong across the geographies, with U.S. subscribers growing 47% to approximately 2.2mm and international growing 69% y-over-y to about 630,000 subscribers
- Within QuickBooks Online, Self-Employed subscribers grew to roughly 490,000
  - That's up from 425,000 last quarter and 180,000 one year ago

### ***Capital***

- We continue to focus on delivering innovation that delights our customers and drives QBO subscriber and online ecosystem revenue growth
- Let me share a few examples

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- We're putting more money in our customers' pockets and providing access to capital for small businesses
- Today, only 20% of small businesses have access to the funding that they need to grow
- We're leveraging our innovative model to enable small businesses to use the QuickBooks data to get full credit for their business performance and gain access to much-needed capital
  - We're also harnessing the power of data so that our customers experience little to no work when using our products
- For example, we're automating expense categorization, and we're putting a voice-driven virtual assistant in the palm of their hand

### ***Global QBO Net Promoter Score***

- Finally, we're helping our customers make decisions with complete confidence by matching them with an accountant and by making it easier to onboard workers, whether those workers are employees or contractors
- These and other innovations have enabled us to achieve a global QBO Net Promoter Score that is 10 points higher on average when compared to the next best alternative in the market

### ***QuickBooks***

- Following our playbook, which is grounded in this evidence of a strong product market fit, we have now leaned into marketing and launched a new brand campaign, QuickBooks Backing You
- We're encouraged by the early data we're seeing with respect to the campaign's impacts on both QuickBooks brand awareness and driving more prospective customers to our website

### ***Merger and Acquisition Strategy***

- We also completed three acquisitions this quarter, aligned with our merger and acquisition strategy to pursue opportunities that enhance product functionality and grow our employee talent pool
- The largest of these is a time tracking solution called TSheets, which has been one of the most popular apps on Intuit's open platform
- Our long-term partnership over more than seven years gave us a front row seat to see how TSheets was addressing customers' pain points, so the transaction was a natural evolution of our relationship

### ***Strategic Partner Group***

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

### ***New Corporate Tax Legislation***

- Now before I close, I want to talk about how we're applying our philosophy and our principles to the benefits from the new corporate tax legislation

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- Our philosophy is to build our business for both the short and the long term
- To do that, we invest in talent to deliver for customers and to achieve our strategic priorities while applying our financial principles to assess which investments are best to make

### ***Operating Plan***

- When we look at where we are today, we believe our FY2018 operating plan already includes the right mix of investments in employees, technology, and product development to benefit our customers
- Therefore, as a result of the lower tax rate for FY2018, we increased our GAAP EPS guidance by \$0.20, and we increased our non-GAAP EPS guidance by \$0.40
- We'll continue to assess investment opportunities when we engage in our long-term planning this summer and as we create our game plan for FY2019 and beyond

### ***Summary***

So putting a bow around the quarter, it's halftime in FY2018

We remain on a strong path

We're pleased with the continued momentum of our Small Business & Self-Employed Group, and we remain laser-focused on executing with excellence as we sprint towards the April 17 tax filing deadline

## **Michelle Clatterbuck**

### ***Financial Highlights***

#### ***Revenue, GAAP Operating Income and Tax Charge***

- For Q2 FY2018, we delivered revenue of \$1.2B, up 15% y-over-y
  - GAAP operating income of \$20mm, vs. \$22mm a year ago; non-GAAP operating income of \$120mm, vs. \$106mm last year; GAAP loss per share of \$0.08, vs. diluted EPS of \$0.05 last year
- This GAAP loss reflects \$39mm tax charge related to the remeasurement of our net deferred tax assets, as described in our press release
- And non-GAAP diluted EPS of \$0.35, up from \$0.26 last year

#### ***Consumer Group***

- Consumer Group revenue was \$334mm for Q2
- Brad has already walked you through our analysis of the season so far
- TurboTax e-filed returns grew 2% through February 16, outperforming e-files in the DIY category, which grew 1% in the same period
- We remain confident in our overall plans for the year and for Consumer revenue to grow 7% to 9% in FY2018

#### ***Strategic Partner Group***

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- Strategic Partner Group reported \$95mm of professional tax revenue for Q2
- We continue to expect revenue in this business to grow 0% to 2% in FY2018

### ***Small Business & Self-Employed***

- Total Small Business & Self-Employed revenue grew 19% in the quarter
- QuickBooks Online subscriber growth remained strong at 51%, ending the quarter with 2.8mm subscribers
- Online ecosystem revenue accelerated to grow 39% in Q2, up from 35% in Q1
- Online accounting continues to drive this revenue growth

### ***QuickBooks Online Subscriber Growth***

- As we said last quarter, we expect y-over-y QuickBooks Online subscriber growth to slow in H2, following the introduction of the Self-Employed bundle last tax season
- We remain confident in our outlook for growth in QuickBooks Online subscribers, as reflected in our FY2018 guidance of 3.275mm to 3.375mm subscribers
  - We also continue to expect Online ecosystem revenue to grow better than 30%

### ***Desktop Ecosystem***

- Desktop ecosystem revenue grew 9% in the quarter, driven by QuickBooks Enterprise strength
- QuickBooks Desktop units fell 15%
- For FY2018, we expect QuickBooks Desktop units to decline mid-teens and Desktop ecosystem revenue to be up mid-single digits

### ***Leveraging***

- As Brad mentioned, when considering how to leverage the benefits from tax legislation changes, we apply our philosophy of building our business for both the short and long term and then follow our financial principles
- As a reminder, we updated our FY2018 guidance earlier this month, based upon these principles flowing through the benefits of tax legislation changes

### ***GAAP Diluted EPS***

- Our guidance includes GAAP diluted EPS of \$4.20 to \$4.30, an increase of 13% to 16%
- This is based on a GAAP tax rate of 26% and reflects the remeasurement of our net deferred tax assets discussed earlier
- Our guidance also includes non-GAAP diluted EPS of \$5.30 to \$5.40, an increase of 20% to 22%
  - This is based on a non-GAAP tax rate of 27%

### ***GAAP and Non-GAAP Tax Rate***

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- Beyond FY2018, we estimate our GAAP and non-GAAP tax rates to be roughly 23%
- We'll continue to apply our financial principles going forward, as we take a disciplined approach to capital management
- As a reminder, those principles are, investing in the business to drive customer and revenue growth, targeting opportunities returning 15% or more over five years
  - Using acquisitions to accelerate our growth and fill out our product roadmap
  - And returning cash that we can't invest profitably in the business to shareholders via both share repurchases and dividends
- We'll continue to assess investment opportunities as we revisit our long-term plan this summer

### ***Cash and Investments***

- We finished the quarter with \$726mm in cash and investments on our balance sheet
- We repurchased \$83mm of shares in Q2
- Approximately \$1.3B remains on our authorization
  - We completed three acquisitions with cash and other consideration totaling approximately \$400mm
- The board approved a quarterly dividend of \$0.39 per share payable April 18, 2018, an increase of 15% over last year
- Our third quarter FY2018 guidance includes revenue growth of 10% to 12%, GAAP diluted EPS of \$4.32 to \$4.37, and non-GAAP diluted EPS of \$4.57 to \$4.62
- You can find our Q3 and FY2018 guidance details in our press release and on our fact sheet

## **Brad D. Smith**

### ***Q2 Highlights***

#### ***One Intuit Ecosystem Strategy***

- As we shared with all of you at Investor Day in September, we've entered the next chapter of our company's evolution, in service to our new mission of powering prosperity around the world
- This chapter is being driven by our One Intuit ecosystem strategy that unlocks the power of the many for the prosperity of each and every one of our individuals who are participating on our platform
- Said another way, our assets and our customers are stronger when working together than they are apart

#### ***Intuit Giant***

- In support of this ecosystem strategy, we launched our first ever Intuit brand campaign, which debuted just a few weeks ago
- The early results have exceeded our expectations
- If you haven't been introduced to the Intuit Giant, it's a metaphor for how Intuit's ecosystem unlocks the power of many for the prosperity of one, helping our customers rise to new heights through the combined power of



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TurboTax, QuickBooks, and Mint, and I encourage you to check it out on YouTube if you get a minute

- With that, we're pleased with our results through H1, but we still have plenty of time left on the clock as we enter the back half of the FY, so we remain focused on execution until that final whistle blows

## QUESTION AND ANSWER SECTION

**<Q - Michael Nemeroff>**: Brad, would you mind giving us maybe some hard data around the TurboTax Live offering and how that's tracking vs. your expectations, and whether you need to maybe tweak the go-to-market strategy, the pricing of the product, or the marketing around it?

**<A - Brad D. Smith>**: Thanks, Michael. First of all, we're very encouraged, although it's still early days for TurboTax Live. As you know, it tends to be more simple filers in the early part of the season and then those who get a little more complicated towards the back half. But so far, coming out of the gate, we're delighted with the customer feedback on TurboTax Live as well as the experts that are actually manning the platform and answering the questions.

And in terms of any adjustments in go-to-market, we have multiple tests running at the same time. But so far, there is no need to pivot. We actually like what we're seeing, and we're looking forward to the back half of the season.

**<Q - Ross MacMillan>**: Brad, actually two, if I can. Just following-on on that TurboTax Live, I think this year you said that it probably is going to be more aimed at mitigating some their churn you see from folks that have life events or other reasons that they would move off from TurboTax. I was just curious as to when you think about that opportunity, I think it's 3mm churn off a year. Can you maybe parameterize what would be a good result in terms of keeping would-be churners through TurboTax Live? Do you have any views on how you would view a good event vs. a bad event? And then I had one follow-up.

**<A - Brad D. Smith>**: Okay. Thanks, Ross. So let me tackle the first one. You're right, the strategic context for why we launched TurboTax Live has two parts. The first is we lose about 3mm customers a year to an assisted method, and it's primarily because they had a question where they lost confidence and felt like they needed to go to someone who could help them through it. The second opportunity and perhaps the bigger is there are tens of millions of people who go to an assisted tax prep method today who also have one simple nagging question that, if they knew they had access to an expert, they would be willing to file their taxes basically with a self-prepared product like ours.

So if you step back, the first part of your question, which is retention, we would look at the retention improvement. And we would ask ourselves, are we retaining more customers than we were in the prior year now that we have TurboTax Live? Are we stopping some of the 3mm from leaving? The other one which you'll look at is as we look at growing new users, how many of those users came from an assisted tax prep method last year. And those are really the two primary drivers we're looking at in terms of growth. Of course, we look at Net Promoter for both the tax filer and the pro to see if the quality of the experience is where it needs to be.

**<Q - Ross MacMillan>**: Great, that's helpful. And then maybe just a quick one on the Self-Employed net adds. It's slightly down y-over-y, but I assume there's some impact from TurboTax Self-Employed and the fact that the tax season has got off to a later start. So does that imply a similar pattern that we would see a little bit of that seasonality more pronounced in Q3 for the Self-Employed adds this year?

**<A - Brad D. Smith>**: First of all, we're excited about Self-Employed. As you know, we've been expanding it into new markets. 490,000 subs this year vs. 180,000 a year ago is some pretty strong growth. We have been trying to set expectations that we're now starting to grow over last year's introduction to this big TurboTax Channel as well as the fact that we're really starting to get our sea legs on the offering itself. So we're growing over some strong numbers.

That does not diminish our belief that the Self-Employed product is going to be a real growth driver in the future. But I do believe you're going to start to get some tough compares. And your point is a very strong hypothesis. The fact that we're opening up a week later and yet growing over some numbers from last year in Self-Employed could be part of what you see in terms of slowing down that growth rate a little bit.



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**<Q - Walter H. Pritchard>**: Similar question, Brad, on the Self-Employed. I'm wondering if you could talk about – I think you're probably starting to renew some of those folks that signed on a year ago with TaxAttack. Can you talk about what you're seeing there? And then I had a follow-up as well for Michelle.

**<A - Brad D. Smith>**: Sure, Walter. It's still fairly early because that subscription from last year runs through April 30. However, we have leading indicators and cohort analysis that tells us that our aspirations for retention are being met and quite frankly, slightly exceed it at this point. But we'll know more as we get through the rest of the tax season. So we'll share some of that data once we get through tax season and go into Investor Day. But right now, it is a green light from our perspective.

**<Q - Walter H. Pritchard>**: Got it. And then for Michelle, just on cash flow, you note the increase in the earnings range for the year based on tax. I know you don't guide cash flow. But would it be fair to say we would see a commensurate increase in cash flow based on what's happening on the tax side, or is it not really a cash impact, more of a P&L impact for the year?

**<A - Michelle Clatterbuck>**: You are exactly right. You're right, we don't actually guide that. But that's right, it does make sense that you would see an increase there on the cash flow side. It's not just the P&L.

**<Q - Brent Thill>**: Hi, Brad. Anything new competitively that you're sensing and feel that maybe you haven't seen historically? I'm just curious if you could give us – I know it's really early, but any changes this year that you're detecting.

**<A - Brad D. Smith>**: Yes, Brent. First of all, the competition, as we always say, we have a lot of respect for them. They have great leaders, good products, strong brands, and everyone is continuing to innovate and trying to reimagine how to help these customers file taxes in a frictionless way. And so every year is a little different. We're seeing fresh advertising campaigns. We're seeing changes to products. We're seeing people start to move into this hybrid between do-it-yourself and having an expert, and it really comes down to who does that the best and has the highest quality product experience.

But to be frank with you, we have hypothesized that that would be the actions others would be taking, and of course, we've been moving that path as well. And so there really hasn't been a massive gosh, we didn't see that coming. But that's not to take away from our competition. They're doing a good job, and we have to stay on our toes and continue to do better.

**<Q - Brent Thill>**: And on the M&A side, three acquisitions for you in the quarter. You haven't really been known as an acquisition machine, and that is a step up as it relates to what you've been doing. Is this a change in tone from your direction going forward in how you're thinking about doing deals, or does this just happen to be in one quarter and these are smaller tuck-ins and we shouldn't really read into this?

**<A - Brad D. Smith>**: I think it's the latter, Brent. We've always said that we would look at organic and inorganic opportunities, whether they're strategic partnerships like we work with Stripe or other companies or they would be acquisitions like the three we did this quarter.

We have learned some lessons from our scar tissue. The best acquisitions we can do either bring talent in that we need, like data scientists and designers and mobile engineers, or they fill out a feature gap that we have in one of our core products that accelerates our time to market. And the three acquisitions we did this quarter did both of those things.

And the neat thing about it is as a platform now, we've learned that we don't have to do a spreadsheet to decide if it will be successful. We can actually look at how well the partnership has worked in the market, and that derisks the acquisition, and that's what we did with TSheets. We actually studied them for seven years, and we were a partner with them for a pretty long time.

So I think we have a more informed M&A strategy. But I wouldn't look at three in a quarter as being a predictor for how aggressive we're going to be with acquisitions. I think we're just going to continue to take advantage of opportunities when they pop up.

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**<Q - Kash Rangan>**: Congratulations, Michelle, on your first investor call. Brad, congrats on the quarter and the outlook. I would like to just ask you a question in regards to TurboTax Live. What is the longer-term play here? Is this potentially something that could disrupt the bricks-and-mortar because I certainly cannot imagine – I've got two young children. I cannot imagine my 11-year-old going to a tax store to do his taxes when he's able to do it – I would presume the whole world is going virtual in many aspects of how we do business and even our personal lives.

So what is the longer-term play here? What are you going for? Is this a home run kind of an opportunity for Intuit, or is this something that you're going to slowly and incrementally improvise, improvise, and improvise and see how this thing goes with respect to the broader ambition of Intuit's unlocking the broader tax prep market and making it really DIY or assisted/assistant? Thank you.

**<A - Brad D. Smith>**: Thank you, Kash, and thank you for calling out Michelle being on the call. It's great to have her. And she and Neil [Williams] did a wonderful job in the transition. It has truly been seamless inside the company.

You really hit the high points there. TurboTax Live we believe has the potential to be transformational. It's happening across multiple industries, where you provide a platform that reduces friction between the interaction of different parties. And we have tax professionals who are looking for the chance to have many more prospects to serve, and we're looking for many people who are looking for access to an expert if and when they need it, and making that a more flexible option as opposed to a binary decision.

In the past you had to say I'm going to an expert or I'm going to try and do it myself. Now you can actually get into the platform and you can go as far as you need to. And then if you need a little help, you can have an expert at the click of a button. And if you want, an expert can eventually take over the return if you just don't want to have to bother with it. So I think this is going to be a fundamental potential game-changer.

And then the question is going to be how are we going to go after it. We went after it pretty aggressively this year. We took last year's SmartLook technology and this year we scaled the platform with over 2,000 experts. I think we're going to get a ton of learning this year, and that learning will inform how much more aggressive we would go after it in the coming years. But I would suffice it to say we think we're on something here. We like the results, and we're just going to continue to lean in, and we'll learn as we go.

**<Q - Scott Schneeberger>**: Brad, just curious your thoughts on the late start again to the tax season. Do you think it's PATH [Protecting Americans from Tax Hikes Act]? Do you think it has something to do with uncertainty around tax reform and customer mindsets? I was just curious on the behavioral view there. Thanks.

**<A - Brad D. Smith>**: I would say, Scott, to a large extent, it was just the fact that the gates weren't open until six days later. We've seen a pretty strong volume uptick. As you could see, the IRS has gone from their first numbers now down just 1%. And of course, we've been picking up steam too. And right now we're in an e-file perspective up about 2 points. And that's above the category and the overall number of returns. And I think that momentum has continued to pick up.

I think last year was a learning curve that most people got behind then on the PATH Act. So I think this is really primarily just the fact that the season got opened up about a week later than last year.

**<Q - Scott Schneeberger>**: Okay, thanks for that. And then there were some rate increases in Deluxe and Premier this year online. I know you're probably not going to share too much. But with each of the tiers that you offer, are you happy? Anything surprising? Do you like the retention levels? Anything good, bad, or otherwise, specifically by tiers in TurboTax this year? Thanks.

**<A - Brad D. Smith>**: Yeah. Thanks, Scott. So far, so good. We had a game plan that we mapped out in August. We ran some scenarios through third peak, which is October for those that don't speak tax lingo. It's those last filers.

And we went into this year with some choices we made, where we were able to price for value, where we felt like we had untapped value in the product. And in other places, we went more aggressive in free, which you've seen with some of our TV ads and our digital ads.

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And we like how the season is playing out. So there isn't anything that I would say is a warning flag for us. So far, if we just keep executing, we're feeling pretty good about the season.

**<Q - Adam Holt>**: And, Michelle, I'll echo the congrats and the welcome. I had two questions, one for Brad and one for Michelle.

Brad, for you, if we look at the tax business in the quarter, obviously units were weaker. But you were still able to grow 12%, which by my quick math would suggest that average selling prices were up quite a bit year on year, possibly even as much as 20%. Could you talk a little bit about what was behind that, given your comments earlier about the complexity this season really accruing to the back end? How are ASPs so good, and what does that portend for the rest of the season? And then one for you, Michelle.

**<A - Brad D. Smith>**: Sure. Thanks, Adam. First of all, as I had mentioned in my opening comments, we feel this year's drivers will be primarily category growth, which will grow the pie of customers and our opportunity to try to grow share.

And then the second is going to be average revenue per return. And average revenue per return is going to be a factor of a few things. How many of prior-year paid customers did we win back? So did we retain those customers that we might have lost to unassisted by having something like TurboTax Live, so we retain paying customers.

The second, did we win paying customers from others? And then the third is do they move up our product lineup, up to and including TurboTax Live, which you know is somewhere between \$150 and \$180 in terms of the revenue per return?

So it's that factor right now that's driving our strong revenue growth. And I know when we gave guidance this year and we talked about 7% to 9%, there was some worry about do we have enough gas in the tank to do that, given last year's unit growth? We believe we do. That's why we reaffirmed our guidance.

We think that right now, because we have a healthy mix of paid customers, we have a good product lineup in the upper end of our product SKUs, and we also have TurboTax Live that we can continue to sustain strong revenue per return growth. And we're going to also continue to go aggressively after customers.

**<Q - Adam Holt>**: That's terrific. And then for Michelle, if I look at Q3 operating income and earnings guidance, you made the comment that you had some operating income that shift from Q2 into Q3, which should be additive. But it looks like you're actually guiding operating margins down on a year-on-year basis. Can you reconcile those two elements? And maybe walk us through the guide for Q3 on the operating income side?

**<A - Michelle Clatterbuck>**: Adam, thanks for the question. To put it shortly, I wouldn't get too wrapped up around the quarter. It really is – yes, we have had some revenue in the tax business that shifted from Q2 to Q3. Of course then not all the costs shift from Q2 to Q3. Some of those remained in Q2.

And so I really wouldn't get too concerned about the various quarters. I'd focus on the full year. And we feel very confident in the full-year guide that has been reaffirmed for this year.

**<A - Brad D. Smith>**: Yeah. And, Adam, I'll just put a fine point on what Michelle said, because it really is seasonal shifts. And I will tell you, we've been tracking. Some have been a little overly aggressive in how much they thought would shift from Q2 to Q3. Others might have been a little conservative. And I'd say we're in the sweet spot in the middle there.

But if you look at the full year, our game plan is to continue to deliver that revenue and operating income that we guided when we set out the year and we reaffirmed again at Investor Day. And that includes a little bit of operating leverage, a little bit of margin expansion.

Now we said we're going for operating dollar growth, not margin growth. But with that, we do see a little chance here to continue to get a little operating leverage. So that quarter-to-quarter shift is going to be optically a little misleading. So back to Michelle's point, focusing on the full year is probably the best thing we could have everybody do right now.

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**<Q - Keith Eric Weiss>**: Digging in on the margins a little bit, this is the first year of really having a big effort behind TurboTax Live. Is there any appreciable impact on margins that we should be thinking about into Q3 as you ramp up that effort?

And the second question on margins is with the recent M&A, I'm assuming that it's probably pretty small revenues and probably not really material. Is there any materiality in terms of the expense that we're adding into the equation with that M&A?

**<A - Brad D. Smith>**: Got it. Thanks, Keith. I'll start with the TurboTax Live margins. And say, no, there isn't going to be a meaningful impact. Couple reasons, one is we manage margin at the company level. And we ask the business leaders to focus on LTV-to-CAC. And then the second is, as you know, we talk about growing our operating income dollars mid-teens. And we often joke inside the company that we take dollars to the bank, not percentages.

So with that being said, TurboTax Live is a higher revenue per return product. And we have a pretty efficient platform we've been able to put out there that hosts over 2,000 experts. So at \$150 to \$180 and then with the pricing model we have with those experts, we do not see this as being margin dilutive to an extent where it's going to bring the overall margin of the business or the company down. So that's TurboTax Live.

In terms of M&A, two of those three acquisitions were really acqui-hires. They were going after talent. And so we were able to get to them efficiently, and what that does is that offsets a recruiting process where we have to go at them one at a time. So that's a really efficient thing, and it wasn't big dollars.

And then basically, what we're getting with the TSheets is there is a slight dilutive effect in terms of how much revenue will hit this particular year because it's a stub year vs. the expense, but it's not enough us to have adjusted our guidance. So we've baked all that into the guidance we've given you for the year.

**<Q - Sterling Auty>**: Just one from my side. You talked about in terms of the QBO sub growth. You reiterated the idea of slowing here in H2 as we lap the Self-Employed. I'm just curious. If you back out the Self-Employed units and just look at the rest of the QBO units, how should we think about the growth dynamics or the growth trends in the rest of that QBO base moving forward?

**<A - Brad D. Smith>**: Sterling, we see them continuing at this point up and to the right. I say that with facts behind it. Our Net Promoter Scores, I have been incredibly excited and impressed with the team as they continue to get at the most nagging problems getting in customers' ways, and they're making improvements to the product. And this Net Promoter Score now on average is a 10-point advantage over the competitors in each of the markets. We have some markets that we're not completely where we want to be, but other markets we are far ahead of a 10-point advantage.

And that gave us enough confidence to lean into a pretty aggressive advertising and marketing campaign, which is really propelling the number of prospects that are coming into the product. So we see QBO core without Self-Employed continuing to grow at an accelerating rate, and then Self-Employed for us is just a greenfield opportunity that's just icing on the cake.

**<Q - Sterling Auty>**: So that growth rate has actually tailed a little bit. So you think it will reaccelerate from these levels?

**<A - Brad D. Smith>**: You know what we have right now. The answer is yes. And there are reasons to believe both in terms of the quality of the product and the go-to-market starting to kick in, which we started back in the fall. As you might imagine, we're getting a little smarter in some of these markets outside the U.S. where we were waiting for product market fit to kick in. And so I think as you look about – and we talk about this business not in the next 90 days, because we're looking at it and looking the next several years, we do see opportunity to continue to accelerate core QBO.

**<Q - Jesse Hulsing>**: Brad, historically you've talked about unit growth being the most important thing for your tax business. But this year, it seems like there's a lot of ARPU levers, and a lot of what you're doing on the product side is moving up market. Is that strategy shifting? Is this becoming more of a move up market, ARPU-driven business over the next few years, or is the way that you think about this business still very focused on underlying unit growth?



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**<A - Brad D. Smith>**: Jesse, it's an insightful question, and the answer is it's an 'and'. We still have a priority that says we want to expand the number of people who have confidence in themselves to file taxes on their own. So that's expand the do-it-yourself category. And in doing that, we want to win our fair share of those, which is customer and unit growth.

But the other thing is we admitted that we've been a little myopic. There's \$20B worth of spend in the assisted tax prep method. And we believe now with a platform that has 2,000 experts answering questions, we can also go after share of dollars, not just share of market.

Now, as you might imagine, when you're in a multiyear strategy, in one given year you may lean more into one area than the other. And so we're fighting right now a very competitive free market while we're trying to go out and disrupt what we think to be a pretty vulnerable assisted market. And so you're starting to see a little more ARPU come in, but that has not changed our strategy, which is we think customer growth continues to be the lifeblood long term. But we think we can do that and grow ARPU at the same time.

**<Q - Jesse Hulsing>**: And then a quick follow-up, if I may. Turbo, the new Consumer platform, how has conversion been into that product from early TurboTax filers? Thanks.

**<A - Brad D. Smith>**: I think your operative word there is early. We still have a lot of season to play, but I will share this. We have been very excited, as have our partners who are already working on the Turbo platform, whether it's ask Marcus or it's Quicken Loans or some of the other partners out there, and we've been in conversations with them.

The quality of the product, the number of people who are opting into the product, and the people who are clicking to transfer data after they've completed their tax return is so far ahead. Right now, it is ahead of the expectations we had, and we're still learning as we go. So right now, I would say it's early days, which is what you referred to. We'll have a better read at the end of the season, but we like the leading indicators.

**<Q - Kirk Materne>**: Brad, I just had one question just on international QBO subscribers. At the Analyst Day, you talked about you're seeing the right type of CAC rates for a lot of these different geographies that you're going after. I was wondering if you can just give us a little bit of an update on how that's going in terms of the cost of going after these subs. And then I was wondering if there's any real difference now that that business has gotten a little bit more critical mass just in terms of the renewal rates on the international base maybe vs. the domestic. Thanks.

**<A - Brad D. Smith>**: Yes, Kirk. So we haven't broken down our LTV-to-CAC beyond what we shared at Investor Day. So I can give you a qualitative and then we'll once again use that annual opportunity to give you an update on the numbers. But our numbers are still blending at around 6.9 for desktop in the U.S. for QuickBooks. And then QBO in the U.S. of 5.5. And if you blend in the global market, it's 4.5. So our LTV-to-CAC is still very healthy, all blended, all in at 4.5.

Each of the individual countries have an individual target depending upon where they are in their maturity curve. Countries that are closer to the U.S., like you may think Canada, have a higher CAC target – or a lower CAC target, a higher LTV-to-CAC ratio than some of these other countries like France and India, where we're in the early days of trying to build the brand to get the product in market. So we haven't broken out that level of detail.

I can tell you this. When you see us lean in and a start to do TV campaigns in markets, which we've done in countries like Australia, the UK, and Canada, that should be a signal that we like the LTV-to-CAC and we're going to continue to invest in marketing. When you don't see us doing that, and I can give you those countries, Brazil, France, and India, that's because we don't feel we have that number where we want it to be yet. We want the product to do more of the work right now.

**<Q - Michael Millman>**: Talking again about TurboTax Live, can you give us some quantification as to – I'm sure you could. Would you give us some quantification as to what you're seeing in terms of retaining those 3mm customers and picking up from the assisted?

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Secondly, just so we have some better grasp of how fast things are improving in the market, tell us what your increase or your change in the latest week was.

And thirdly, could you talk about RAs? Is this the first year you're doing them? How many have you done this year? What does it cost you to do them, and anything else? And why haven't you gone up to where the market is?

**<A - Brad D. Smith>**: Thank you, Michael. I love each quarter the questions you ask. And I appreciate that you try to go for the things that we sometimes can't reveal, but it's always worth asking.

So let me start with TurboTax Live, and I'll say what I said a few minutes ago. We are very encouraged, although it's still early in the season. The more complex returns will be filed later in the season. But right now, I can tell you on a cohort basis, we like the trajectory of our retention number, so that I'll just share.

The second thing I would say is our new user growth looks strong. And our sources of new users, which include those who were filing last year in an assisted method, is also encouraging. We'll unpack those numbers with much more definitive detail at Investor Day, which is what we always do. That will give you a little bit of a sneak peek there with just talking in broad terms.

In terms of last week, can't do that. I want to keep it on an apples-to-apples basis, and this is Q2 update. We did move the numbers up through February 16 because since the IRS had reported through there, we wanted to at least give you a couple weeks in February. But I really don't want to get into sharing things beyond that. There are a lot of other people who listen to these calls beyond just you and me, and I want to try to keep that powder dry.

And then the last piece is the Refund Advance, or what had been known in years past as refund anticipation loans, what's really happened here is for a lot of years, as you know, we chose not to be in that category because we felt like it was usury rates, and it was taking advantage of customers. And over the years, a lot of the industry abandoned it as well. The government frowned on it, and we didn't want to be a part of that.

What's happened now is a couple of things. One is with changes in legislation and delays in people like Earned Income Tax filers for the Earned Income Tax Credit having to wait until later in the season to get a check, there's an opportunity for us to come back in and in a very consumer-friendly way help those people get access to money. And it's a partial loan to bridge them over until they get the tax refund.

Now what you see us having in market is we're testing various levels, \$250 partial loan, \$500, \$750, and \$1,000, and it is zero interest, no fees. So there are no usurious rates out there. We make our money only on the interchange fees on the card, and the customer doesn't pay that. And we're running it right now as a test. And because it still aligns with our principles, and we'll see how it works this year, and then we'll decide if it's something we want to go after bigger in future years.

**<Q - Michael Millman>**: I actually meant what does it cost you – not what it costs – I know it doesn't cost – you don't charge the consumer.

**<A - Brad D. Smith>**: That information I wouldn't want to share right now because we've got other people who are offering the same thing, and I want to make sure that we keep our cost structure competitive. But I appreciate you asking the question.

**<Q - Michael Millman>**: And can you be competitive in a five to 10-day wait compared to 24 hours?

**<A - Brad D. Smith>**: Are you talking about what we have in the market right now compared to others?

**<Q - Michael Millman>**: Yes.

**<A - Brad D. Smith>**: We fully believe that what matters most to the customers we're going to make sure we're competitive on. And sometimes features may not or may not be important, but we certainly do know getting access to money in a timely fashion is. And so that's why this year we're running tests and experiments to see what are the most important things for customers. But I can promise you if that's the most important thing, we won't roll a product out if we can't be competitive.



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**<Q - Raimo Lenschow>**: Two questions. First, Brad, a lot of my questions were answered. But can you talk a little bit about the Desktop business, where you're running on revenue at a very healthy clip? And obviously, units are suffering a little bit. How sustainable is that momentum that you see there?

**<A - Brad D. Smith>**: Yes, Raimo. So we have anticipated for some time now that we're going to see mid-teens decline in units on Desktop, as we see more customers who come into the franchise opt for the cloud. In fact, eight out of 10 now choose QBO over Desktop.

And then we also have some customers on Desktop that are moving to the subscription version of Desktop. In fact, that grew about 8% this quarter.

So when you put in Desktop sold through retail and then blend that with those who bought a Desktop subscription, the combined numbers were down just about 1%, so roughly flat. And we believe that's going to be sustainable.

What's driving the revenue is those that are staying on Desktop tend to have more feature functionality, they tend to have more attached services like payroll and payment. And many are QuickBooks Enterprise. And QuickBooks Enterprise is growing and continuing to grow. And so that's bringing the overall revenue per customer up. And that's why you're going to see mid to high single-digit growth, even with a 15-point decline in units.

**<Q - Raimo Lenschow>**: Perfect. And quick question for Michelle. In the last few quarters, we were talking about the high investment levels as you change over the platform, move over to AWS, and use the different opportunities to invest more into the business. Where are you in terms of – after being in the seat now for a little bit, where are you in terms of like pushing on with these investments? And is there any change coming from you? Thank you.

**<A - Michelle Clatterbuck>**: You're right. We have over this last year, specifically, we've talked about how we have focused on really freeing up some of our spend. We said about 10%, to then take that to reinvest it and focus in four key areas, one of which, as you mentioned, is transitioning to AWS.

We're also reallocating funds into artificial intelligence and machine learning, into our engineering team overall, and into our Intuit brand campaign, which you've seen.

From my standpoint, those continue to be – and for the company continue to be some of the strategic priority focus areas for us. And so we're going to continue to increase – or have that spend reallocated over this year. And then as we go into the summer, we'll go through our planning process, where we always look at what our top priorities are for spending.

**<Q - Siti Panigrahi>**: Okay, sorry. Yeah. Just going back to the payroll and payment, I know you guys stopped giving the attach rate. But just wanted to understand the trends you are seeing on the payroll and payment to QBO business. And how strategic those two business?

**<A - Brad D. Smith>**: Yeah. We believe both of those businesses are strategic. They're important problems that small businesses need to have solved in a simple and elegant way. And we continue to like the fact that we're seeing online ecosystem revenue in aggregate grow from 35% last quarter to 39% this quarter. And of course, in there is not only the accounting, but also the payroll and the payment numbers.

Now we would tell you that we remain focused on trying to accelerate those results. There's lots of things our teams are working on inside. But there is no new news in terms of payroll and payments besides what we shared with you in the fall.

**<Q - Siti Panigrahi>**: And just asking on the Turbo Capital (sic) [QuickBooks Capital] (53:29) that you guys launched last year, is there any update or anything that you have seen, initial response from your customer base?

**<A - Brad D. Smith>**: It continues to be a forward momentum business. In fact, we're spending time in the upcoming board meeting in May talking about the exciting lessons we've learned so far.

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The thing that gets us most encouraged is those that are getting loans through QuickBooks Capital, 60% of them were considered unlendable by other financial lenders up until this point. So we're going after a category and a market that isn't being served well. And we like the economics of the business.

So right now, nothing that we would reveal that's more specific than that, other than you ought to hear a general tone. And I believe that we think this is a real opportunity that we'll continue to lean into.

**<Q - Brad Robert Reback>**: Brad, the Online ecosystem showed a pretty significant sequential acceleration on a much harder comp y-over-y. Can you maybe dig into what was driving that?

**<A - Brad D. Smith>**: Yeah. I would say, Brad, there's two things driving it. One is, as we continue to improve the quality of the product, then we're able to back off in some of the non-U.S. markets on super-aggressive discounts and promotions. I would tell you upfront that our teams and we leaned into that early on to get customers on the platform. And as we've improved the product, we found it less important to do that. So I think we're getting a little wiser in our discounting.

And then the second thing I would say is we're building out the ecosystem. So we're getting healthier ecosystem results. Our payments results, I'm very excited about. Our teams continue to lean in there. Payroll, we're continuing to push ahead and we're getting learnings every day. And so I think it's the aggregate of those three things that are helping us drive ecosystem revenue.

**<Q - James MacDonald>**: I just want to follow up on that last one. And you're now at 39% Online growth. You're talking about over 30%. Should we expect you to raise your long-term view for Online growth?

**<A - Brad D. Smith>**: Thanks, Jim. You sound like me when I sit with our teams, and they tell me the exciting results, and I want to raise their quota.

Honestly, what we've tried to do right now is we've tried to peg a multiyear objective that is both aggressive but also something that we think we can sustain for more than a couple of quarters. And so right now, what I think is most important is that we keep the team focused on 40% subscriber growth and 30% ecosystem revenue growth. That produces an incredibly healthy business and a very strong opportunity for the company to continue to grow at the rates we talked about.

Now if we see a continuing trend that is way above that 30% and we think that's sustainable, then we will certainly both have that conversation inside and then talk to you about it at an event. But right now, I don't think this one quarter growing 35% to 39% is enough for us to say let's raise our long-term outlook. But it certainly is encouraging and we like it and we're going to continue to lean in and see how far we can push it.

**<Q - James MacDonald>**: Great. And my follow-up is on TSheets, any thoughts you can give us on how you plan to run that business differently at all or what you plan – and any plans for TSheets now that you own them?

**<A - Brad D. Smith>**: Yes, thanks. You know TSheets and the accounting profession knows them well out there too, is they are a great company. They have a world-class leader in Matt Rissell. And they have a top-performing Best Place to Work in their home state. And they have really high Net Promoter Scores with accountants and with business owners.

Right now, our game plan is to do no harm in terms of their culture and to look for ways where we can accelerate their growth by having them actually get access to our large customer base as well as some of our infrastructure.

So we have a very thoughtful integration plan. We have learned over the years that we can bear hug you and squeeze all the entrepreneurial spirit out of you, which is not good. And we've also left islands out there with absolutely no integration, and that hasn't been helpful either. So we've got a hybrid approach and I really like how the team is approaching it. But right now, we like that business. They're on a good trajectory and they've got a great leadership team.

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**<Q - Jennifer Swanson Lowe>**: Really a quick one for me. Looking at the QuickBooks Online revenue relative to average subscribers in the quarter, it looks like that metric, the implied average price per subscriber was probably the best we've seen in a number of quarters now. And obviously, you saw a lot of strength in Self-Employed and International, which tends to be lower ASP. So I'm just curious what the dynamic is there, why it looked a little bit better this quarter on the pricing front and whether that's something we should see as more sustainable or more of a one-quarter phenomenon.

**<A - Brad D. Smith>**: Jen, I would say that the numbers we want to continue to reinforce are the 40% subscriber growth and the north of 30% on ecosystem revenue. And then that ARPU number is going to move up and down in particular in any given quarter based upon mix. Self-Employed, core QBO U.S., QBO non-U.S., now we're getting a little wiser on discounting strategies outside the U.S. and a few markets where we're seeing strong product market fit. And I think what you're seeing this quarter is just a healthier mix of core QBO, Self-Employed still growing, but we're also getting wiser with the discounting strategy. And I think it's just giving you the thought that that's looking good.

I will tell you the trend line, I think the teams are doing a really good job of getting after LTV-to-CAC. And if we can improve that for every cohort, over time the ARPUs will move in a good direction. But right now, I think this is just an optic of what happened in the last 90 days and what the mix of customers were.

## Brad D. Smith

### Closing Remarks

We learn a lot from the things that are on your minds and we're looking forward to engaging with you in the after-hour calls as well as coming out and seeing you in conferences in the coming weeks

I'll just say we feel like we've got the strong momentum as we enter H2. At the same time, we've been in the business long enough to know there's plenty of time left on the clock, so we're going to have to stay focused on execution

I really appreciate several of you calling out how good it is to have Michelle in her role full time

- It's been a wonderful transition, and we're looking forward to the future with her.

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