

Q1 2020 Earnings Call

Company Participants

- Kim Watkins, Vice President of Investor Relations
- Michelle Clatterbuck, Executive Vice President, Chief Financial Officer
- Sasan Goodarzi, Chief Executive Officer

Other Participants

- Alex Zukin, Analyst
- Brad Reback, Analyst
- Brent Thill, Analyst
- Jacqueline Cheong, Analyst
- Jennifer Lowe, Analyst
- Josh Beck, Analyst
- Ken Wong, Analyst
- Kevin Kumar, Analyst
- Kirk Materne, Analyst
- Mark Randy, Analyst
- Matthew Wells, Analyst
- Raimo Lenschow, Analyst
- Scott Schneeberger, Analyst
- Sterling Auty, Analyst
- Yao Chu, Analyst

Presentation

Operator

Good afternoon. My name is Litsy, and I will be your conference facilitator. At this time, I would like to welcome everyone to Intuit's First Quarter Fiscal Year 2020 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. (Operator Instructions)

With that, I will now turn the call over to Kim Watkins, Intuit's Vice President of Investor Relations. Ms. Watkins?

Kim Watkins {BIO 19461042 <GO>}

Thanks, Latif. Good afternoon, and welcome to Intuit's first quarter fiscal 2020 conference call. I'm here with Intuit's CEO, Sasan Goodarzi; and Michelle Clatterbuck, our CFO.

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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 2019 and our other SEC filings. All of these documents are available on the Investor Relations page of Intuit's website at intuit.com. We assume no obligation to update any forward-looking statements.

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.

And with that, I will turn the call over to Sasan.

Sasan Goodarzi {BIO 15750219 <GO>}

Great. Thanks, Kim, and thanks for everyone for joining us today. We're off to a strong start to the first quarter of fiscal 2020 and continue to make progress on our strategy of becoming an AI-driven expert platform. First quarter revenue grew 15% overall, fueled by 15% growth in the Small Business and Self-Employed Group. Online Ecosystem revenue grew 35%, exceeding our target to grow 30% or more. Consumer Group revenue grew 11% and Strategic Partner Group revenue was in line with our expectations. This is a great start to the year.

At Investor Day, I shared our top five priorities, which we call our big bets. These big bets focus on the largest problems our customers face and also represent durable growth opportunities for Intuit. I'd like to share our progress on each of these. Our first bet is to revolutionize speed to benefit for our customers when they use our products and services. We aim to deliver instant benefit and make the interactions with our offerings frictionless by accelerating the application of artificial intelligence. This big bet is foundational to everything we do for our customers and positions us to accelerate execution across our other four bets.

Here are couple of examples of the progress that we're making. First, we're on a path to triple the number of customers who can apply for working capital loans through QuickBooks Capital by extending eligibility to our desktop customers using machine learning. QuickBooks Capital leverages customers' data to provide loans to small businesses, nearly 60% of whom may not qualify for loans elsewhere.

Second, we're enhancing our ability to answer customer questions more efficiently through TurboTax self-help. By leveraging AI, we are delivering more relevant answers at the point of need and using natural language processing to expand personalized answers with TurboTax assistant. In fiscal 2019, we handled millions of calls from customers needing help, while using TurboTax. We expect this capability to help improve the

customer satisfaction survey results and reduce customer contact rates by helping customers find answers to their questions more easily.

Our second big bet is to connect people to experts. One of the largest problems our customers face is lack of confidence to do their own taxes and to manage their business. We're connecting customers to experts on our platform to solve this problem, allowing us to gain share and grow average revenue per customer, or ARPC. We're happy with the progress that we're making.

We launched QuickBooks Live, connecting small businesses with live experts, opening up access to a new \$10 billion market opportunity. This offering is intended to increase our small business customers' confidence, helping them get set up, close their books each month and ensure their records are accurate and up to date.

Over the last six months, we've run more than 50 tests to learn what customers truly need, helping us develop the offering and refine our go-to-market and pricing strategies. At the same time, we continue to build out the export pipeline as 90% of TurboTax Live experts expressed interest in working with QuickBooks Live.

In TurboTax Live, we continue to innovate, making our experts more accessible at different touch points as we see a 32-point improvement in conversion for first-time filers when engaging with an expert. This season, we're launching real-time chats and enhancements our customers have asked for since the inception of TurboTax Live.

Our third big bet is to unlock smart money decisions for customers by connecting them the financial tools, partners and benefits, then help put more money in their pockets. Through our offerings, we are addressing key customer problems by helping them reduce high cost debt, grow emergency fund and improved our financial habits.

Based on what we've learned from the test we've ran during the extension season, we are optimistic about our ability to go beyond tax to help our customers make ends meet. For example, we introduced credit score goal setting and payment history tracking in Turbo to help customers improve their credit score. This is a key step in improving their overall financial health.

Our fourth big bet is to become the center of small business growth by helping our customers get paid fast, manage capital and pay employees with confidence. We introduced new QuickBooks innovations at our flagship, QuickBooks Connect conference, earlier this month to further support our customers' small businesses growth. For example, we announced a cash flow planner to help our small business customers make better decisions as they grow.

We also announced receipt capture in the mobile app and enhanced mileage tracking to enable our customers to automatically deduct expenses seamlessly. All of these innovations put more money in our customers' pockets and should increase their success. Over time, we see an opportunity to better serve product-based businesses by

transforming omni-channel commerce, benefiting customers who sell products through multiple channels.

Our fifth big bet is to disrupt the mid-market with QuickBooks Online Advanced, our online offering designed to address the needs of small business customers with 10 employees to 100 employees. This offering will help us increase retention of these larger customers, attract new mid-market customers who are over served by higher priced competitive offerings. We continue to make progress building out the offering since launching last year.

For example, we recently introduced a revenue streams dashboard that allows customers to easily compare revenue across products, services, projects, customers and employees and other attributes to better understand their business performance. In summary, the entire company is focused on executing against these big bets deliver for our customers and accelerate growth.

Before I hand it over to Michelle, I wanted to address the questions we've been getting on our free strategy. While the debate continues around whether the government should present a tax bill or the taxpayer should prepare their own returns, our primary focus remains on meeting our customers' needs, helping them maximize their tax refund and going beyond tax to help them make ends meet.

Let me give you some additional context around free. Based on IRS estimates, nearly 104 million Americans are eligible to file for free through the IRS Free File program. However, that number does not tell the whole story. Recently, the IRS asked an independent organization Myder [ph] to conduct a study of the Free File program.

The study concluded that overall, the Free File program was effective and that the majority of these 104 million taxpayers make a personal choice to use an alternative filing method for a variety of reasons. For example, many taxpayers, regardless of their income or complexity, preferred to have assistance as they lack the confidence to file on their own.

As a result, the study concluded that the actual number of filers using do-it-yourself software and eligible to use Free File is roughly 30 million customers. Over 20 million taxpayers are already filing for free, either through the Free File or commercial free offerings, including many that are not eligible for Free File. And roughly 13 million of those Americans filing for free use, TurboTax software and paid Intuit nothing.

This is a testament to the quality of our free offerings, both the product we donate to the IRS Free File program and our commercial free offering. We offer millions of customers the option to file for free because we believe they will stick with us over time as their life changes and their tax situation becomes more complex in the future. Therefore, we remain very confident in our durable free strategy.

To wrap up, we're very pleased with our results in the first quarter and we remain focused on delivering against our objectives in fiscal 2020.

Thank you and now let me hand it over to Michelle to walk you through the financial details.

Michelle Clatterbuck {BIO 20314804 <GO>}

Thanks, Sasan. Good afternoon, everyone. For the first quarter of fiscal 2020, we delivered revenue of \$1.2 billion, up 15% year-over-year, GAAP operating income of \$10 million versus a loss of \$10 million a year ago, non-GAAP operating income of \$129 million versus a \$102 million last year, GAAP diluted earnings per share of \$0.22 versus \$0.13 a year ago, and non-GAAP diluted earnings per share of \$0.41, up from \$0.29 last year.

Turning to the business segments. In Small Business and Self-Employed, revenue grew 15% during the first quarter, fueled by Online Ecosystem revenue growth of 35%. Our strategic focus within Small Business and Self-Employed is to grow the core, connect the ecosystem and expand globally. Starting with grow the core, QuickBooks Online Accounting revenue grew 41% in fiscal Q1, driven mainly by strong customer growth and to a lesser extent higher effective prices and mix shift.

Second, we continue to make progress connecting the ecosystem. Online Services revenue, which includes payroll, payments, time tracking and capital grew 27% in fiscal Q1. Within QuickBooks Online payroll, we continue to see revenue tailwinds from a mix shift to our full-service offering, which is priced 75% higher than self-service. Within QuickBooks Online payments revenue growth reflects continued customer growth, along with an increase in charge volume per customer.

Third, our progress expanding globally added to the growth of Online Ecosystem revenue during fiscal Q1. Total international online revenue grew over 60%. I'm also excited to share that in the UK, we now hold the number one position for cloud accounting subscribers. We believe the best measure of the health and success of our strategy going forward is Online Ecosystem revenue growth, which we continue to expect to grow better than 30%. Desktop Ecosystem revenue was up 1% in the first quarter, in line with our expectations. Note that the first quarter is our largest desktop quarter of the year, reflecting the annual launch of our new version of QuickBooks Desktop software.

Consumer Group revenue grew 11% in fiscal Q1. During the October tax extension season, we ran three times the number of tests we did two years ago. These tests will inform our tax offerings for the upcoming season. We're gearing up for our third season offering TurboTax Live. We're continuing to test new customer experiences as we work to provide our customers an even higher level of confidence this season. We're also seeing great engagement from experts and over 90% of those we asked back, plan to return this season. Our technology-first approach gives us confidence we can expand our live offerings and maintain attractive Intuit operating margin longer term.

And in the Strategic Partner Group, professional tax revenue grew 6% in the first quarter, in line with our expectations. We've got a lot of questions about the macro environment and what we're seeing in our business. At this time, we're not seeing any evidence of a slowdown in our business, related to the macroeconomic environment. Charge volume

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trends remain strong and the number of employees being paid in our ecosystem remains on trend.

Turning to our financial principles. We remain committed to growing organic revenue double digits and growing operating income dollars faster than revenue. We take a disciplined approach to capital management, investing the cash we generate in opportunities that yield an expected return on investment greater than 15%.

We continue to focus on reallocating resources to top priorities at the company with an emphasis on becoming an AI driven expert platform. Our first priority for the cash we generate is investing in the business to drive customer and revenue growth. We consider acquisitions to accelerate our growth and fill out our product road-map.

We return excess cash that we can't invest profitably in the business to shareholders via both share repurchases and dividends. We finished the quarter with \$2.3 billion in cash and investments on our balance sheet. We repurchased \$139 million of stock in the first quarter. We have approximately \$2.5 billion remaining on our authorization and we expect to be in the market each quarter. The Board approved a quarterly dividend of \$0.53 per share payable January 21st, 2020. This represents a 13% increase versus last year.

Turning to guidance, our Q2 fiscal 2020 guidance includes revenue growth of 11% to 13%, GAAP earnings per share of \$0.70 to \$0.73, and non-GAAP earnings per share of \$1 to \$1.03. This earnings guidance reflects a shift of marketing investments for the Consumer Group into our fiscal second quarter. We expect a GAAP tax rate of 21% for fiscal 2020. You can find our Q2 and fiscal 2020 guidance details in our press release and on our fact sheet.

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

Sasan Goodarzi {BIO 15750219 <GO>}

Great. Thanks, Michelle. As I shared with you at Investor Day, all of our customers have a common set of needs. They are all trying to make ends meet, maximize their tax refund, save money and pay off debt and those who've made the bold decision to become entrepreneurs and go into business for themselves, have an additional set of needs. We want to find and keep customers, get paid, access capital to grow and ensure their books are right. We remain focused on becoming an AI-driven expert platform to solve our customers in those pressing problems.

Now let's open it up for questions to hear what's on your mind.

Questions And Answers

Operator

Thank you. (Operator Instructions) Our first question comes from the line of Ken Wong of Guggenheim Securities. Your line is open.

Q - Ken Wong {BIO 20723645 <GO>}

Great. Thanks for taking my question. I'm not sure if this goes to Sasan or Michelle, but Michelle towards the end you mentioned that you guys are going to bring some marketing spend into 2Q. Can you help us understand just based on your learnings from last year what kind of returns you guys are looking for, what are some of the areas channel wise or other that you guys might be putting this money behind? And when we think about, kind of, that incremental spend, is it fair to assume that that's pretty much just all sales and marketing and not kind of other line items?

A - Sasan Goodarzi {BIO 15750219 <GO>}

Hey. Thanks for your question. This is Sasan. First of all, it is all pretty much marketing and it's really focused on ensuring that we can raise awareness to transform the assisted category. As we talked about before, really, last year was our first year in raising awareness in terms of you can do your taxes and we'll be there every step of the way for you and we can help you.

We're really doubling down on that this year, and based on the behaviors that we learned last year, we felt that shifting more dollars to raise awareness early in the season and throughout the season will give us the opportunity to serve as many customers as we can. So that's really the primary driver for it.

Q - Ken Wong {BIO 20723645 <GO>}

Got it. Great. Thanks guys.

Operator

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

Q - Scott Schneeberger {BIO 5302695 <GO>}

Thanks very much. I'll follow up on the second quarter guidance question. Just on -- it sounds like it's entirely pull forward of marketing spend that has an adverse impact in the second quarter uniquely. I'm just curious, what is your expectation for the start of the tax season. I don't think the IRS has announced yet. I'm just curious what type of a -- what you're expecting and how that affects the 2Q guide? Thanks.

A - Sasan Goodarzi {BIO 15750219 <GO>}

First of all, you're absolutely right. It's all marketing based on what I've just described earlier. And what we expect based on customer behavior and when the IRS opens is that just like we've seen in previous years the moment the W-2s hit the door, those early filers are going to be ready to file and we're going to be there for them.

I wanted to make sure that we raise awareness that they know we're ready for them and that they can have help if they need it. And then two, give them the ability to be able to file their taxes and get their refunds right away. And so we're really obsessively focused on our customers and making sure that they're ready to file the moment the IRS opens.

Q - Scott Schneeberger {BIO 5302695 <GO>}

Thanks, Sasan. And any -- just not looking for much of a change in the year-over-year as far as the start of the tax season though, just to the extent you can answer that?

A - Sasan Goodarzi {BIO 15750219 <GO>}

Yeah. Not really much of a change other than, again, what we've learned and what we're going to do differently from an execution perspective. We don't expect much of a behavior change, and that's all of what has informed our guidance for the quarter and we remain, of course, committed for the year.

Q - Scott Schneeberger {BIO 5302695 <GO>}

All right. Thanks very much on that. And then I recently attended the QuickBooks Connect, a very dynamic event for sure. I was just curious, if you could give us an update, Sasan, comparing and contrasting, what you're seeing thus far with QuickBooks Live customers and/or staff -- well, not and/or, and staffing relative to when you initiated TurboTax Live? Thanks.

A - Sasan Goodarzi {BIO 15750219 <GO>}

Well, first of all, thank you for attending QuickBooks Connect. I was truly blown away by just a number of innovations from our team, and they used QuickBooks Connect as the opportunity to launch many innovations across many fronts. And of course, inspired by our customers and their passion. We actually used QuickBooks Connect as really an opportunity to activate QuickBooks Live.

We had thousands of accountants and pros there, and it was a great opportunity just to share the fact that we're solving a two-sided platform or a two-sided problem, I should say, and the opportunity they have to solve those very problems on our platform for our customers and generate more income. And I would tell you, in the two sessions that we did, it was standing room-only, with folks knocking on the door after they got their questions answered to figure out how to participate on joining via the platform.

In terms of customer insights and learnings, we ran over 50 tests in the last six months both in terms of really getting the product market fit, thinking through go-to-market and pricing strategies, and we feel that we're really positioned for something that's very early in its journey going into busy season, helping customers get set up providing help along the way when they need it and in some cases doing it for them. So we're excited heading into busy season in January knowing that our primary focus is to learn. But so far, both on the pro side and customer demand side, it's been exciting to watch.

Q - Scott Schneeberger {BIO 5302695 <GO>}

Sounds good. Thanks, I'll turn it over.

Operator

Thank you. Our next question comes from Matthew Wells of Citi. Your line is open.

Q - Matthew Wells {BIO 20577573 <GO>}

Hi, Sasan and Michelle. Thanks for taking my question. Can you talk a little bit about the customer cohorts that are purchasing QuickBooks Advanced? Are they existing desktop ecosystem customers, or are they net new to the Intuit platform?

A - Sasan Goodarzi {BIO 15750219 <GO>}

Yeah. The primary focus that we have our customers that have between 10 employees to 100 employees, but that's not -- it's not a hard line. It really depends on the number of customers that they have, the number of invoices that they have to do, the number of accounts payables that they have and just the scale in which they operate.

And so far, our primary focus has been ensuring that we take care of our existing customers, those that are ready to upgrade their platform that can better serve them and perform for them while we build our capabilities to also acquire new. So we've seen about a 75%, 25% mix. 75% existing customers upgrading and 25% new. And over time, we expect that to evolve a bit because we want to actually accelerate the acquisition of new customers that we have.

As we've shared before, there is about 180,000 customers within our QBO base that are a fit for QBO Advanced. And so our primary initial focus in the coming kind of year and 18 months is our existing customers, but that's the mix we're seeing so far when new customers find out that we have the capability, they're just naturally coming over to the platform.

Q - Matthew Wells {BIO 20577573 <GO>}

That's really helpful color. And switching gears to the Consumer segment, with the pull forward of marketing spend, are there any specific products you plan to lean into here? Is it going to be focused on TurboTax Live or some of the lower tier SKUs?

A - Sasan Goodarzi {BIO 15750219 <GO>}

It's all the above. Our teams have worked really hard this year in context of enabling us to expand our lead in the do-it-yourself category, enabling us to transform the assisted category and going beyond tax and finding ways to provide benefits beyond tax. And so really, the focus areas has been Self Employed. It's been Latinx, it's been improving our experiences for those that have that investments and stocks while at the same time making sure help is available through TurboTax Live for all the cohorts.

So really what we've learned in the last couple of years is all customers seek help from day one, and so we're ready to provide that both through if you want to do-it-yourself or

through Live. Well, at the end of the tax experience helping you understand that there's ways to save money, there is ways to connect the financial products that are right for you to get out of debt over time. So we're really ready on all those fronts from day one, because what we've learned is customers are having those needs from day one when tax season opens up.

Q - Matthew Wells {BIO 20577573 <GO>}

That's really helpful. That's it from me. Thanks for taking my questions.

A - Sasan Goodarzi {BIO 15750219 <GO>}

Thank you.

Operator

Thank you. Our next question comes from Keith Weiss of Morgan Stanley. Your line is open.

Q - Mark Randy

Hi. Mark Randy here on for Keith Weiss. Thanks for taking my question. So first maybe on QuickBooks Live. How much of the existing QBO base do you think will be interested in that? And kind of just how traction have been going? And do you expect this to be a material contributor to revenue growth this year or maybe next year? Any color on that would be helpful.

A - Sasan Goodarzi {BIO 15750219 <GO>}

Sure. First of all, important reminder that, we're very early in our journey with QuickBooks Live. Literally, we just went GA and used QuickBooks connect to activate it. And we're excited about what more we can learn. So it's very early in the journey. There are a lot of similarities to TurboTax Live. And the similarities are because of customer behaviors.

The largest problem our customers face, whether it's a consumer or a small business is confidence. It's confidence whether or not they're making good business decisions, whether they need access to capital, whether they're going to be able to make their payroll this coming week, how to think about profitability for their customer. So it's really a confidence problem and a confidence question that they have, which means that this will apply to a cohort in a portion of our existing base, plus, it's really an opportunity to penetrate non-consumption.

A lot of customers that sit on the sidelines and use Google Sheets and Excel, and then just use a pro to help them run their business. This becomes the potential trigger for them to switch. And we're seeing all of that. We're seeing existing customers opt for help and we're seeing new customers that are come in opting for either getting set up or engaging for help along the way because they need advice.

So thus far, we're seeing it across the spectrum. We really have not accounted for this to be a material impact for our revenue in this coming year. Again, we're -- this is way early in the journey. But this is one of the company's five big bets and we believe that it's a huge customer problem and a big growth driver for the company in the future.

Q - Mark Randy

Great. Thanks so much. And then maybe one more quick one. On the UK subscribers where you now hold the number one position. Can you talk a little bit about the driver of that growth? Is it like the making taxes digital act still a big tailwind and how do you see that trending, I guess, for the rest of the year?

A - Sasan Goodarzi {BIO 15750219 <GO>}

Yes. I am extremely proud of our team. Five years ago, we weren't even on the map in the UK, and they set a goal to maniacally focused on customers, getting to product/market fit and when we do, making sure that we really execute against our go-to-market strategies and raise awareness and I would say -- yeah, it's their hard work and focusing on product/market fit that's gotten us to the number one position because making taxes digital has been an opportunity for everyone, but our team has really done an incredible job nailing the product experience. Of course, we always have room to improve and really accelerating our marketing investments and now our expectations are to really hold that number one position and continue the growth.

Q - Mark Randy

Excellent. Thanks so much.

Operator

Thank you. Our next question comes from Jennifer Lowe of UBS. Your question please.

Q - Jennifer Lowe {BIO 6926228 <GO>}

Great. Thank you. I think this one is a Michelle question to start with, but given the commentary of international growth being greater than 60%, if I look at some of the metrics we got in the past, namely international subs growth in the high-50s, I think at Analyst Day last year or earlier this year was discuss the average revenue per customer is actually down in international. It feels like that's an acceleration, but I'm not -- I'm also comparing apples and oranges a little bit, so maybe just can you comment a little bit on that? How should we sort of put 60% -- north of 60% growth in the context of some of the metrics we've gotten in the past and what that trajectory looks like?

A - Michelle Clatterbuck {BIO 20314804 <GO>}

Hi. Yes. Total international online revenue growth for Q1 was 60% and obviously a lot of that was driven through the UK as a sign just mentioned with the move into first with online accounting subs in the UK, that has been a driver of the revenue growth. We're very pleased with what we're seeing and we do believe that international longer term is a large opportunity for us. Right now, the revenue from international is still a very small

portion of our overall. But we are seeing the UK picking up steam there and we would expect that to continue.

Q - Jennifer Lowe {BIO 6926228 <GO>}

Okay. Great. And then just one more on QBO for me. You mentioned subs growth being the majority of the driver, but also higher effective prices in QBO and there's a few reasons why that could be, but can you just give us a little color on what is driving that higher effective price and what the durability of that might look like as we move through the year. I mean is to, sort of, a one-up on pricing, or is it mix or what -- how should we think about that going forward?

A - Michelle Clatterbuck {BIO 20314804 <GO>}

We're really pleased -- when we think about Small Business here, we have the three pillars of the strategy of grow the core, connecting the ecosystem and expanding globally and we are pleased with the growth we saw in grow the core with online accounting in Q1 of 41%. The majority of that was driven by customer growth, the vast majority of that. Part of that and to a lesser extent, that was our higher ARPC. The higher effective prices there, that is some price increase, but it's also lower discounting and then we also had the impact of some mix shift to higher-priced products, which is like QBO Advanced. That's really what's driving that.

Q - Jennifer Lowe {BIO 6926228 <GO>}

Great. Thank you.

Operator

Thank you. Your next question comes from Brad Zelnick of Credit Suisse. Your line is open.

Q - Yao Chu {BIO 7278566 <GO>}

Hi. This is Yao Chu on for Brad Zelnick. Congrats on the quarter. Just had a question on competition here. H&R Block, seems they're coming out earlier this year on pricing in a very aggressive way especially on free online where they continue to message the differentiation from TurboTax. Any initial comment on that in terms of pricing, especially in the free SKU and is this related to the pull forward in marketing spend in the next quarter in any way?

A - Sasan Goodarzi {BIO 15750219 <GO>}

Yeah. Thank you for your question. Our choices and investments are really focused on our beliefs around what we can execute against and really grow the category and grow share. It has not anything to do with any choices that H&R Block has made, and I mean I can't comment on the choices that we've -- that they've made, but I have a lot of confidence in the choices that we've made and our focus as we head in to see them.

Q - Yao Chu {BIO 7278566 <GO>}

Great. Thank you. And the second question here, just moving to the UK again, congrats on the number one position. Can you remind us of the offering there internationally, is payroll and payments available, has QBO Live or Advanced started to scale, or if so, when would these be made available on an international basis?

A - Sasan Goodarzi {BIO 15750219 <GO>}

Yeah. So, in terms of what's available in the UK, it is our QBO platform and we have app partners that solve some of the most pressing problems for our customers. The primary problems around payment employees like payroll and payments is all through partners. So we do solve those very important problems, but they're all through partners.

Our intent is ultimately to roll-out QuickBooks Advanced and QuickBooks Live in the UK and beyond. There are critical opportunities to solve customer problems and they're drivers of growth for the future. So we're -- we've been very deliberate about getting the product/market fit in the US, while the platform is global-ready in building the capabilities to roll this out globally and UK and then Canada will be the first stops.

Q - Yao Chu {BIO 7278566 <GO>}

Thank you very much.

A - Sasan Goodarzi {BIO 15750219 <GO>}

Very welcome.

Operator

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

Q - Brent Thill {BIO 1556691 <GO>}

Hi, Sasan. Nice to see the UK in the pole position. If you look at other surrounding international countries in kind of stack ranked where you're most excited. Could you walk through where you are on, maybe, perhaps to where some areas that you wish you'd -- you're making bigger improvements that you think that may take a little bit longer time, but are there any other markets that you're seeing that could be in the UK position here shortly? Thank you.

A - Sasan Goodarzi {BIO 15750219 <GO>}

Sure, sure. Well, first of all, just as a -- if I could remind all of us that, outside the US we're in UK, Canada and Australia, where we've gotten the product/market fit and then there are emerging markets that we're focused on which is France, Brazil and India. And we are excited about the UK, but we are very hungry, because I think we just think we're getting started in the UK, especially to solve customer problems in a way that will drive revenue growth.

Our focus has been growing our customer base and growing share and now it's about accelerating to build a big business over time. So that's from just -- if I could paint a

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picture of where we are in the UK, I would just say, we're just getting started in terms of the opportunity ahead. And I would say we're in the same place in Canada. The growth in Canada, based on just the market dynamics is a bit slower, but the same opportunities still exist in Canada. And so, those are two markets where we believe that there is an opportunity for, over time, contribution to revenue growth.

In terms of the emerging markets, the two that we are continuing to see progress, it's not yet material from the lens of how much it contributes, but we're excited about is France and Brazil. We're seeing really good traction in France. We're seeing good traction in Brazil. Those are markets that are very different, but the opportunities are, in the long-term, ones that we like. And India is one that we continue to focus on product/market fit.

We have not made the progress that we would want to see us ourselves make in India and we're really still searching for product/market fit. But when I look at UK, Canada, Australia, France and Brazil, I just view that we have good opportunities outside of the US and it's sufficient and we're being very intentional and deliberate in India, in terms of the deliverables and what we're focused on to see if we can get the product/market fit.

Q - Brent Thill {BIO 1556691 <GO>}

And just a quick follow-up for Michelle. Nice earnings beat. Was there anything that didn't get spent that you were hoping to spend that it seems like you're maybe pushing some things around that maybe that marketing spending could fully flush through in Q1 that goes to the next quarter, or is it -- or was it not the case?

A - Michelle Clatterbuck {BIO 20314804 <GO>}

No. For Q1, we really didn't see much of that. As we called out, we are pulling in some of the marketing expense to Q2 for the Consumer Group, but when you look at our Q1 and what we were trying to accomplish there, our spend was pretty much where we had anticipated it to be.

Q - Brent Thill {BIO 1556691 <GO>}

Excellent. Thank you.

Operator

Thank you. Our next question comes from Sterling Auty of JPMorgan. Your question please.

Q - Sterling Auty {BIO 2070271 <GO>}

Yeah. Hi. Thanks. I actually want to follow up on that last point. If we look, obviously, you overperformed very nicely out of revenue, but just given the operating income guidance that you gave, it does look mathematically like you under-spent on total expenses in the quarter. So maybe not in marketing, but was there anything else in cost of revenue or something else that led to the total expenses coming in shy of what the operating income guidance would have implied?

A - Michelle Clatterbuck {BIO 20314804 <GO>}

When we really look at our guide for the year, I would continue to encourage you to look at the guide for the year. When we look at our spend, I don't get, really, concerned with quarter-to-quarter. There's always going to be some quarter-to-quarter shift in some expenses. And so, that's why I would continue to focus on the total year.

We did reiterate the year for our guide. And so, yes, there is always going to be a little bit of movement between quarters. That's just something that I don't get overly focused on because we really do look at the total year and the total company, and not worry too much about the individual quarters.

Q - Sterling Auty {BIO 2070271 <GO>}

That's fair. And then Sasan, you talked about some of the big bets and initiatives, I didn't hear. One of the things on QuickBooks was to help the product-based businesses, specifically with consolidating orders, I think was the imperative. Any update on that initiative?

A - Sasan Goodarzi {BIO 15750219 <GO>}

Yes. So one of -- as you suggested, one of our bets is about being the center of small business growth. And one element of that is to be really be able to transform omni-channel commerce. And our focus, first and foremost, we do have a road-map of what problems we want to solve and when, and the first set of deliverables are really about enabling customers to see all their orders in one place. So if they sell on Etsy, if they sell on Amazon and then if there is orders coming in from their own website, one of the biggest challenges that they had is actually seeing everything in one place and then eventually understanding their profitability in having a tied inventory.

So the first step in terms of what our teams are focused on is delivering that on the road-map and we've not yet delivered it. But we're excited about the clarity that we have in terms of what we need to do for customers and then a road map that we've got the right team behind. So we'll certainly, on a quarterly basis provide an update to you all, but we're excited about the progress that the team is making.

Q - Sterling Auty {BIO 2070271 <GO>}

Great. Thank you.

Operator

Thank you. Your next question comes from Chris Merwin of Goldman Sachs. Your question please.

Q - Kevin Kumar {BIO 20374595 <GO>}

Hi. This is Kevin on for Chris. Thanks for taking my question. We see a lot of third-party solutions in the QuickBooks ecosystem, including acquisitions Intuit has made such as

Tsheets. I guess as the growth focus shifts more towards revenue per sub, does it make more sense to do strategic acquisitions to more fully monetize the ARPU opportunity?

A - Sasan Goodarzi {BIO 15750219 <GO>}

Yes. Our principles really are clear in terms of what guide decisions that we make. First and foremost, it's about what's most important to our customers. The second is actually being able to solve that extremely well. And then the third is really assessing whether it's core versus context and how critical it is to the masses. And if its core, like Tsheets is a great example of -- although we were partners with Tsheets, what we learned and found out over time is that time tracking is very core to us.

And the reason it's core to us is that, it's a big input into automating the data that we get, and therefore how we leverage the data, applying artificial intelligence to it to really deliver more innovation for our customers. And so those are the principles that then drive whether it's partnership versus acquisition. It's less about just monetization.

Of course, monetization matters over time. But first and foremost, it's about customer problem, can we solve it well, and that is core versus context and then we let that drive whether it's a potential build, acquisition, or if it's a partnership.

Q - Kevin Kumar {BIO 20374595 <GO>}

Great. Thank you.

Operator

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

Q - Kirk Materne {BIO 57711115 <GO>}

Yeah. Thanks very much. Sasan, I wanted to circle back just on QuickBooks Connect and maybe just some of your takeaways, I guess, in terms of when you look at QuickBooks Live, in particular, what are maybe some of the things we should think about that could either help throttle adoption faster, the things that maybe people are sort of worried about or things you think some of the accounts just have to kind of get more comfortable with to maybe see some real acceleration in adoption? I'm sure you're expecting good adoption already, but just kind of wondering if you had any quick takes on that in terms of some of the questions you were getting back more specifically? Thanks.

A - Sasan Goodarzi {BIO 15750219 <GO>}

Sure, absolutely. If I could start with broader context. The whole purpose of QuickBooks Connect, which is something we started about five years ago, was really to bring the ecosystem together. It's the ecosystem of our partners, our customers, our employees and really leveraging it as a launching pad from new innovation, for training for our customers, actually providing best practices in terms of how do you grow your firm, how do you go your practice, how do you grow your business. And it's something now that we

stream outside of the 5,000 folks that attended, really, as a platform to launch big innovation, teach how to grow your business and it's a huge opportunity for us to learn.

And so, at QuickBooks Connect, there was a number of things that we launched, whether it's the line up for payroll and some of the new innovations around auto pay integrations to Tsheets or cash flow planning where a small business can now understand their cash flow issues, plan for their cash flow so that they can make better decisions, which is the number one reason why small business go out of business, to many innovations and launches on the accountant platforms, how the accountants do a better job running their business and running their firm. So I wanted to start with a broader context of those many aspects of, and in many areas across the platform where we shared new innovations across the board.

Specifically on QuickBooks Live, although we ran 50 test over the last six months and have been in market and learning along with making sure that accounts are aware of our narrative of what we're trying to do here. We really use QuickBooks Connect as an activation platform. And I would tell you that, once we got through these two standing room only sessions, there was incredible excitement about being part of the platform, because ultimately, they have the ability to grow their income, grow their practice and serve customers and do something that they don't like, which is marketing.

We also addressed concerns, because if you are not aware of the narrative as an accountant, you have a natural concern, which is, is Intuit trying to compete with me and is Intuit trying to take business away from me? We believe, by the way, that will always be a concern that will be out there until we get our narrative to every single pro and enrolled agent and accountant that's out there.

And so we were excited about QuickBooks Connect because we were able to address some of those questions, some of those concerns face-to-face. And we had, by the way, well over 1,000 folks that wanted to sign up on the platform after those events, which, by the way, blew us away. We did not have those high of expectation.

So net-net, this is a two-sided problem. The most important is solving the problem for small businesses and solving the problem for pros, which is helping them grow their practice. And we feel good about what we're learning. We feel good about our progress and QuickBooks Connect was a great activation event.

Q - Kirk Materne {BIO 5771115 <GO>}

Thanks for the color. Appreciate it.

A - Sasan Goodarzi {BIO 15750219 <GO>}

Anytime.

Operator

Thank you. Your next question comes from Brad Reback of Stifel. Your line is open.

Q - Brad Reback {BIO 3441314 <GO>}

Great. Thanks very much. On TurboTax Live, do you expect to increase headcount this year?

A - Sasan Goodarzi {BIO 15750219 <GO>}

Well, let me start with, we are still very early in the journey of TurboTax Live, as we've talked about before, there are 86 million folks that go to someone else to have them do their taxes for them. It's a \$20 billion opportunity and we just got started a couple of years ago. And so, our number one focus is customer growth and we're very focused this year on first time use additional access points so that you can get access to experts and improving the experience for experts.

We do expect to increase the number of pros because now we're actually -- it's both for QuickBooks Live and our TurboTax Live. And actually that's where being a platform and leading this in a digital way really comes into play because it's about having experts for both platforms. But we do expect it to grow it. We do not expect to grow it in any way, shape or form as fast as our revenue will grow.

But being very intentional to ensure that we have enough people to serve our customers. And I think I would just remind us that this is a technology-driven expert platform, which means that we're really applying AI to efficiently and effectively deliver experiences for our customers and that we do not see this as a impact on margin at all this year or beyond.

Q - Brad Reback {BIO 3441314 <GO>}

Great. And then just on one unrelated follow up, with the Windows 10 upgrade cycle looking to abate in the first half of calendar 2020. Should we expect that to have any impact on the desktop business post that? Thanks.

A - Sasan Goodarzi {BIO 15750219 <GO>}

We have not included any expectations of that sort in our guidance, nor do we expect that just from an execution perspective, but, of course, we're ready for our customers.

Q - Brad Reback {BIO 3441314 <GO>}

Great. Thank you.

A - Sasan Goodarzi {BIO 15750219 <GO>}

Very welcome.

Operator

Thank you. Your next question comes from Alex Zukin of RBC. Your line is open.

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Q - Alex Zukin {BIO 18006605 <GO>}

Hey guys. Thanks for taking my question. I wanted to ask a question about QB desktop. And it had a really strong quarter in Q1. I guess, do you expect that to continue? And then Sasan, how do you think about QuickBooks Online or -- sorry, QuickBooks Live as being a potential accelerant for conversions from QB desktop to QBO?

A - Sasan Goodarzi {BIO 15750219 <GO>}

Yeah. So, when we think about desktop in the long-term, first and foremost, we are obsessively focused on delivering for our desktop customers, while educating them on the benefits of the cloud, because they can -- over time, they can run their business in a much more effective way on the cloud, but what's important and what we've learned from our own experience is educating them on the benefits of the cloud and also educating them in terms of what's different on a cloud platform versus a desktop platform is very important because our desktop customers, whether TurboTax our QuickBooks, they love their desktop.

So that's point number one. We do expect that this is a business that will decline over time. What's really kept it at the level that it's been at, has been our enterprise desktop business that's been growing double digits, but we don't -- we -- the expectations that we've shared on desktop with you all, still stand.

In terms of QuickBooks Live, it certainly could be a potential catalyst. We have no proof at this point that it is, because we're really focused on our online customers. The real catalyst will be educating our desktop customers as to the benefits of online and making sure that they're prepared to make that jump. And I think we will just see a natural migration as we've seen over the last several years and QuickBooks Live could play a role. At this point, we don't have proof that it will and the biggest opportunity is really with non-consumption and current customers.

Q - Brad Reback {BIO 3441314 <GO>}

Perfect. And then just as a follow-up to that on QuickBooks Live, with some of the early testing you've done and the feedback you've gathered, have you had any surprises? Are there positives or negatives that were unexpected?

A - Sasan Goodarzi {BIO 15750219 <GO>}

Was your question on QuickBooks Live?

Q - Brad Reback {BIO 3441314 <GO>}

Yes.

A - Michelle Clatterbuck {BIO 20314804 <GO>}

Yes.

A - Sasan Goodarzi {BIO 15750219 <GO>}

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Got it. Sorry. You cut out on me. I would say the biggest surprise that we've had is the very number of needs that the customers have. There are customers that will come in and just say, hey, here's all of my stuff from Word, from Excel, from Google Sheets, all the receipt boxes that I have. Can you just help me get set up.

So I know what's going on in my business with QuickBooks and help me understand how to then run QuickBooks. So that -- the whole notion of set up has been a huge need for customers. And then the other is actually just advice. This is my cash flow, this is my net income, now that I understand it, what choices can I make? When will I need access to capital? Is it worth for me to take out capital? Should I buy more inventory?

I've sat multiple times in different sessions listening to calls between our bookkeepers and small businesses, and just the amount of reliance and need that they have to understand what's going on in their business, what choices that they have. Intellectually, we all understand it, but when you really listen to these calls and you get how important advice is, how important expertise is, and how much they lack confidence.

And so, that's not a surprise, but just when you listen to these calls, they just amplify how important it is. But I would say this whole notion of getting set up and understanding what's going on in my business and how blind that they are, and what's happening has been probably the biggest surprise and the biggest need that we're looking to figure out how to solve.

Q - Brad Reback {BIO 3441314 <GO>}

That's fascinating. Thank you, guys.

A - Sasan Goodarzi {BIO 15750219 <GO>}

You're welcome.

Operator

Thank you. Your next question comes from Josh Beck of KeyBanc. Your line is open.

Q - Josh Beck {BIO 17868061 <GO>}

Thanks for taking the question. I wanted to ask about QuickBooks Capital. Certainly AI in underwriting has been a -- of one of the focus areas, I think, underneath that theme. So are you getting to a point when you think about inflecting that business and grow it quicker and you think about maybe some of the ancillary announcements like you just mentioned, like Cash Flow Planner that we're may be on the cusp of seeing more loans facilitated or is it more likely to be kind of a steadier pace as we've seen in terms of the digital origination volumes?

A - Sasan Goodarzi {BIO 15750219 <GO>}

Yeah. We use -- first of all, I'll step back and reiterate how the ecosystem works together and what we're excited about is the notion of a customer being on our platform to get

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organized, to be able to invoice and get paid, to be able to pay their employees and with Cash Flow Planner, we're actually -- we can now give customers insight as to whether or not they even need access to a loan, but the loan is not the only way to solve their problem. It's also, do you want -- you want us to follow up with some of your customers that are overdue to get paid, you want to slow down paying a few vendors so you can make your payroll Friday.

So the Cash Flow Planner is really to help them thrive, to help them make better decisions, because they're lonely and running their business. They don't have business partners to give them analytics and Cash Flow Planner is really -- is just going to be the beginning of something that will be their -- kind of their assistant in their pocket, if I may, to then offer ways for them to run their business, access to capital could be one.

The second element to get to your question, there are two ways that we provide capital. One is the marketplace. One is, our own capital where we are partnered with a blue-chip financial firm where they had no recourse, but we also have provided access in that way. And based on the growth that we see, we continue to both leverage our blue-chip partner and the marketplace. And it's all really driven by the demand that we see both on our online platform and our desktop platform.

So it's an important retention driver. Over time it could be a growth driver, but most importantly what it's doing is helping our customers thrive and be able to get through the tougher earlier years to be able to survive as a business and improve their success, right.

Q - Josh Beck {BIO 17868061 <GO>}

Okay. Very helpful. And then, just a quick follow-up, maybe for Michelle. I noticed very modest deceleration in the Online Services growth. Should we be thinking that's driven by things like law of large numbers, obviously, international mix seems to be going up. So, I'd imagine that would probably -- maybe pressure this line. So anything to call out on the modest decel that we've seen there?

A - Michelle Clatterbuck {BIO 20314804 <GO>}

For Online Services, first of all, I'd say that we continue to be focused on our Online Ecosystem revenue growth of greater than 30%, and that was 35% for the quarter. In Online Services for the quarter, we did grow 27%, and the two major drivers there were QuickBooks payroll and payments and then to a lesser degree time tracking and QuickBooks Capital. One of the things that I would remind everyone about which you may be seeing is that, Online Services has parts that are growing very nicely, but it also has a part of it -- about 25% of Online Services that's non-integrated payroll and payments offerings and that is [ph] growing. And so, that's some of what you're seeing there, but we're very pleased with the growth that we've seen there and expect that to continue.

Q - Josh Beck {BIO 17868061 <GO>}

Very helpful. Thank you.

Operator

Thank you. Our next question comes from Jacqueline Cheong of Bank of America. Your line is open.

Q - Jacqueline Cheong {BIO 20312983 <GO>}

Hi. Thanks for taking our question. This is on behalf of Kash Rangan. I have a couple of questions around QBO Advanced. What's the go-to-market strategy for this product and what has initial customer feedback been like? And then, finally can QBO Advanced be a catalyst for more QuickBooks Desktop customers to move to QBO?

A - Sasan Goodarzi {BIO 15750219 <GO>}

Sure. Yeah. I'll start at the top, which is, there is about 1.5 million customers in the mid-market and we define mid-market as 10 employees to about 100 employees and it's about a \$40 billion market based on the math that we've done when you include services. And when we think about our go-to-market, our initial focus is our existing customers. We have about 180,000 QBO customers that outgrow QBO.

And ultimately, they need a platform that can perform at a different level that has rules and permissions, that has integrations with CRMs that meet their needs, just as an illustrative example. And so, our go-to-market is really making sure our existing customers are aware of the platform, and right now, we're actually seeing a 75% of our growth coming from existing customers and about 25% of the customers are new.

Eventually over time, we are right now building the capability, we're studying the best practices externally of those that have served the mid-market very well, putting together a great talented team that knows how to serve the mid-market and then ultimately our plan is to raise awareness top of the funnel and pursue these mid-market customers that typically by the way, are still running their business on Excel, on Google Sheets are stretched then use multiple accountants and so we foresee the combination of QuickBooks Advanced and QuickBooks Live working very well together. In fact, a certain percentage of our current QuickBooks Live customers are QuickBooks Advanced customers.

And so, when you think about our bets, one, connecting people to experts; and then the second is disrupting in the mid-market, they actually play very well together hand in hand. And what we've learned seen so far is a lot of delight from our existing customers where they see that this platform can meet their needs. Over time, it can be a source of reason for migration from desktop to QuickBooks Advanced. But right now, our main focus is existing QBO customers.

Q - Jacqueline Cheong {BIO 20312983 <GO>}

Got it. Thank you. Very helpful.

A - Sasan Goodarzi {BIO 15750219 <GO>}

You're welcome.

Operator

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

Q - Raimo Lenschow {BIO 4664646 <GO>}

Hey. Thanks. A lot of questions were asked, so I'll make it a short one. You talked -- what you talked earlier about the international and the UK, Canada, and then -- that you are still working on market fit for India. The other two that you have done a lot of work around was France and Brazil. Can you just double click on that one where we are in the evolution there? Thank you.

A - Sasan Goodarzi {BIO 15750219 <GO>}

Yes. For sure. So France is really where the US was about 15 years to 20 years ago. There is already a financial management solutions category, primarily on desktop. Most accountants are on desktop and light desktop, but now we're seeing small businesses want to use the cloud, because they see that it's far better to be able to use a cloud platform to be able to run their business. And they are now engaging accountants to be able to pull accountants to be able to come to the cloud so they can, in essence, help them run their business on the cloud. And that's really where the US was 15 years to 20 years ago.

And our team has done really a wonderful job of getting the product market fit by blocks. And what I mean by that is, we're focused on a street in Paris and making sure that we nail the experiences for that street in Paris and then go to the second street in Paris. And now we're starting to expand across Paris, because it's the fastest way to get the product market fit is one customer at a time.

And so we're seeing a nice acceleration. And we foresee, given our progress that France could be interesting and material three years to five years from now. And again, it's where the US was about 15 years ago. Brazil had a large compliance marketplace, it's mainly an account marketplace. Brazil is a market where they rely heavily on services. And so the likes of QuickBooks Live, if I could use that as an example, is a natural thing that they would actually go to, which is they would love for an accountant to do all their business taxes for them and to be able to provide advice for them.

And so those are some of the tests that we are now running in Brazil, which is shifting more towards services because that's what the market is oriented towards. So very different marketplaces and very different places. And I like the progress of our team. But again, these are more -- think about these opportunities three, five years out from now, don't look at them as near-term opportunities.

Q - Raimo Lenschow {BIO 4664646 <GO>}

Okay. Makes sense. Thank you.

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A - Sasan Goodarzi {BIO 15750219 <GO>}

Very welcome.

Operator

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

A - Sasan Goodarzi {BIO 15750219 <GO>}

Yes. Thank you very much for your questions and we look forward to chatting with you at our next earnings call. Have a great rest of the day and great rest of the week. Bye-bye.

Operator

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

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