

## Q3 2018 Earnings Call

### Company Participants

- Brad D. Smith, Chairman & Chief Executive Officer
- Jerry Natoli, Vice President, Corporate Finance & Treasurer
- Michelle Clatterbuck, Chief Financial Officer

### Other Participants

- Brad Robert Reback, Analyst
- Brent Thill, Analyst
- James Macdonald, Analyst
- Jennifer Swanson Lowe, Analyst
- Jesse Hulsing, Analyst
- Kartik Mehta, Analyst
- Kash Rangan, Analyst
- Keith Eric Weiss, Analyst
- Kirk Materne, Analyst
- Michael Millman, Analyst
- Raimo Lenschow, Analyst
- Ross MacMillan, Analyst
- Scott Schneeberger, Analyst
- Siti Panigrahi, Analyst
- Sterling Auty, Analyst
- Walter H. Pritchard, Analyst

## MANAGEMENT DISCUSSION SECTION

### Operator

Good afternoon. My name is Latif and I will be your conference facilitator. At this time, I would like to welcome everyone to Intuit's Third Quarter Fiscal Year 2018 Conference Call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer period.

With that, I'll turn the call over to Jerry Natoli, Intuit's Vice President of Finance and Treasurer.

**Jerry Natoli** {BIO 4692239 <GO>}

Thanks, Latif. Good afternoon and welcome to Intuit's third quarter fiscal 2018 conference call. I'm here with Brad Smith, our Chairman and CEO; 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 2017 and our other SEC filings. All of those documents are available on the Investor Relations page of Intuit's website at [intuit.com](http://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.

### **Brad D. Smith** {BIO 6294100 <GO>}

All right. Thanks, Jerry, and thanks all of you for joining us. We delivered very strong results in our third fiscal quarter, with overall revenue growth of 15%, fueled by 15% growth in the Consumer Group and 16% growth in the Small Business & Self-Employed Group. Because of this strength and the continued momentum across the company, we're raising our revenue, operating income and earnings per share guidance for fiscal year 2018.

With that headline, let me share some observations on our business overall, and I'll start with tax and our Consumer business. Heading into tax season, we foreshadow that this year's primary drivers of revenue would be do-it-yourself category growth and a higher average revenue per return. That's indeed how the season played out, producing very strong results.

As we communicated over the years, there are four primary drivers in our Consumer business. The first is the total number of returns filed with the IRS, and the latest IRS data indicate total returns grew about 1%, in line with our expectations.

The second is the percentage of those returns that were filed using do-it-yourself software. As a reminder, the DIY category growth is our largest lever of revenue growth. To date, the DIY category share has grown just over 0.5 point, again, outpacing the assisted tax prep category. As the leader, we view it as our responsibility to help drive category awareness and growth, so we're pleased with this result.

The third is our share within DIY. We competed well and earned a modest increase in our share of the category this season. When you look beyond DIY to total returns, we also gained 0.5 point of total market share.

The fourth is the average revenue per return, which increased quite nicely this season. The growth was driven by a combination of attach, mix shift to the higher end of our product line, which includes TurboTax Live, and pricing for value.

Bottom line, it was a successful tax season. As we shared at Investor Day last fall, in addition to extending our lead in DIY, we're increasingly focused on transforming assisted tax prep and expanding our business beyond tax. We made encouraging progress behind each of these strategic priorities this season.

In support of transforming assisted tax prep, we're pleased with the results of our TurboTax Live offering in its first season. We delivered an innovative experience that enabled filers who were seeking more confidence in their personal tax situation, to do so by accessing a tax pro with a touch of a screen. Feedback from the nearly 2,000 pros and the many customers they served reinforced our confidence that TurboTax Live has the potential to be transformative to our Consumer business in the years to come. It opens up the \$20 billion assisted tax prep category and it provides us with an opportunity to grow our dollar share while increasing our average revenue per return. Michelle will share some additional data around our progress in a moment.

This season was also the first for our Turbo offering, the consumer financial platform that expands our portfolio beyond tax. Turbo provides customers with a full view of their overall financial health by combining their credit score, verified income data and a debt-to-income ratio to show customers where they truly stand.

This year, TurboTax customers had the option to transfer their tax data into a Turbo account when they completed their return. Nearly 5 million TurboTax customers registered for Turbo in year one, providing us with a strong foundation to extend our business beyond today's user-paid model. The real value of this offering will come as customers engage with it on an ongoing basis.

Overall, we feel good about our results this tax season and I want to congratulate all the employees throughout the company who played a role in delivering that performance. We're just getting started with TurboTax Live and we are looking forward to what we can deliver next season.

Shifting to the Strategic Partner Group, our professional tax revenue was in line with our expectations for the quarter, with revenue up 4% year-to-date. We continue to focus on multi-service accounting firms that do both books and taxes. This enables us to drive our accountant success while growing our small business ecosystem at the same time.

Turning to Small Business, we delivered another strong quarter in our Small Business and Self-Employed Group. QuickBooks Online subscriber growth continued at a rapid pace, and Online Ecosystem revenue grew 41%. We exited the quarter with over 3.2 million QuickBooks Online subscribers, a 45% increase year-over-year. Growth remained strong across multiple geographies, with U.S. subscribers growing 40% to approximately 2.5 million and international subscribers growing 66% to about 720,000. Within QuickBooks Online, Self-Employed subscribers grew to over 680,000, up from 360,000 just one year

ago. Approximately 330,000 of those subscribers are from the TurboTax Self-Employed offering.

So putting a bow around the quarter, our strategy of a vibrant One Intuit ecosystem continues to gain momentum. We performed ahead of our expectations this tax season and delivered continued strong performance in our Small Business and our Self-Employed Group.

With that business overview, let me hand it over to Michelle to walk you through the financial details.

## **Michelle Clatterbuck** {BIO 20314804 <GO>}

Thanks, Brad, and good afternoon, everyone. For the third quarter of fiscal 2018, we delivered revenue of \$2.9 billion, up 15% year-over-year; GAAP operating income of \$1.6 billion versus \$1.4 billion a year ago; non-GAAP operating income of \$1.7 billion versus \$1.5 billion last year; GAAP diluted earnings per share of \$4.59, up 24% year-over-year; and non-GAAP diluted earnings per share of \$4.82, up 24% year-over-year.

Our non-GAAP tax rate is 26.3%, which is lower than the 27% rate we anticipated earlier this year. The reduction is the result of our continued analysis of the impacts from the new U.S. tax legislation. This lower tax rate contributed \$0.05 to non-GAAP earnings in the third quarter.

Turning to the business segments, Consumer Group revenue grew 15% in the quarter and is up 14% year-to-date, exceeding the annual guidance of 7% to 9% we gave at the beginning of the fiscal year. We now expect 14% revenue growth for the year.

TurboTax Online units grew 6% this season, while total TurboTax units grew 4%. This unit performance was driven by faster growth in both our paid and free offerings. As Brad mentioned earlier, our share within the DIY category was up slightly while our share of the total tax preparation market grew half a point.

We're pleased with the performance of TurboTax Live in its first season. We scaled the offering from an in-market test during extension filing last fall to a meaningful contributor this season. This is great progress for a new offering in its first year, and we're encouraged by the positive feedback we've received.

Customers who used our Final Review feature rated their care experience nearly 20 points higher than those who did not, and TurboTax Live had the highest product recommendation score of any of our Consumer Tax paid offerings. Additionally, feedback was positive from CPAs, enrolled agents and tax attorneys serving clients on our platform. We look forward to applying what we learned to scale this offering further in the future.

Turning to the Strategic Partner Group, we reported \$131 million of professional tax revenue for the third quarter, up 4% year-to-date. We now expect revenue to grow 2% to

3% in fiscal 2018, slightly better than the 0% to 2% growth we guided previously.

Total Small Business & Self-Employed revenue grew 16% in the quarter. Online Ecosystem revenue grew 41%, up from 39% in the second quarter. We continue to expect Online Ecosystem revenue to grow better than 30%.

QuickBooks Online subscribers grew 45%, ending the quarter with over 3.2 million subscribers. TurboTax was a significant channel for QuickBooks Self-Employed, and a total of 330,000 subscribers have come through that channel. We now expect to end the year with 3.35 million to 3.375 million subscribers, equating to approximately 41% to 42% growth.

Desktop Ecosystem revenue grew 3% in the quarter and is up 7% year-to-date. For fiscal 2018, we expect QuickBooks Desktop units to decline mid to high-teens and Desktop Ecosystem revenue to be up mid-single digits.

Turning to our financial principles, we continue to take a disciplined approach to capital management, investing the cash we generate in opportunities that yield a return on investment greater than 15%. We finished the quarter with \$1.9 billion in cash and investments on our balance sheet.

Our first priority for that cash remains investing in the business to drive customer and revenue growth. Next, we use acquisitions to accelerate our growth and fill out our product roadmap. We return cash that we can't invest profitably in the business to shareholders via both share repurchases and dividends. We repurchased \$19 million of shares in the third quarter. Approximately \$1.2 billion remains on our authorization.

The board approved a quarterly dividend of \$0.39 per share payable July 18, 2018. Our fourth quarter fiscal 2018 guidance includes revenue growth of 12% to 14%; GAAP diluted earnings per share of \$0.04 to \$0.06; and non-GAAP diluted earnings per share of \$0.22 to \$0.24. We now expect a GAAP tax rate of 24% and a non-GAAP tax rate of 26.3% for fiscal 2018. You can find our Q4 and updated fiscal 2018 guidance details in our press release and on our fact sheet.

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

**Brad D. Smith** {BIO 6294100 <GO>}

Thank you, Michelle. Before closing, I'd like to set some context for the management changes in our Consumer Group that we shared in our earnings release today. Effective at the end of the fiscal year, Dan Wernikoff, the General Manager of our Consumer Group, will step down as the leader of Intuit's Consumer Business, but he will remain at Intuit, working with me on strategic projects.

Greg Johnson, Senior Vice President of Marketing, will succeed Dan as the General Manager of the Consumer Group. Dan has done a tremendous job leading the team, and

FINAL

I couldn't be more proud of the foundation that he's built. Under his leadership, we extended our lead in the do-it-yourself category. We advanced our efforts to disrupt the assisted tax prep category, and we expanded our business beyond tax. I want to thank him for an outstanding tax season and for repositioning the business for continued growth for years to come.

At the same time, I couldn't be more confident in Greg's ability to lead the Consumer Group into the next chapter. Greg has spent the last five years as a key member of the Consumer Group's senior leadership team. He has been leading our go-to-market initiatives, commercial innovation, analytics and marketing capabilities that have accelerated the growth of Intuit's tax business. He's been a driving force in the reinvention of our Consumer business model, spearheading the introduction of Absolute Zero, helping bring TurboTax Self-Employed and QuickBooks Self-Employed together, and was a key member of the team that brought both TurboTax Live and Turbo to market this season.

For those of you who have followed Intuit for a while, you know that we pride ourselves on building a deep talent bench and this change is reflective of those efforts. I am excited to watch our momentum continue as Greg takes the baton from Dan to lead the Consumer Group. And to sum it up overall, we delivered a very strong quarter and we feel good about where we stand at this point in the year. While we remain focused on closing out the fiscal year on a high note, we already have our sights set on next year and beyond as we pursue our mission of powering prosperity around the world. But for now, we'll continue to keep our heads down and focus on execution with the finish line in sight.

And with that, Latif, let's open it up and hear what's on everyone's mind.

## Q&A

### Operator

Thank you. Our first question comes from the line of Brent Thill of Jefferies. Your line is open.

### Q - Brent Thill {BIO 1556691 <GO>}

Thank you. Good afternoon. Brad, the Consumer business you started 7% to 9% guidance year ending - the loan to that almost double. I was just curious if you could just bridge the outperformance in what you think the primary reasons were? And if you could also highlight a little bit of TurboTax Live and if there's any more numbers or financial impact for that, it would be helpful to get some color on that.

### A - Brad D. Smith {BIO 6294100 <GO>}

Sure, Brent. Happy to do that. Really as I mentioned in my opening comments, the season played out the way we anticipated. The two primary growth drivers this year was an acceleration of DIY category growth and our ability to pick up a little bit of a share in that category. And then the second was obviously average revenue per customer which came

FINAL

as a result of increased attach services. We saw a mix shift at the higher end of the product line really brought on by TurboTax Live to a large extent. And then we did have some pricing opportunities that we strategically took in key areas where we saw an opportunity of price for value.

Net-net, when you looked at it overall, it was just a well-executed plan. The team was able to go out and compete effectively in the Free category while also introducing two new products, TurboTax Live and Turbo. And then I'll flip down on TurboTax Live for a minute, and say that if you remember the strategic context, it is tens of millions of people each year end up going to an assisted tax prep method because they have a nagging question. They've lost confidence in their situation because something changed year-over-year. And we lose about 3 million customers a year because of that in addition to the tens of millions who are in a tax store or a CPA. And if they simply had that question answered, they would file taxes on their own using software.

What we saw this year was really encouraging with TurboTax Live. Michelle mentioned the fact that those that went through the final review, those consumers who actually went through a final review with a pro had a 20 point higher product recommendation score. We also saw very high product recommendation scores from the pros on the other side of that network.

Another piece that obviously we were looking for is improved retention and we did see improved retention. We'll talk more about that at Investor Day. And then last but not least are the sources of new customers are exactly the ones we wanted to see. First-time filers entering our category because there's also a pro available, and we also saw a 10-point higher conversion from assisted tax prep methods for those who signed up for Live versus those who just did TTO. So those are the kinds of numbers that we're willing to share at this point. We're not going to break down the actual number of customers or revenue, but you should hear in our tone a high degree of confidence and an excitement about next year.

#### **Q - Brent Thill** {BIO 1556691 <GO>}

And just a quick follow-up for Michelle. Given the outperformance on the top line, we're really not seeing it flow through as meaningful when you look at the margin structure over the last couple of years. I'm just curious if you could talk to when you think you can open up the bottom line margin a little more relative to what you've seen in the last couple of years.

#### **A - Michelle Clatterbuck** {BIO 20314804 <GO>}

Thanks, Brent. I'd go back to our financial principles. When we think about how we want to use the additional money that we have, it really is, first and foremost, we want to invest in the business and continue to do that so we can drive customer and revenue growth. And that's actually one of the things that we had pointed out earlier this year that we were doing, specifically investing in our transition to AWS, in additional AIML competencies. We also were investing more in our engineering area, helping with software development and then in marketing efficiencies in our corporate brand. And so we'll continue to look at

opportunities to invest to grow the company. And then obviously, as we get closer at Investor Day, we'll update you as to what that might look like going forward.

**Q - Brent Thill** {BIO 1556691 <GO>}

Thank you.

**Operator**

Thank you. Our next question comes from Jesse Hulsing of Goldman Sachs. Your line is open.

**Q - Jesse Hulsing** {BIO 17535624 <GO>}

Yeah. Thank you. I just wanted to follow up on the last question around Live. Brad, did you see enough out of the product that you feel like you're going to put your foot on the gas from a marketing perspective for next tax season? And I guess how does marketing Live change or differ versus marketing your lower end SKUs?

**A - Brad D. Smith** {BIO 6294100 <GO>}

Yeah. Jesse, I want to be cautious not to give too much of next year's game plan away. But what I will say is we are confident enough we're going to put our foot on the gas with TurboTax Live. In terms of the messaging, our team actually got a little bit of practice in this year. We had dual campaigns going. One was helping people understand that they could move into Free with At Least Your Taxes Are Free. And the other side was There's Nothing To Be Afraid Of, which began to introduce the fact you could have an expert at the touch of screen. We learned a lot and we've been running tests in the back half of the season, so I feel very confident that we can go into market and have a message that basically says we're here for you regardless of your tax situation. And if you have any reason to need someone to work, with we've got somebody right there waiting to connect with you. So I feel pretty good that we figured out this year how to go out with a campaign that speaks to the entire spectrum of tax filers.

**Q - Jesse Hulsing** {BIO 17535624 <GO>}

Got you. And I guess as kind of an extension of that question and response, how comfortable do you feel with, I guess, price and mix in higher-end products being the core driver of the Consumer business going forward?

**A - Brad D. Smith** {BIO 6294100 <GO>}

Yeah. Thank you for the question. We have a principle inside the company that has been a great guiding principle across all of our businesses for years and that is to grow our customers and monetization will follow. Many times, that's translated into growing customers faster than revenue and that is true when you're converting non-consumption. So you're getting a small business out of a spreadsheet or a shoe box or you're even getting someone off a paper and pencil from a tax-filing situation and maybe get them into Free. Those often come with lower price products, so many times, our customer growth outpaces revenue.



FINAL

In the case of tax right now, you have very few people left on paper and pencil, about 5 million people in total. So it means we're now converting people who already adopted a method and with TurboTax Live, we're converting them from higher-priced alternatives. So when they come into our category, we're getting three times the average revenue per customer for those customers that come in with TurboTax Live. So we're in an interesting situation right now in tax and that is that we're able to grow customers and share and grow average revenue per customer, which is accelerating our revenue growth. So we're not in a trade-off situation there. I think we're actually in a pretty good situation in being able to do both expand share and grow revenue faster. So I feel good about the strategy and the way it's playing out.

**Q - Jesse Hulsing** {BIO 17535624 <GO>}

Okay. Thanks, Brad.

**A - Brad D. Smith** {BIO 6294100 <GO>}

Thank you.

**Operator**

Thank you. Our next question comes from the line of Jennifer Lowe of UBS. Your line is open.

**Q - Jennifer Swanson Lowe** {BIO 6926228 <GO>}

Great. Thank you. I wanted to drill in on the QuickBooks Self-Employed number, particularly those attached to TurboTax. And it looks like that slightly more than doubled year-over-year. I know there were some questions about what the renewal rate might look like, given that that was sort of the first experience renewing those types of customers. Can you just give us a little more color on the strength there, how much of that was maybe better renewals, how much of that was better gross adds, what are sort of the major pieces there?

**A - Brad D. Smith** {BIO 6294100 <GO>}

Thanks, Jennifer. First of all, we did see better renewal rates and retention than we had in our original forecast, so we're encouraged by that. The second is we got better at executing converting customers at the end of their tax filing process with TurboTax into the product itself. And the customer experience and the Net Promoter Scores continue to improve. So it was really strength across the board. It was stronger renewals and retention. It was stronger top-of-funnel conversion. And it was also a better quality experience that had the customers actively engaged with the product. So we're feeling good about this particular product combination and we're looking forward to next year as well.

**Q - Jennifer Swanson Lowe** {BIO 6926228 <GO>}

Okay. Great. And one more from me. So looking at the 5 million Turbo customers that you had registered post tax season, I think in the past you've talked about sort of longer term

Bloomberg Transcript

monetization opportunities there around targeting financial offers to those customers and things like that. At this point, what's sort of the monetization status of that business? Is it really user acquisition mode at this point or is there sort of nearer term opportunities to drive revenue there as well?

**A - Brad D. Smith** {BIO 6294100 <GO>}

We're actually executing both but the priority is customer acquisition and then turning those customers into active daily users or monthly users, depending upon their particular financial situation. So we were really encouraged to have 5 million people register in its first year. That was a number beyond what we had expected and we had some pretty lofty goals ourselves. The monetization strategy, as you know, was similar to Mint, which this is one of the products in our portfolio and it's, in addition to Mint, the only two products where the less money the customer spends, the more money we make.

So said another way, we introduced them to other financial products that gave them better deals and lower fees and then those particular companies pay us to reach those customers. And we are seeing a very nice monetization strategy with a half a dozen partners we have now and they're seeing very nice conversion rates on qualified leads, which gives us a reason to lean in as we look ahead to next year. But I would say the priority right now is more active users and customers. The monetization we proved out this year for us and for our partners is there and we'll start leaning into that as we head into next year.

**Q - Jennifer Swanson Lowe** {BIO 6926228 <GO>}

Great. Thank you.

**A - Brad D. Smith** {BIO 6294100 <GO>}

Thank you.

**Operator**

Thank you. Our next question comes from the line of Ross MacMillan of RBC. Your line is open.

**Q - Ross MacMillan** {BIO 1994797 <GO>}

Thanks so much. Brad, I know it's early but as we go into next tax season, I guess the big change is that with the new tax legislation, it's very possible that we'll see a much higher percentage of the filing population do a simple, standard deduction and not an itemized deduction. And I wondered if you had any high level thoughts, at this point, as to how that might impact the DIY category growth. And then I had one follow-up.

**A - Brad D. Smith** {BIO 6294100 <GO>}

Sure. Thanks, Ross. Yeah. We spend a lot of time studying the behaviors this year and then working with customers post the end of tax season to better understand their psychology heading into next year. We do know there are some facts. The facts are more people will

qualify for standardized deductions, which means they have the opportunity to move to the lower price products in the DIY category. But it also means they have the opportunity to move out of the assisted tax prep category and into DIY. And when we put all that math together, we see this as a catalyst to grow the do-it-yourself category especially when you introduce services like TurboTax Live, which doesn't force a binary choice between doing it yourself or having an expert ready to help you. So we're really encouraged. We think this is going to be a tailwind for the category and an opportunity for us as we head into next season.

**Q - Ross MacMillan** {BIO 1994797 <GO>}

Great. And my follow-up, it was actually just a clarification on the 330,000 QB SE TurboTax units. Is that a base number or is that a net add number year-to-date? Because I had read that as a total number which implied that the net adds were about flat year-over-year, but Jennifer's question suggested it might be a net add number. So could you just clarify that? Thanks.

**A - Brad D. Smith** {BIO 6294100 <GO>}

Yes, Ross. You're correct. 330,000 is the base number out of the 683,000 active customers today. So that includes both stronger renewal rates than we had originally anticipated as well as the net adds.

**Q - Ross MacMillan** {BIO 1994797 <GO>}

Thanks, Brad.

**A - Brad D. Smith** {BIO 6294100 <GO>}

You're welcome.

**Operator**

Thank you. Our next question comes from the line of Walter Pritchard of Citi. Your question, please.

**Q - Walter H. Pritchard** {BIO 4672133 <GO>}

Hi. Thanks. Two questions on (29:07) it looks like that business decelerated quite a bit on the Desktop side, it grew sort of a couple percent year-over-year. I'm wondering you've seen some really good growth there on sort of similar unit performance early in the year. Can you talk about what drove the difference in growth? And then I just had a follow-up on subs.

**A - Brad D. Smith** {BIO 6294100 <GO>}

Walter, you cut out on the first part of the question. I heard the Desktop question, but I wasn't sure what product line. Was it QuickBooks that you were asking about or...?

**Q - Walter H. Pritchard** {BIO 4672133 <GO>}

No. I was trying to ask you if the Desktop unit growth has been pretty similar, unit decline has been pretty similar. You've seen stronger revenue performance, I think, on a year-over-year basis earlier in the year, and this quarter sort of just slight growth. I'm wondering what explains the discrepancy that drove the revenue deceleration in QuickBooks Desktop.

**A - Brad D. Smith** {BIO 6294100 <GO>}

Sure. Got it, Walter. Thank you. Really it's an anomaly of a discontinued product that last year in the third quarter recognized some revenue that had been deferred for a period of time, and let me tell you what that product was. You may recall a couple years ago we introduced a version of QuickBooks Desktop that included an option. We called it the Chooser SKU. When you bought Desktop at retail, you could go in and either choose QuickBooks Desktop or you could opt in to a subscription of QuickBooks Online. And because of accounting rules, we had to defer the revenue on anyone who purchased that product and can't carry that over the extent of the license.

So what happened was we found that not a lot of customers were taking that product, but the ones who did, that revenue got recognized last year in the third quarter. So we had a little bit of a balloon payment, if you will, we had to grow over this quarter. If you actually pull that product out, QuickBooks Desktop revenue would have grown 9%, which was in line with the prior quarter. So it really was a onetime anomaly based upon a discontinued product from a couple of years ago.

**Q - Walter H. Pritchard** {BIO 4672133 <GO>}

Got it. Okay. That's helpful. And then just on subs for next quarter, the guide. At the high end I think even 3.375 million implies fewer net adds than a year ago. All year, you've been seeing growth in the net adds over last year. I'm wondering is that just conservatism or something else that would explain why you might see a more significant details in net adds?

**A - Brad D. Smith** {BIO 6294100 <GO>}

Walter, conservatism is in the eye of the beholder. We're clearly leaning in and thinking about how do we continue to accelerate our QuickBooks Online subscriber growth both here and in the international markets, and I do feel good with the momentum we have. We are testing right now in this fourth quarter of our fiscal year different promotional approaches, different discounting rates, and so we give ourselves a little bit of an opportunity to experiment so that when we head back into peak season in the fall, we really have a game plan we feel confident in. So you should probably consider that as a little bit of hedge for us as we're testing things as we wrap up this fiscal year and get ready for next year.

**Q - Walter H. Pritchard** {BIO 4672133 <GO>}

Great. Thank you. That makes sense. Appreciate the color.

**A - Brad D. Smith** {BIO 6294100 <GO>}

Thank you. Yeah, me too. Thanks.

## Operator

Thank you. Our next question comes from Scott Schneeberger of Oppenheimer. Your line is open.

### Q - Scott Schneeberger {BIO 5302695 <GO>}

Thanks. Hey, Brad. I have a two-parter for you and then a follow-up for Michelle. When you list revenue per return, you mention in order attach then mix shift then strategic price increase. And I'm just curious, is that the rank order? Were they all three equal or one a little bit more? And then the follow-up is - on that is, could you elaborate a little bit on attach particularly if it is truly the number one?

### A - Brad D. Smith {BIO 6294100 <GO>}

Yeah. I appreciate it, and we'll unpack a little more of this at Investor Day. But I would give you this, I would put it in the order of mix shift, attach and then price. And it's just by small percentage point, so there isn't a significant variation across those. And then in terms of attach, we have different bundles. We have a plus bundle you can come in and purchase. We have some security features. We have the ability to do audit, defense, if you decide that you want to have some protection against being audited by the IRS. We have the refund transfer which is the ability for you - it's called refund - what is it called now, refund something service.

### A - Michelle Clatterbuck {BIO 20314804 <GO>}

(33:18)

### A - Brad D. Smith {BIO 6294100 <GO>}

The ability to pay for the software out of your refund. And it's a combination of those that basically add up to attach. There wasn't really anything that we did this year that was a breakthrough new offering in attach. It was just continuing to find better ways to expose customers to those products when they have a point of need.

### Q - Scott Schneeberger {BIO 5302695 <GO>}

Great. Thanks for that. And then, Michelle, I saw the guide on CapEx down \$50 million for the full year. Could you just remind us how we should think about that, not just this year but kind of going forward? Thank you.

### A - Michelle Clatterbuck {BIO 20314804 <GO>}

Sure. Thanks, Scott. Our CapEx for this year, if you look at where we are quarter - for the year-to-date, actually, there's a couple different things that are impacting that. And as we've talked about transitioning to AWS, what that means then is we don't have to do all of the refreshing in our data centers and so that's having an impact there. One of the other things is we do have some lower software capitalization. And then last year at this

time, we were still doing some of the renovation and construction on our Mountain View campus and so that had inflated last year. And so we'll continue to look at that. We'll give you some more insights into that as we think about going forward at Investor Day, but those are the big drivers of the decrease that you're seeing right now.

**Q - Scott Schneeberger** {BIO 5302695 <GO>}

Thanks very much.

**Operator**

Thank you. Our next question comes from the line of Brad Reback of Stifel. Your question, please.

**Q - Brad Robert Reback** {BIO 3441314 <GO>}

Great. Thanks very much. Michelle, if we go back to some of the margin commentary. If we think about it from a high level, is this situation where the gross profit dollars should continue to outpace OpEx dollar growth, so cash flow should be a net-net benefit going forward?

**A - Michelle Clatterbuck** {BIO 20314804 <GO>}

What?

**A - Brad D. Smith** {BIO 6294100 <GO>}

Go ahead.

**A - Michelle Clatterbuck** {BIO 20314804 <GO>}

I didn't get what his question was. I'm sorry.

**A - Brad D. Smith** {BIO 6294100 <GO>}

Oh, I'm sorry. Brad, could you repeat the question?

**A - Michelle Clatterbuck** {BIO 20314804 <GO>}

(35:22)

**A - Brad D. Smith** {BIO 6294100 <GO>}

She wasn't clear what the question was?

**Q - Brad Robert Reback** {BIO 3441314 <GO>}

Yeah. Sure. Absolutely. So should we think about gross profit dollars growing faster than OpEx dollars? So while the margin may go down in the future, the cash flow benefit is still positive.

FINAL

**A - Michelle Clatterbuck** {BIO 20314804 <GO>}

I'm not sure how - if that is - actually, I'm trying to think through that right now. I don't know that I've thought about it that way.

**A - Jerry Natoli** {BIO 4692239 <GO>}

So I can jump in. I mean, if you assume that the cost of goods sold is going to be relatively stable at about 15%...

**A - Michelle Clatterbuck** {BIO 20314804 <GO>}

(35:56)

**A - Jerry Natoli** {BIO 4692239 <GO>}

...then gross margin's going to be about the same rate of growth as revenue and our operating margin dollars usually grow just a little bit faster than revenue. They're not this year but that's typically what they do. And so Brad, I think you'll back into an answer that's pretty much what you're expecting.

**Q - Brad Robert Reback** {BIO 3441314 <GO>}

Got it. Thanks.

**A - Brad D. Smith** {BIO 6294100 <GO>}

Could I, Brad...

**Q - Brad Robert Reback** {BIO 3441314 <GO>}

Oh, sure.

**A - Brad D. Smith** {BIO 6294100 <GO>}

No. Go ahead.

**Q - Brad Robert Reback** {BIO 3441314 <GO>}

Oh, no, no. I was going to say thanks. So go ahead, Brad.

**A - Brad D. Smith** {BIO 6294100 <GO>}

Well, what I was going to do - I know this came up earlier and Michelle answered it and then this question came up just now. And I just thought I'd unpack for you a couple of points that I thought Michelle did a really nice job of putting out there. The first is our financial principles in the company remain enduring, and we just reviewed them with the board a couple of weeks ago, which is double-digit organic growth on the top line, grow revenue faster than expense which allows us to grow operating income dollars in the mid-teens. As we entered this year, we saw four opportunities that we wanted to lean in to invest that we said would both accelerate our top-line growth this year but would set the

Bloomberg Transcript

foundation for a stronger multiyear growth opportunity ahead. And those were the areas that Michelle walked through.

We saw accelerated top line growth this year and we also saw strong operating income growth of 13%. We'll come back and talk about our financial principles again in August at Investor Day, but you shouldn't hear our anticipation that we're going to not continue to get good operating leverage out of this company in terms of growing our operating income dollars. This was a strategic choice. This is not a business model question. We saw opportunities to invest in technology, data sciences, accelerating into AWS which, by the way, TurboTax ran 100% in second peak in AWS and we saw real benefit from that and then of course the brand.

So I'm putting that out there just so if there's a question on anyone's mind about, is there an issue with the operating leverage of the company. I can tell you with straight eyes and a clear heart the answer is no.

**Q - Brad Robert Reback** {BIO 3441314 <GO>}

Got it. Very clear. Thanks, Brad.

**A - Brad D. Smith** {BIO 6294100 <GO>}

Thank you.

## Operator

Next question comes from the line of Keith Weiss of Morgan Stanley. Your line is open.

**Q - Keith Eric Weiss** {BIO 6993337 <GO>}

Excellent. Nice quarter, guys, and thank you for taking the question. I'm going to try to sort of attack head-on, I think, the question that like everybody's trying to get at. Consumer had a great quarter this quarter and a great year-to-date. I think (38:22) 14% is the highest I've seen in my model. Is there anything onetime in nature that we should be thinking about this year versus prior years that makes this special, if you will or non-repeatable? Or can we potentially see a higher durable rate of Consumer growth on a going forward basis given sort of how you've expanded the product portfolio there?

**A - Brad D. Smith** {BIO 6294100 <GO>}

Yeah. Thanks, Keith. We'll talk about what we think the durable growth opportunity is in this business when we get into the fall. We've historically said it's a 5% to 10% grower, and we fully are aware that the last couple of years has been double-digits and this year versus even further up into the teens.

But what I do think is different is what I touched on a few minutes ago. Historically, when we try to grow the category and grow customers, they often came in with a free offering or on the lower end of our product lineup. Now, as we're getting customers to come in

FINAL

Bloomberg Transcript



with TurboTax Live and we're getting customers out of the assisted tax prep method, they're coming in at a higher average revenue per customer.

So as we expand the category and grow customers, we're also growing revenue. And so, I don't believe that you see a onetime event here. I think you're starting to see a structural shift in the business economics that if we can continue to execute, should give us a really good sustainable growth rate as we look ahead. But we'll talk much more about what that looks like when we get into the fall.

**Q - Keith Eric Weiss** {BIO 6993337 <GO>}

Excellent. That's very helpful.

### Operator

Thank you. Our next question comes from the line of Kartik Mehta of Northcoast Research. Your line is open.

**Q - Kartik Mehta** {BIO 2038331 <GO>}

Brad.

**A - Brad D. Smith** {BIO 6294100 <GO>}

Hi, Kartik.

### Operator

Mr. Mehta, your line is open. Please proceed. Please make sure your line is unmuted.

**Q - Kartik Mehta** {BIO 2038331 <GO>}

...the TurboTax Live product this year. What was the primary objective for you for this year and what would you say the primary objective will be for that product next year?

**A - Brad D. Smith** {BIO 6294100 <GO>}

Kartik, I think I picked up the majority of your question. I heard TurboTax Live, what was the primary objective this year and what will be the primary objective next year. Was that your question?

**Q - Kartik Mehta** {BIO 2038331 <GO>}

Yes.

**A - Brad D. Smith** {BIO 6294100 <GO>}

Yeah, so what we did seek this year to do was to see if we could impact the 3 million customers on average that we tend to lose when something changes in their tax situation. They either have a child, they get married, they move between states, they sell stock. They

have that nagging question and we wanted to see if by introducing a pro, we could actually improve our retention in our existing customer base as the primary objective. And as I mentioned earlier, we'll talk more about what the results look like as we get into the fall, but we did achieve that.

The other thing we wanted to see is if we could change the source of new customers coming into the category and if we could begin to bring people into the category as first-time filers who may have gone to an assisted method or actually get people out of tax stores and CPAs. And so far, the mix of new customers, as we've finished this season, also looks like we've been successful in proving that hypothesis.

So as we lean into next year, the primary objective is going to be to transform the \$20 billion assisted tax prep category and begin to bring more of them into the do-it-yourself category. We think that will be the big opportunity for us over the long run.

**Q - Kartik Mehta** {BIO 2038331 <GO>}

And then, Brad, you talked about on the tax side maybe getting some pricing. Do you think - has the market changed and do you believe there is an opportunity for you to maybe raise prices more than you have in the past because the - because maybe consumers are seeing the value a little bit more now than they have in the past?

**A - Brad D. Smith** {BIO 6294100 <GO>}

Well, Kartik, as you know - you follow the space really closely - it's a hyper competitive market when you get into the free category, and as we mentioned a few minutes ago, tax legislation will give more people the opportunity to qualify for standardized deductions so they can move into lower end products, lower priced products or even free. But we have also seen that consumers are willing to pay for value and the ability to have someone answer their question at the convenience of coming through the software and being there at the point of need and they can schedule when they want to talk to that person is something that customers are willing to pay for. So, we do feel like with the right strategic value proposition that we can continue to grow revenue while also growing the category.

In terms of taking price, if there's not value-add relative to a competitor, that becomes difficult. And so, we have to be able to differentiate and deliver more than our competitors can for us to earn a higher price.

**Q - Kartik Mehta** {BIO 2038331 <GO>}

Thank you very much. Appreciate it.

**A - Brad D. Smith** {BIO 6294100 <GO>}

You're welcome. Take care.

**Operator**

Thank you. Our next question comes from Kash Rangan of Bank of America Merrill Lynch. Your line is open.

**Q - Kash Rangan** {BIO 22095432 <GO>}

Brad, did you say a clear eye and a straight heart or a clear heart and a straight eye? That was not a question, that was not a question. Both would apply actually. Yeah. My question is when you look at the profile of either demographic of whatever profile, however you wish to categorize people that came in on TurboTax Live, I'm curious how much of that is flow from competition that was bricks-and-mortar versus upgrade from your existing base or people that might have, to your point, tried it because the returns got complicated, or even perhaps people that were going to a professional accountant that were using professional TurboTax. So, if you could just characterize the flow of business in TurboTax Live and where you see the different vectors. But hoping that you can actually project these vectors into the future and help us understand the bigger picture of how it all plays out. Let's say TurboTax is going to be as - Live is going to be as big as potentially TurboTax, the core business. Where do you see the inflow coming from?

And from a product standpoint, as you went through one level of (44:26) this season, what changes do you see making to TurboTax Live next year from a product standpoint that will equip the company even better, forget the go-to market, but from a product perspective? Thank you.

**A - Brad D. Smith** {BIO 6294100 <GO>}

Yeah. Thank you, Kash, and thank you for helping me think through the quotes and the things that I use here. Sometimes, that West Virginia side of me comes out and I can't even remember what I said. So, let me start first with we're going to break out a lot more detail on TurboTax Live when we get into the fall at Investor Day. As we always do, we'll show sources of customers but we'll hit at a high level.

What we're encouraged by is, as you know, 3 million to 5 million people enter the tax category for the first time each year. They file their first return. There's a whole host of reasons why people ending up filing the first time. They're filing jointly, they're divorced, they're entering the workforce for the first time out of college, so you take any one of those scenarios. We saw a disproportionate inflow into the category and into TurboTax. So, that was exciting. So, we do know that's an evergreen source of customers, and we'll talk more about that in the fall.

The other thing we saw was customers who have been with TurboTax a couple years ago and had left, we saw them coming home. And so, that was a good opportunity for us as well. They had gone to an assisted tax prep method or to some other alternative. And then, we did see those who had been with an assisted method, whether it was a tax store or CPA, we actually saw TurboTax Live draw about 10 points more from that category than regular TurboTax online does. So, we do like the sources of customers. They're first-time filers, they're people who used to be with us coming home or those people who tend to be going to an assisted tax prep method. We'll break out the granularity later.

In terms of the opportunity, we still have a lot to prove to ourselves and to prove to you, but if you look at the tax category, it's about a \$20 billion assisted tax prep category and we have a very small sliver today. So, this could be a very nice business for us if we can continue to execute well and create more value than any of the other alternatives in the market and we'll just have to see how big that is.

**Q - Kash Rangan** {BIO 22095432 <GO>}

The product perspective. Thanks. If you have the time, otherwise, no big sweat.

**A - Brad D. Smith** {BIO 6294100 <GO>}

Yeah, Kash, I would rather, at this point in time, not to get too ahead of our headlights in terms of sharing what we're going to do in the products. Obviously, there are a lot of people in the marketplace that are interested in what we felt we did this year with TurboTax Live and what we'll plan to do next year. Not all of them are investors. And so, we just want to make sure that we keep some of those product plans close to the vest and we'll talk more about that when we get ready to launch the product.

**Q - Kash Rangan** {BIO 22095432 <GO>}

Completely understand. Thank you so much. Congratulations.

**A - Brad D. Smith** {BIO 6294100 <GO>}

All right. Thank you, Kash. Take care.

**Operator**

Thank you. Our next question comes from the line of Siti Panigrahi of Wells Fargo. Your line is open.

**Q - Siti Panigrahi** {BIO 17888514 <GO>}

Thanks for taking my question. Going back to QBO, international, 720,000, that's pretty good growth. How much of that driven by this QBO Small Business versus Self-Employed? And also, you talked about France, Brazil, India product market fit. Could you give some update on that? When we should start seeing some kind of growth from those regions?

**A - Brad D. Smith** {BIO 6294100 <GO>}

Yeah. Thanks, Siti. So I would say, first of all, predominantly, the growth in the international markets was driven by QBO core as opposed to QuickBooks Self-Employed. That product is ramping up and we're continuing to add functionality that is very country-specific and we're excited about its prospects. But right now, the core growth, that 66% growth was really driven primary by QBO.

In terms of the other markets, and these are the markets where we're still in search of product market fit, France is really looking healthier by the day and we like what we're

FINAL

seeing in India in terms of prospects. We're actively engaged over there right now on a process for the government, is opening up the technology stack and looking for a handful of providers to help them implement GST which is their new tax situation that impacts small businesses.

Brazil right now, we're still working through. We don't have clarity yet in terms of how best to capitalize on the acquisition we did with ZeroPaper, as well as our own QuickBooks Online offering. So I would just say in terms of sequencing, I would do France and India as a little ahead of the pack and Brazil is a little bit further behind, but we're on the trail of all of them, and we've got a team actively working to make sure that we turn those dashboards green and get the product market fit.

## Operator

Thank you. Our next question comes from the line of Raimo Lenschow of Barclays. Your line is open.

### Q - Raimo Lenschow {BIO 4664646 <GO>}

Team, thanks for taking my questions and congrats from me as well, obviously. Quick question on Turbo, Brad, can you talk a little bit about the - you talked earlier about how you liked what you saw, the early monetization. Can you talk a little about the activity levels of the clients that you sign up the 5 million? How is that going in terms of what you see what they're doing with the product, how often they're using it, et cetera?

### A - Brad D. Smith {BIO 6294100 <GO>}

Yeah. Thanks, Raimo, and this actually has been, as Scott Cook, our Founder, would say, savor the surprise. We know what the average Mint customer looks like. We know what their credit score is, we know what their decisions tend to be in terms of their financial investments. Turbo is bringing in a different customer. Actually, a customer that's a little more paycheck to paycheck with a lower credit score and much more in need of the kinds of financial services that these partners that we're working with can bring them.

And so, their active use is different than what we might see from a Mint customer or any other product we've had in the past like Quicken. And so, we're in the process of learning as we speak. What we are finding is things like alerts and notifications, making them aware of changes in their financial situation are very important to them, and we also know that that drives active engagement.

So, we're at the process now of saying we have 5 million people who've registered. Now, what can we do to actively engage with them and help them make the best decisions to improve their financial health. And then, as we get closer to the fall, we'll be able to share with you some of those insights. And we'll break apart for you the differences we're seeing in these customers relative to other products.

But I will say this. We are very encouraged by how many people signed up. We're encouraged by the fact that as they save more money, we make money, and we're

encouraged by the fact that the quality of the leads that we're getting to our partners, in some cases, is 8x to 10x better in conversion than what they've gotten from other sources.

And so, that, for us, is a real win-win-win. And now, if we can just turn them into active users and they get more of them, we think we have a viable business over the long term.

**Q - Raimo Lenschow** {BIO 4664646 <GO>}

Perfect. And one follow-up question from me on the investment side, can you talk me through like where are you on the move towards AWS? You kind of - I think I heard earlier you said TurboTax around 100% on AWS that should have been a big benefit for you guys, just overall, like we've heard (51:27) the investment initiatives, but where are you in the process of kind of doing some of the major ones?

**A - Brad D. Smith** {BIO 6294100 <GO>}

Yeah. So Raimo, as you know, we've been working towards getting into AWS for several years now, a little over four years, and there was a combination of getting our products architected, working with AWS to ensure the levels of security for the kinds of data that we have in our products, and then, migrating the products in.

TurboTax, as I mentioned, had been in the process of last year and this year moving into AWS, and when we got the second peek, which was mid-April, we were able to run 100% of our volume through AWS, and we were delighted with the performance of the product, the quality of the experience, everything was really above expectations.

QuickBooks Online and the major small business products are in the process of moving in. We hope to get those moved in in the next 12 months. And then, we will have a long tail of other services we'll be moving out of our own data center and into AWS, and that'll probably have another 12 months or so after that.

But right now, what we are dealing with is we have a double bubble, we've talked about that before, where we have our own data center up and we also have AWS, and so, that's part of the investment that we foreshadowed as we went into this year. We're going to be paying for volume in AWS while we continue to pay to keep the lights on in our own data center until we get everything moved out of our garage and into theirs. And we feel good, we actually like what we're seeing in terms of how our products perform when they're in AWS, and we got another, call it, 24-plus months to get everything moved over.

**Q - Raimo Lenschow** {BIO 4664646 <GO>}

Perfect. Very clear. Well done.

**A - Brad D. Smith** {BIO 6294100 <GO>}

Thank you.

**Operator**

Thank you. Our next question comes from Jim Macdonald of First Analysis. Your question, please.

**Q - James Macdonald** {BIO 1542627 <GO>}

Yeah, good afternoon, guys. Believe it or not, I have another TurboTax Live question. Did you have any capacity issues, either supply or demand or could you talk a little bit about that? Did you have enough on either side of the equation there?

**A - Brad D. Smith** {BIO 6294100 <GO>}

Thanks, Jim. Never apologize for asking about any of the products and certainly about TurboTax Live. We're very, very proud of this product offering this year. And the short answer to your question is no, we did not. We were delighted by the supply of professionals who wanted to work with us on the platform. We were delighted by our team and the ability to match supply and demand in real time and maintain service levels where you could be connected within minutes or you had the ability to schedule at your own convenience when you wanted to have a professional connect with you. And we were also delighted to see that customers and pros were willing to flex, and in some cases, at the end of the season, they said, hey, I'll go ahead and file an extension because I'm not ready to get my stuff to a pro.

So it really did, at the end of the day, work out much better than we had hoped, and I think at the end of the day, it's also an opportunity to reimagine this entire category because many times, you're constrained in an office when have you a line sitting in the front office waiting to get their turn to get their taxes done, but in our case, we have pros working from home and they can come in at any point in time and help you get it done. So, I think this is really a game changer.

**Q - James Macdonald** {BIO 1542627 <GO>}

Yeah, that's very good. And just on a different subject, your QuickBooks Online services seem to be particularly strong this quarter. Was there anything going on there?

**A - Brad D. Smith** {BIO 6294100 <GO>}

Yeah, Jim, it was. We're excited by the fact that our teams - and we've been talking about this for some time and acknowledge we needed to improve our execution - but our teams have continued to improve our execution behind both payroll and payments. That was helping drive our online services. And then, in addition to that, we did have a quarter of TSheets, the acquisition, the time and attendance acquisition that rolled into those services as well. But it really is just continued improvement and our ability to execute those services beyond just core accounting, and that's what's driving that growth.

**Q - James Macdonald** {BIO 1542627 <GO>}

Great. Thanks.

**Operator**

Thank you. Our next question comes from the line of Sterling Auty of JPMorgan. Your line is open.

**Q - Sterling Auty** {BIO 2070271 <GO>}

Yeah, thanks. Hi, guys. Brad, you mentioned that in the DIY category that you gained a slight amount of market share. Were you satisfied with the share gains that you saw? Were you surprised that maybe they weren't more? And what did you see in the marketplace that maybe limited some of the share gains that you saw this year?

**A - Brad D. Smith** {BIO 6294100 <GO>}

Yeah, thank you, Sterling. We have really good competitors. They continue to invent and reinvent their game every year as we do. And I think that in the end of the day, it's good for us because we have to take our game to the next level and it's certainly good for the consumer. And if you look at everyone who's reported publicly, ourselves and the second player in the market, looks like we picked up share. And so far, the others who reported seemed to have not.

And in terms of how we performed, of course, I would always like to remove the word slightly and simply say we gained share. But if I keep things in perspective, given how hyper competitive it was this year, I'm very proud of the fact that we were able to continue to build on our market share, and at the same time, introduce products like Turbo and TurboTax Live.

So each year, we're going to come out and our game plan is going to be to try to increase market share in the category while we expand into these other services. And I'm really pleased the team did that this year.

**Q - Sterling Auty** {BIO 2070271 <GO>}

Got it. Thank you.

**Operator**

Thank you. Our next question comes from the line of Kirk Materne of Evercore ISI. Your line is open.

**Q - Kirk Materne** {BIO 5771115 <GO>}

Thanks very much and I'll add my congrats on the quarter. Brad, thank you for sort of reiterating your financial principles and the way you're thinking about that going into next year. I guess my question is if we're in a situation where consumer growth is going to be higher for longer, that obviously gives you a lot more flexibility from an investment perspective. Can you just talk about whether or not the success you had in the quarter has allowed you to accelerate some investments, whether it's in areas like AI or on certain products? I guess just can you - I mean, can you offer maybe some just insights into how you're thinking about that from an investment perspective as we head into the next fiscal year? Thanks.



FINAL

**A - Brad D. Smith** {BIO 6294100 <GO>}

Yeah, thank you, Kirk. Appreciate the kind words on the performance in the quarter that the team delivered. Our financial principles give us the flexibility to continue to invest. And as Michelle talked about, when we produced cash flow, our first priority is to invest in the business to accelerate customer and revenue growth, and then, we look for acquisitions and we return cash to shareholders, whether it's stock repurchase or dividends.

But you may recall this year, we also talked about an initiative we implemented call Reinvent-to-Reinvest, where we look across the company at the lower ROI investments and we basically redirect those resources, time, people and dollars, to higher priority areas. And this year, under the leadership of Michelle, we found over \$190 million that we have been able to redirect to higher priority areas. And we already have plans in place to even increase that number as we look at fiscal year 2019 and beyond.

So, I do believe we have the opportunity within our financial principles and also within our ability to just take a hard look at ourselves and say, look, there are areas where we can spend this dollar more wisely, that we're going to continue to redirect those dollars to things like artificial intelligence and machine learning, global expansion, TurboTax Live, Turbo, QuickBooks Capital and all those other things we've talked to you about. And we have that capacity to do so without harming our financial principles.

**Q - Kirk Materne** {BIO 5771115 <GO>}

Thanks very much.

**Operator**

Thank you. Our next question comes from the line of Michael Millman of Millman Research. Your line is open.

**Q - Michael Millman** {BIO 1494618 <GO>}

Thank you. Using IRS numbers, in the past several years, the growth in do-it-yourself has been about 5 points higher than it has been in assisted. This past year, that dropped to 2.5 points. I was wondering if you could talk about it because it seems at variance with what we'd think.

Second question is, I think this is your number, that there's about 30 million taxpayers who don't itemize but yet use assisted. Why do you think if we increased that number with a higher standard deduction, they're going to - those people will change to do-it-yourself? Thank you.

**A - Brad D. Smith** {BIO 6294100 <GO>}

Yeah, thank you, Michael. It's good to hear from you. First of all, we would say that relative to the prior years, the thing we keep in mind is the assisted category - is do-it-yourself outpacing assisted, and obviously, it is. This year was a little bit of a fear, uncertainty and

Bloomberg Transcript

FINAL

doubt year. There was a lot of confusion in the market as tax legislation came out, does it affect this year, does it affect next year, which is why TurboTax Live was so important. So if you had a question, we wanted to let you know that we could help with you a tax professional.

So, I can't really tell you why this year, we saw maybe a less accelerated growth. We do know that the category picked up 0.5 point of share, which is good, and we believe that that opportunity just continues to increase with two things, with tax legislation taking full effect next year, and then, us having TurboTax Live out there so that people know that if they do have a question, they can move into our category and still have the assistance of a tax pro.

And that really answers your second question. The 30 million people today who are filing a 1040EZ or 1040A or have what could be simple returns but still go to a tax pro, they're doing so because they don't realize that with just one or two quick answers and a five-minute exchange, they could file their taxes for a much lower price. We believe it's not just tax simplification but it's TurboTax Live that will allow us to shift the category into do-it-yourself and to get more of those filers using TurboTax. So, it's the legislation and TurboTax Live that we think will help us fundamentally grow the category.

**Q - Michael Millman** {BIO 1494618 <GO>}

Very good. Thank you.

**A - Brad D. Smith** {BIO 6294100 <GO>}

All right. Thank you.

**Operator**

Thank you. Ladies and gentlemen, I'm not showing any further questions. Would you close with any additional remarks?

**A - Brad D. Smith** {BIO 6294100 <GO>}

Yeah. Thanks, Latif, and I want to thank everybody for your time and for your questions today. I hope everyone has a great Memorial Day weekend. We're looking forward to speaking with you soon. And until then, take care.

**Operator**

Ladies and gentlemen, thank you for participating. This concludes today's conference call.

---

*This transcript may not be 100 percent accurate and may contain misspellings and other inaccuracies. This transcript is provided "as is", without express or implied warranties of any kind. Bloomberg retains all rights to this transcript and provides it solely for your personal, non-commercial use. Bloomberg, its suppliers and third-party agents shall have*

Bloomberg Transcript

*no liability for errors in this transcript or for lost profits, losses, or direct, indirect, incidental, consequential, special or punitive damages in connection with the furnishing, performance or use of such transcript. Neither the information nor any opinion expressed in this transcript constitutes a solicitation of the purchase or sale of securities or commodities. Any opinion expressed in the transcript does not necessarily reflect the views of Bloomberg LP. © COPYRIGHT 2021, BLOOMBERG LP. All rights reserved. Any reproduction, redistribution or retransmission is expressly prohibited.*

FINAL

Bloomberg Transcript