

Q4 2019 Earnings Call

Company Participants

- Jerome E. Natoli, Vice President of Corporate Finance and Treasurer
- Michelle M. Clatterbuck, Executive Vice President and Chief Financial Officer
- Sasan K. Goodarzi, Chief Executive Officer, President & Director

Other Participants

- Brad Zelnick, Analyst
- Brent Thill, Analyst
- Chris Merwin, Analyst
- Jackson Ader, Analyst
- Josh Beck, Analyst
- Kartik Mehta, Analyst
- Kash Rangan, Analyst
- Ken Wong, Analyst
- Kirk Materne, Analyst
- Matt Pfau, Analyst
- Michael Turrin, Analyst
- Rakesh Kumar, Analyst
- Scott Schneeberger, Analyst
- Unidentified Participant

Presentation

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 Fourth Quarter and Fiscal Year 2019 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'll now turn the call over to Jerry Natoli, Intuit's Vice President of Finance and Treasurer. Mr. Natoli?

Jerome E. Natoli

Thanks, Latif. Good afternoon, and welcome to Intuit's Fourth Quarter Fiscal 2019 Conference Call. I'm here with Intuit's CEO, Sasan Goodarzi; and Michelle Clatterbuck,

our CFO.

Before we start, I'd like to remind everyone that our remarks will include forward-looking statements. There are a number of factors that could cause Intuit's results to differ materially from our expectations. You can learn more about these risks in the press release we issued earlier this afternoon, our Form 10-K for fiscal 2018 and our other SEC filings. All of those documents are available on the Investor Relations page of Intuit's website at intuit.com. We assume no obligation to update any forward-looking statement.

Some of the numbers in these remarks are presented on a non-GAAP basis. We've reconciled the comparable GAAP and non-GAAP numbers in today's press release. Unless otherwise noted, all growth rates refer to the current period versus the comparable prior year period, and the business metrics and associated growth rates refer to worldwide business metrics. A copy of our prepared remarks and supplemental financial information will be available on our website after this call ends.

Before I turn it over to Sasan, I wanted to share that I'm retiring at the end of January. So this will be my last Intuit earnings call. It's been a privilege working with the leadership teams at Intuit and a pleasure engaging with all of our shareholders over the years. I'm leaving you in good hands as Kim Watkins has been promoted to Vice President of Investor Relations.

With that, I turn the call over to Sasan.

Sasan K. Goodarzi {BIO 15750219 <GO>}

Thanks, Jerry for your friendship and the incredible impact you've had over the years. We're going to miss you my friend. Thanks to all of you for joining us today. We had a very strong fourth quarter capping off an excellent finish to fiscal year 2019. Fourth quarter revenue grew 15% and full year revenue grew 13%, exceeding the original guidance of 8% to 10% growth that we provided at the beginning of the year.

We're seeing our AI driven expert platform strategy play out in our results. And we believe this positions us well for durable growth in the future. We saw continued momentum across the company in 2019. Total revenue growth was fueled by 15% growth in the Small Business and Self-Employed Group and 11% growth in the consumer group. QuickBooks Online and TurboTax online platform revenue grew over 21%, totaling approximately \$3.9 billion in fiscal year 2019. We're guiding to another year of strong revenue growth for the company in fiscal year 2020.

Now let's dig into our results, starting with small businesses. We delivered another strong quarter in our Small Business and Self-Employed Group with online ecosystem revenue growth of 35% in the fourth quarter and 38% in fiscal year 2018. Online ecosystem revenue is at a \$1.8 billion annualized run rate and we continue to expect that to grow more than 30%. We continue to prioritize online services to deliver more value for our customers by addressing their biggest pain points. We're working to achieve our vision of

being the center of small business growth by helping our customers get paid fast, manage capital and pay employees with confidence.

Earlier this year we launched next business day payments. A service that enables our customers to receive their payment as their funds the next business day instead of having to wait three to five days to get their money. This change is resonating with our customers. Our online payments business remained strong with charge volume up 40% in the fiscal year 2019 for customers using QuickBooks Online.

Within Payroll we introduced next-day and same-day direct deposit to enable customers to hold on to their money longer and better manage their cash flow. QuickBooks Online payroll revenue overall grew more than 35% in fiscal year 2019. At the same time, we're seeing greater adoption of our full-service payroll offering, which is growing more than 35 point faster than our self-service offering and has a higher lifetime value.

Full service payroll provides even more support for our customers as we help them pay their employees accurately and stay compliant. On the time tracking front, we improved the mobile capability of our (inaudible) offering and added new features, such as GPS time tracking which increases accuracy and flexibility for both employees and employers. More than 1 million employees are tracking their time on this platform each month, up nearly 60% from last year.

We are optimistic about QuickBooks Online Advanced. Our online offering designed to disrupt the mid-market by addressing the needs of small business customers with 10 to 100 employees. While it's still early days, we like what we see. We're learning a lot about these customer needs and remain encouraged that this offering will present a significant opportunity for us longer term.

Now turning to tax. As we shared last quarter, we had a great tax season and grew revenue for the consumer group 11% in fiscal year 2019. Our Consumer Group strategy is to expand our lead in the do-it-yourself category, transform the assisted tax preparation category and disrupt traditional consumer finance by extending beyond tax to build the consumer platform. This is all in service to helping our customers make ends meet and maximize their tax refund.

Driven by our innovation and significantly improved customer experience, we grew both the DIY category and our share within it. Across all tax prep methods, TurboTax not has approximately 28% share of total individual returns, leaving us with a large opportunity. This season, we further personalized the tax preparation process using artificial intelligence. We went to market with our most robust free offer. We expect the strategic decisions we made this season, including our investment in artificial intelligence and in our free experience to drive durable growth across the Consumer business, especially as we look for ways to help customers make ends meet going beyond taxes.

We also made significant progress in our effort to transform the assisted category by tripling the number of customers using TurboTax Live, which connects people to experts on our platform. TurboTax Live is now a meaningful contributor to our business and

compared to other Intuit product lines it's among the fastest ever to reach this revenue level. We feel great about the experience we delivered for our customers to drive increased confidence, while improving operating efficiency far pros on our platform.

Beyond tax our consumer platform is aimed at helping customers unlock smart money decisions by connecting them to financial products that helps them make ends meet. We have over 14 million customers registered for Turbo, up from 5 million last season. While we don't expect a significant contribution to revenue in the near term, we are identifying ways to deliver more value to our customers. As we look to next season. Our team is actively developing the next wave of innovation to better serve consumers. We're confident in our Consumer Group strategy and excited about the opportunities that lie ahead for this business.

To wrap up, we're very pleased with our results in fiscal year 2019, and we're energized for another great year in fiscal year 2020.

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

Michelle M. Clatterbuck {BIO 20314804 <GO>}

Thanks, Sasan. Good afternoon, everyone. For the fourth quarter of fiscal 2019, we delivered revenue of \$994 million, up 15% year-over-year. GAAP operating loss of \$153 million versus a loss of \$200 million a year ago. Non-GAAP operating loss of \$47 million versus a loss of \$50 million last year. GAAP diluted loss per share of \$0.17 versus a loss per share of \$0.15 a year ago. And non-GAAP diluted loss per share of \$0.09 versus a loss per share of \$0.01 last year.

Turning to the business segment. In Small Business and Self-Employed revenue grew 16% during the quarter and 15% in fiscal 2019. Online Ecosystem revenue remained strong with growth of 35% in the fourth quarter and 38% for the year. 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%.

QuickBooks Online subscribers grew 33%, ending the quarter with over \$4.5 million subscribers. Growth remained strong across multiple geographies, with US subscribers growing 25% to over 3.2 million and international subscribers growing 58% to 1.3 million. Within QuickBooks Online, self-employed subscribers grew to over 1 million, up from roughly 720,000 one year ago. We continue to expect total subscriber growth to moderate as we place the greater focus on additional service. Desktop ecosystem revenue was up 1% in the fourth quarter and roughly flat for the year, in line with our expectations.

Within the desktop ecosystem our QuickBooks Enterprise revenue continue to grow at a double-digit pace in the fourth quarter. This further reinforces our interest in addressing the needs of mid-market small business customer with our QBO advanced offering. Consumer Group revenue grew 11% in fiscal 2019, above the high end of our original

guidance. Fiscal 2019 is the second consecutive year of double-digit revenue growth for the Consumer Group.

TurboTax online units grew 7% this season, while overall units increased 5%. As we shared last quarter, the DIY category share grew over a point, the fastest pace since 2016. Once again, outpacing the assisted tax prep category. Within the DIY category, we estimate our TurboTax Online share grew half a point. We were also pleased to see retention increase again this year for our online tax customers. We made great progress with our TurboTax Live offering this year, the number of TurboTax Live customers more than tripled year-over-year. We also enhance the efficiency of our pros this season, improving both the onboarding experience and technology tools for pros on our platform. This resulted in lower attrition and better operating efficiencies throughout the season.

For example, we utilize natural language processing and application of artificial intelligence to about 100% of TurboTax Live customer questions to the optimal pro, based on their type and complexity. This technology first -- technology first approach that gives us confidence we can expand our live offerings and maintain attractive Intuit operating margin longer term. And in the Strategic Partner Group, we reported \$476 million of professional tax revenue in fiscal 2019, up 4%, the high end of the original guidance that we provided at the beginning of the year.

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 of the company with an emphasis on continuing to build our 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 roadmap. 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 \$2.7 billion in cash and investments on our balance sheet. We repurchased \$148 million of stock in the fourth quarter and \$561 million during the fiscal 2018. We have approximately \$2.7 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 October 18, 2019. This represents a 13% increase versus last year.

Turning to guidance, our full year fiscal 2020 guidance includes revenue growth of 10% to 11%, GAAP earnings per share of \$6.35 to \$6.45 and non-GAAP earnings per share of \$7.50 to \$7.60. Our Q1 fiscal 2020 guidance includes revenue growth of 9% to 11%, GAAP loss per share of \$0.02 to \$0.04 and non-GAAP earnings per share of \$0.23 to \$0.25. We expect a GAAP tax rate of 21% for fiscal 2020. You can find our Q1 and fiscal 2020 guidance detailed in our press release and on our fact sheet.

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

Sasan K. Goodarzi {BIO 15750219 <GO>}

Great. Thanks, Michelle. To recap, we had a great year and couldn't be more excited about the future as we head into fiscal year 2020. I want to thank our employees, customers and partners for their contributions. I look forward to sharing more with you about the evolution of our strategy at our Investor Day on October 3.

As a preview of what you're going to experience at Investor Day, let me remind you what matters most to our customers. All of our customers have a common set of needs, they're all trying to make ends meet, maximize their tax refund and save money and pay off debt. And those that have made the bold decision to become entrepreneurs and go in the business for themselves have an additional set of needs.

They want to keep fine customers and keep customers, they want to get paid, access capital to grow and ensure their books are right. That's why our mission is to power prosperity around the world. And that's why our One Intuit ecosystem focuses on unlocking the power of many for the prosperity of one. The evolution of our strategy is to become an AI driven expert platform. This is about becoming an open, trusted and easy to build on platform where we and other partner solve the most pressing customer problems and deliver awesome experiences. It's about significantly accelerating our application of artificial intelligence, which progressively learns from the rich datasets across the platform.

To bring this strategy to life, we're applying artificial intelligence to accelerate speed to benefit, revolutionizing our customer experiences. We're also solving one of the largest problems our customers face, lack of confidence, by connecting them with experts on our platform. And in doing so, we're a leader in digitizing the services industry. At the same time, we're helping customers make smart money decisions using artificial intelligence and by connecting them to financial experts. For small business owners, we're focused on being the center of small business growth using artificial intelligence across our platform to expand the problems we can solve with our offerings.

And at last, we aim to disrupt the mid-market with a robust QuickBooks Online offering that grows with our customers. We had a great year in fiscal year 2019 and we're excited for what fiscal year 2020 holds.

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

Questions And Answers

A - Sasan K. Goodarzi {BIO 15750219 <GO>}

Thank you. (Operator Instructions) Our first question comes from the line of Kirk Materne of Evercore ISI. Your line is open.

Q - Kirk Materne {BIO 57711115 <GO>}

Thanks very much and congrats on a great fiscal year. Sasan, I actually just wanted to get maybe an update on QBO Advanced and how do you feel that's going thus far and kind of your expectations for that in fiscal '20? I guess, juxtaposed against the 30% growth you expect in the online ecosystem for next year. Thanks.

A - Sasan K. Goodarzi {BIO 15750219 <GO>}

Sure. Hi, Kirk. First of all, one of the focus areas for the company is about focusing on disrupting the mid-market which we define as 10 to 100 employees. And this segment is not new to us, we've serve it for years with our Desktop Enterprise platform. And it's one of the reasons why our desktop revenues held up the way it has. We've made quite a bit of progress with that QuickBooks Advance and rationally actually encouraged by what we see. We've built out the offering, we're iterating literally on a monthly basis, we've built out rules and permissions, batch invoices that allows our customers invoice at the rapid speed plus priority circle and we're focused on just being delivered about go to market and what's most effective. So we do like our progress and we believe that this is a promising opportunity for us as we look down the road.

Q - Kirk Materne {BIO 5771115 <GO>}

All right. Thanks very much. Look forward seeing it.

A - Sasan K. Goodarzi {BIO 15750219 <GO>}

Thank you.

Operator

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

Q - Brad Zelnick {BIO 16211883 <GO>}

Great. Thank you so much. Congrats on a great year and congrats Jerry on a great run and congratulations all around to Kim as well. So, thanks for taking the question. Sasan, can you talk about your confidence for 9% to 10% consumer tax growth next year and how much of that is driven from continued adoption in TurboTax Live? And perhaps what were some of the things you've learned when debriefing from last season?

A - Sasan K. Goodarzi {BIO 15750219 <GO>}

Sure. Hi, Brad. Thank you for your question. First of all, I'll take you back to our strategy, which is about expanding our lead in the do-it-yourself category, about transforming the assisted category and really about disrupting traditional consumer finance. And our view is that, we are at the very, very early innings of transforming the assisted category. A \$20 billion category over 84 million customers and we believe with an agnostic platform where we can match our customers to financial products and benefits, we're just getting started to be able to really deliver benefits and unlock smart money decision for our customers.

And that's really holistically what gives us confidence in the guidance that we provided around the 9% to 10%. And we feel like with the combination of expanding our lead in the do-it-yourself category by really penetrating deeper in the assisted category and beginning to deliver really benefit beyond taxes to our customers. That's not only do we have confidence in the guidance, but also as we think about our long-term expectations that we've set of 8% to 12%.

Q - Brad Zelnick {BIO 16211883 <GO>}

Thanks so much. And if I could follow up, one real quickly for Michelle. Just on consumer margins, your investments in TurboTax Live are clearly paying off, but as we think about the margins having been flat, do we see going forward a point where the margin on Live relative to core TurboTax balances out to where we should eventually see it expand?

A - Michelle M. Clatterbuck {BIO 20314804 <GO>}

Thanks for your question, Brad . First of all, I'd say, our big focus is on the same with TurboTax Live. It's really focusing on solving the customers' problems that we have there. And then next, I would say, one of the things we have done when we look at our approach to a services business like TurboTax Live, it's really we come with a technology first approach. And so, we are increasingly able to solve those problems by using AI and that enables us to really be able to maintain a good margin there.

And when we've had some early success with what we're doing with TurboTax Live and that gives us confidence as we think about this going forward. For example, you saw this past -- just this season, we were able to increase the customer base 3 times, while keeping basically the same number of pros year-over-year. And so, we'll continue to look at innovations that enable us to better use AI in that space.

Q - Brad Zelnick {BIO 16211883 <GO>}

Excellent. Thank you so much for taking the questions.

A - Sasan K. Goodarzi {BIO 15750219 <GO>}

Thank you, Brad.

Operator

Thank you. Our next question comes from Kash Rangan of Bank of America. Your question please.

Q - Kash Rangan {BIO 22095432 <GO>}

Yeah. From Bank of America. So in terms of the QBO business, I think the second quarter in a row, I think the ASP has been growing nicely in the mid-single digit. Can you just help us walk us through what are the drivers that help you with that growth? And how should we think about the ASP growth in that business long-term.

A - Sasan K. Goodarzi {BIO 15750219 <GO>}

Sure. Hi, Kash. Thank you for your question. First of all, I would share with you that, we don't really focus on ARPC, what we're really focused on is the customer problems that we're trying to solve and all the services and the potentials, whether it's payments, payroll, time tracking, QuickBooks Capital. And now with our focus on going after non-consumption with QuickBooks Live connecting people to experts and focusing on disrupting the mid-market where our customers generally have 10 to 100 employees, where the ASP in the past has been upwards of \$2,000. When you put all that in the mix, really our focus is delivering for our customers and the guidance that we provided you all that we want to grow north of 30% online revenue. And so, what I would say is, that's really what we are focused on and the ASP is really just a result of some of the decisions that we would make. So I would just hold this accountable for our online ecosystem revenue growth being greater than 30%. And that allows us to manage strategically in the marketplace to deliver for our customers.

Q - Kash Rangan {BIO 22095432 <GO>}

Got it. So I have a follow-up on the tax business. Obviously, there are many drivers in the tax business, you have a pre-filing, you have TurboTax products, services -- premium services. But if we were to think about what are the various drivers of growth for tax next year. Does it follow the same process of this year? How do you think about the industry growth, your share growth? Maybe some color on that is going to be helpful.

A - Sasan K. Goodarzi {BIO 15750219 <GO>}

Sure. Just very quickly, as you know, our focus is expanding the lead in the do-it-yourself category, a transforming assistant and again disrupting consumer finance and we typically think about IRS returns, the growth of IRS returns, the growth of the category and then our share growth in the category and then ultimately our ARPC. And as we communicated last year at Investor Day, we continue to assume that the IRS -- number of IRS returns will grow as category champions, we have confidence in growing the category. And our focus is making sure that we can increase our share. And then with TurboTax Live we have a huge opportunity to deliver for customers, deliver significant benefit at their place of home or office at a disruptive price, but that disruptive price for customers is the higher ARPC than the normal TurboTax Online. So, the drivers are consistent with what we've talked about last year and it's just one year better than we were at this time last year and we have confidence in the guidance that we provided.

Q - Kash Rangan {BIO 22095432 <GO>}

Thank you, guys.

Operator

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

Q - Rakesh Kumar {BIO 17942501 <GO>}

Hi. This is Rakesh Kumar sitting in for Jen Lowe. Your guidance for 12% to 14%, Small Business revenue growth is slightly better than ASC 606 guide at this time last year. But

we have seen some moderation in US, QBO subs, it has been a meaningful driver of revenue growth in recent years. Are there any other areas that you see coming in as more meaningful growth driver this year as that QBO sub growth start to moderate?

A - Sasan K. Goodarzi {BIO 15750219 <GO>}

Hi, Rakesh. Thank you for your question. First of all, I would say that the goal line we want you to focus on is our online ecosystem revenue growth being greater than 30%. And the reason that's important is: one, we're focused on acquiring customers whether they're self-employed with QBO, now with QBO Live, which has higher ARPC and with QuickBooks Advanced. And then based on our customer payments plans, wanting to get paid wanting access to capital, wanting to have access to payroll, we have a breadth of services that our teams have been improving significantly year-over-year, which is why it's so important to stay focused on the goal line of online revenue greater than 30%.

And with that said, I would actually say that when you look at our fourth quarter QBO, we did not moderate versus this time last year. And actually we accelerated our growth. So we feel good both around the customer growth in QBO, but more importantly the services that we are provide, and the fact that we believe that it will continue to allow us to grow north of 30% for our online revenue.

Q - Rakesh Kumar {BIO 17942501 <GO>}

Great. And then if I could add a follow-up. Some companies have noted weakness in Australia and UK where you have some exposure. I was wondering if you could comment on the macro environment and international regions?

A - Sasan K. Goodarzi {BIO 15750219 <GO>}

Sure. There's a couple of things that we look at, we look at strength in consumer spending, the charge volume, the same growing or declining in our base. We look at our small businesses, are they spending at the same amount with one another, because they buy and sell to one another and then the number of employees that they higher. And we've not seen in our data that we look at any weakness in any of those areas and/or any macroeconomic impact in the countries that you mentioned, we don't see any of that in our data.

Q - Rakesh Kumar {BIO 17942501 <GO>}

Thanks.

Operator

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

Q - Brent Thill {BIO 1556691 <GO>}

Thanks. Sasan, just on SMB, where do you think the lowest hanging fruit is from your perspective. There are a couple of areas that you're particularly excited about the next year. And Michelle, I wanted to go back to Brad's comment on the broader margin and

this will be now the fifth year in a row with margins roughly in the 33% range. And I know you're focused on the top line, but at some point, how do you think about the fall through on margin. Do you believe that over time that 33% that's been a ceiling, if you will, for the last four or five years, does that not become a ceiling at some point going forward?

A - Sasan K. Goodarzi {BIO 15750219 <GO>}

Hey, Brent. Maybe let me take on the question you posed to me and then I'll turn it over to Michelle. First of all, I'm incredibly proud of our team across the company and in small business, which translates into several areas that I'm excited about, because they are squarely focused on what matters most to our customers. I would say services is one bucket. Our team is really focused on how to ensure our customers can get paid fast, how do they ensure that they can seamlessly pay their employees and hold on to the money the longness, ensuring that they can get access to capital when they need it. And also time tracking, which is good for accuracy and compliance. So I'm excited about the work our team is doing in the bucket of services, which translates into payments, payroll, time tracking and QuickBooks Capital.

And the second thing is, although very early innings, really excited about being able to penetrate non-consumption with QuickBooks Live. One of the bigger pain points our customers face is confidence. Can I do it myself? Which is why they typically engage with accountants pros enrolled agents, both in small business and to get their taxes done right. And this is where we are building out a platform where we can connect experts to people on our platform that really allows significant penetration ins and on consumption. So I'm very excited about that and of course then the opportunity that we have as we look into the long-term, disrupting mid-market where the customers are over served, then they overpay. And we have an opportunity to serve them with a platform that's very easy to use at a price that's very, very disruptive. So those are the key areas that excited me about small business, not only in this coming year, but as we look ahead in the next several years.

A - Michelle M. Clatterbuck {BIO 20314804 <GO>}

Hi, Brian. Thanks for your question. On margins, we got confidence in the strong guidance that we have. We got revenue growing at double digits, we've got off maring in the '30s as you said, with 20 to 40 bps of expansion. And that is in line with our financial principles that we have. And We really do not see any structural issue or any feeling, it is very intentional on what we're doing. And as for where we're investing, we're allocating our investment dollars across the company, across our portfolio and really looking at the areas where we think there are the highest yielding opportunities to continue building on our strategy of being an AI driven expert platform. And that's why we say we manage margins at the company level, because it enables us to put that next dollar in the place where we can best drive customer and revenue growth and that's what we continue to be focused on.

Q - Brent Thill {BIO 1556691 <GO>}

Thanks. Good luck, Jerry.

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Bloomberg Transcript

A - Jerome E. Natoli

Thank you.

A - Sasan K. Goodarzi {BIO 15750219 <GO>}

Thank you.

Operator

Thank you. Our next question comes from Ken Wong of Guggenheim Securities. Your line is open.

Q - Ken Wong {BIO 20723645 <GO>}

Great. Thanks for taking my question. Maybe first for you Sasan. Last year you guys were really aggressive pursuing the free market. I'm just wondering as we look to '20, should we think of you guys harvesting those units or should we expect you guys to again focus on bringing more customers into the franchise. And then for Michelle, you mentioned AI has delivered some leverage in your TurboTax Live business, how should we think about your investments here as far as adding incremental reps or can you continue to do more with the same number of professionals?

A - Sasan K. Goodarzi {BIO 15750219 <GO>}

Great. Ken, thanks for your question. I would share with you that we have been very assertive in delivering for our customers and especially the simple filers, with the focus on free. And I would take you back to even my years at TurboTax. When I joined TurboTax seven years ago, we launched Absolute Zero where a customer can get there -- simple filers could get all their taxes done by paying nothing. And that's been a very strategic focus for us for years, because really we are focused on expanding our lead in the do-it-yourself category and then transforming the assisted category and ultimately helping these customers connect to financial products that are right for them, whether it's better savings accounts, better credit card rates, better home loans, better personal loans, which is what we're focused on doing with Turbo.

So this is just really -- as we think about the future, it's a continuation of focusing on customer benefits, what matters most to our customers. Free will be a very important element of that, but it's not new, it's been the case for years and we expect to continue to focus on what matters most to our customers as we look ahead. And we take all of that into account when we think about the long-term expectation for this business of 8% to 12% and specifically the guidance that we provided of 9% to 10% for next year.

A - Michelle M. Clatterbuck {BIO 20314804 <GO>}

Hi, Ken. Thanks for the question. If I think about TurboTax Live, as I mentioned, the AI innovations and then as you asked about adding more reps. What I would say is, would we need to add more agents, more experts to help? Yes. What we really are focused on is continuing to use AI to drive productivity and efficiency. So that there isn't a need to add in a linear fashion as we look at the units.

This past year, some of the things, specifically, we did, as I mentioned, I'm using it to manage call volume, we've also been doing other types of productivity for TurboTax Live, optimizing our scheduling and set up. So that gives a better experience for the pros on the platform and really modernizing our operations. And so, all of those in conjunction with artificial intelligence innovations that we have, we do see us being able to really digitize our services there from -- like I said, a technology first standpoint and not needing to add agents in a linear fashion.

Q - Ken Wong {BIO 20723645 <GO>}

Great. Thanks a lot guys.

A - Sasan K. Goodarzi {BIO 15750219 <GO>}

Thank you.

Operator

Thank you. Our next question comes from Michael Turrin of Deutsche Bank. Your line is open.

Q - Michael Turrin {BIO 20079094 <GO>}

Hey, there. Thanks. Good afternoon. I was hoping we could go back to the continued confidence and 30-plus percent online ecosystem growth, does that run rate continues to scale. Specifically, focusing in on the mix of services. Sasan, you provided some useful metrics in terms of payroll, but is there anything else you can add in terms of contribution? And then maybe secondarily, is there a house view at all on the opportunity there to layer on additional services over time?

A - Sasan K. Goodarzi {BIO 15750219 <GO>}

Yeah. Hi, Michael. Thank you for your question. We are, I would say, at the early innings of what's possible with services. And I'll just use payments as an example. We -- our customers send over \$214 million plus invoices and there is like 14% e-payment enabled. And that's just one example of demonstrating the opportunity. And so, when we think about pain points for our customers, getting paid, access to capital, paying their employees and being able to hold on their money the longest. Time tracking, especially with employees being out in the field. We see with just those four offerings as an significant opportunity ahead to deliver for our customers. And by the way, that becomes even more important when we serve mid-market, which is the segment was 10 to 100 employees.

With that said, one of the focus areas that we framed earlier is around being the center of Small Business growth for our customers. Really shifting from being the source of truth for your book, the source of truth for your business. And an additional area that we are focused on is really about transforming omnichannel commerce. How do we ensure that the 40% of the customers out there that our product-based businesses, ensuring that they can sell their products on multiple different channels, but more importantly, being able to understand their sales with the profitability of customers connecting that to their

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inventory. That's another leg that we are focused on. That's in earlier innings than even QuickBooks Live and QuickBooks Advanced. But to your question of, are there other opportunities? There are, but actually don't want us to lose focus on the services that we already have and the significant opportunity that we have to penetrate deeper into the base that we have to deliver benefits for our customers. And those are all the things that gives us confidence around being -- having the ability to deliver more than 30% online ecosystem revenue growth.

Q - Michael Turrin {BIO 20079094 <GO>}

That's great. Maybe just a quick follow-up for Michelle. On CapEx, you're guiding for a fairly significant step up in fiscal '20. Anything specific to call out there in terms of what's driving that increase?

A - Michelle M. Clatterbuck {BIO 20314804 <GO>}

Thanks for the question, Michael. No, I wouldn't -- we have typically said that our CapEx would be about 2% to 3% of revenue and in FY '19 you saw that, in FY '20 you see about the same. In FY '19 we did have a little bit of CapEx that slipped out of the year. Some of our sites that we are making some improvements on how construction projects sometimes work. We had some of that, that actually was just the timing and it moved into FY '20.

Q - Michael Turrin {BIO 20079094 <GO>}

Got it. Thanks.

Operator

Thank you. Our next question comes from the line of Matt Pfau of William Blair. Your line is open.

Q - Matt Pfau {BIO 19136163 <GO>}

Hey, guys. Thanks for taking my question. Just wanted to ask a follow-up on QuickBooks Live. Maybe you can just give us an update on what you're seeing in terms of interest level on both the demand and the supply side for it? And then, in terms of pricing of the product, it seems like currently it's between \$400 and \$500 a month. Is this sort of the go-forward model that you're going to leverage or there still other pricing options that are on the table? Thanks.

A - Sasan K. Goodarzi {BIO 15750219 <GO>}

Hi, Matt. So, we're excited about the potential of QuickBooks Live. I just want to remind this, we are in the very early innings. The reason we're excited about this is, there is a huge unsaid customer problem, which is about confidence. And the confidence is really around the notion of new customers feel like they can do it themselves, versus just stick with what they're doing Excel, Google Sheet, Dropbox and by the way of dealing with their bookkeeper and accountant. And so really the problem we're going after solving here is the confidence problem, to give them confidence that they can use a digital

platform to run their entire business. And at the click of a button, be able to have access to a bookkeeper through a chat box or through a live conversation through a very set of experiences that they may need.

So I'll give you an example. I was actually in Boise this past week, visiting our Tsheets team and sat for several hours listening to multiple QuickBook Live calls, because we've got some of our bookkeepers actually set up in Boise. And the particular experiences that I was listening in on, where in essence customers that have come into our bookkeeper said, "Hey, here's all my documents digitally, can you set everything up and then I'll check in with you in 48 hours and can you just tell me how my business is doing". And it was incredible to watch a customer really understand their net income for the first time, really understand their expenses, where they're spending their money and actually getting educated by our bookkeeper on how to run a business, but they are learning QuickBooks at the same time.

And so I use that as an example. It's a really large opportunity to go after non-consumption, they truly become the adviser to our customers. Because, small businesses are technicians and what they do well, a hair salon, welder, plumber. They don't actually know how to run a business. And so QuickBooks Live gives us the opportunity to either deliver the experience that I just shared or actually use QuickBooks yourself, but then engage with the bookkeeper if you have questions along the way. Like, "Hey, do I have enough money to increase my inventory? Should I borrow money". And those are the different experiences that we're delivering, based on the different needs that we are learning about. And the biggest area that we're focused on is actually how to solve demand.

Supply will be the easier part, because this is where an AI-driven expert platform strategy comes into play. A lot of the pros that we hire for TurboTax Live also have the capability to deliver the experiences that our QuickBooks customers need. And by the way, because of the fact that we have very high net promoter, we're creating income for pros, they're actually knocking on our door and wanting to be on the platform. So the supply side is really the least of our focus areas, although we're solving it through technology. It's really nailing on how to solve the customer problems.

Specifically, then around your question around pricing, we're doing a lot of testing, and in fact, you'll see something different on our website in three weeks based on a bunch of testing that we've done. So I wouldn't take what you're seeing as the go forward pricing, we're kind of exactly where we were in TurboTax Live 2.5 years ago, testing demand-based on different experiences for our customers. Hopefully that answers your question?

Operator

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

Q - Unidentified Participant

Hey, this is (inaudible) for Raimo Lenschow. I wanted to get a little bit more color on payroll. Can we get an idea of where we are in terms of penetration for self-serve? And

can we expect another 35% type growth in FY'20? And finally, how much the TSheets help in terms of growth this year.

A - Sasan K. Goodarzi {BIO 15750219 <GO>}

Thank you for your question. We view payroll and with the combination of TSheets as a continued opportunity to move -- looking ahead. And really in context of continuing to deliver more than 30% online revenue growth. And the biggest interest that we're actually seeing in payroll is full service payroll, when our customers want to outsource everything to us, because it actually is more accurate, better compliance and actually it's higher ARPC for the company. Coupled with TSheets, we've been working on integrating TSheets and Payroll. because if you put yourself in the shoes of the customer, they have employees out in the field and what they really need is mobile devices with GPS that allows them to track when the customer starts on a job or an employee starts on a job, when they end on the job. That automatically getting dumped into payroll, and that not only deliver significant accuracy, compliance and monetary value for our customers. But also it's a revenue opportunity for us when you look at the combination of payroll and TSheets. So we believe in this area, we continue to be in the early innings. We don't share what the penetration numbers are, but we like the 35% growth that we're seeing in Payroll.

Q - Unidentified Participant

Thank you. And if I could get another quick one in. You guided consumer 9% to 11% last year around this time, and we're starting off this year a little bit lower, which I was a little surprised with TurboTax Live being a little bit more evolved. Can you guys go through kind of the thought process into that guide of 9% to 10% for the year.

A - Sasan K. Goodarzi {BIO 15750219 <GO>}

Sure. First of all, we did guide 9% to 10% last year and our guide this year is very consistent with last year. And secondly, I have a lot of confidence in the progress in the business. We've got crystal clear strategy around expanding the do-it-yourself category, we are at the very early innings of transforming the assisted category, with over \$20 billion market size and 84 million customers. And at even earlier innings at disrupting consumer finance. And so, I feel great about our progress. It's the second year in a row, we've delivered double-digit growth in the Consumer Group. And love what the team is doing and feel good about our guidance.

Q - Unidentified Participant

All right. Thank you and congrats on great numbers.

A - Sasan K. Goodarzi {BIO 15750219 <GO>}

Thank you.

Operator

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

Q - Jackson Ader {BIO 19832434 <GO>}

Great. Thanks. Hi, guys. It's Jackson Ader [ph] for Sterling tonight. Our question is about the tax law changes that went into effect for 2018. So this is -- the tax season coming up is going to be the second full tax year with some of the changes. So, do you expect that maybe people are more comfortable with their return this second go around. And so, we could maybe see a little bit faster unit growth. But maybe on simpler packages or lower-priced packages this year?

A - Sasan K. Goodarzi {BIO 15750219 <GO>}

Yes. Thank you for your question. First of all, we are huge fans of anything that can be done to simplify taxes for consumers, as it gives them the ability to do their taxes themselves. The second thing is, last year Tax Reform was new, which means, some of in the product line-ups. were also new to map up with some of the changes. And the second year will always be better and easier because the customers will have more confidence, but our -- we've not baked any of that into our assumptions, we are focused and making the experience so drop-dead easy that we can get to a place where taxes are done and it doesn't matter what Tax Reform has been implemented. But that most of your taxes are down for you, when you come in. And all of that has informed the guidance that we've provided in the year.

Q - Jackson Ader {BIO 19832434 <GO>}

Okay. That's all we had. Thank you.

A - Sasan K. Goodarzi {BIO 15750219 <GO>}

Thank you.

Operator

Thank you. Our next question comes from Chris Merwin of Goldman Sachs. Please go ahead.

Q - Chris Merwin {BIO 17528635 <GO>}

Okay. Thanks very much for taking my question. Also a question about guidance, but more as it relates to Small Business and Self Employed. I think last year you guided I think 9% to 11% and ended up doing 15% this year. And this year you're guiding 12% to 14%. So just in terms of where you sit right now relative to last year. Maybe if you don't mind just talking a bit more about what's driving that optimism at the start of the year? Is it QuickBooks Live? Is it Online Advanced, International. Maybe some combination, just curious what you see as the main drivers? Thanks.

A - Sasan K. Goodarzi {BIO 15750219 <GO>}

Sure, Chris. Thanks for your question. It's all the above. It's really the result of the great work of the team, just looking back over the several years really being clear about how we convince customers to come to us and then how we deliver a great first-time user experience. So it's a combination of having the ability to be able to have an offering to serve the self-employed, to be able to have the QuickBooks platform that can serve customers that have less than 10 employees. But then now having a platform where we can disrupt the mid-market by serving small businesses that have between 10 to 100 employees. And then it's the services, we've been really focused on how do we ensure our customers can get paid fast? How do we ensure they have access to capital? How do we ensure we automate time tracking? Ensuring that when it comes to Payroll, not only is it an easier process and experience, but also being able to hold on to their money the longest. Because, typically, small businesses, the money goes out of their bank account with earning Payroll seven days in advance. And now we have same day and next day Payroll.

So it's the combination of really understanding what's important to our customers, being able to serve our customers from 0 to 100 employees, and really improving all the services that we provide. And we have high hopes for QuickBooks Live in the coming years to really be able to go after non-consumption, being able to connect our customers to experts. So it's really the combination of all of that, that gives us comfort in the potential of the business.

Q - Chris Merwin {BIO 17528635 <GO>}

Okay. That's great. And maybe just to follow up on services. Can you just remind us a bit about your strategy of white labeling verse developing your own products there? I mean, do you ever see it start to do invoice pay or tax automation on your own? Just curious how you think about doing one or the other?

A - Sasan K. Goodarzi {BIO 15750219 <GO>}

Sure. I'll take you back to our strategy of being an AI driven expert platform and the platform is truly about being an open platform, because we're customer back and customer first. And I'll use payments as an example, we want -- and what's important to our customers is, they want to get paid the way their customers want to pay them. And so we provide options, whether it's PayPal, whether it's Square, whether it's our own payments offerings, we provide those options to customers to ensure that they can use our platform to run their business. Because the more we can get our customers to use our platform to run their business, whether it's an act that's been made or created by Intuit or an app by one of our partners, we ultimately care about the benefit for customers. So we have over 600 apps on our platform. I've been mentioning more the core ones, but even in the area of payments we have multiple payment providers on our platform, PayPal and Square being one of them. So, ultimately, all of our decisions around the apps on our platform is around being an open platform and as customer back.

Q - Chris Merwin {BIO 17528635 <GO>}

Okay. Great. Thank you.

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>}

Hi, Sasan. I wanted to ask you a little bit about TurboTax Live. Obviously, had success this tax season. I'm wondering as you look at the numbers in TurboTax Live, what percentage of customers come from either traditional TurboTax or other digital players versus the assisted market. Just trying to figure out how much TurboTax Live is encroaching on the assisted and how much success you are having getting assisted customers to convert?

A - Sasan K. Goodarzi {BIO 15750219 <GO>}

Hey, Kartik. Thanks for your question. You know, it's kind of an and then all of the above. As you know, there is a lot of churn within the assisted category and even those that come from the assisted category to do it themselves, what we reported at Investor Day last year, of those 10 million customers that kind of go back and forth between the category. So TurboTax Live really does several things. One, if you come into TurboTax and you had a question. Something changed in your life, you bought a home, you got married, you had a baby, your uncle is now sleeping on your couch. Those little questions drive a lack of confidence and can drive someone out of the category. And now on a click of a button, you can get help in any way, which way, shape or form, even if you didn't pick TurboTax Live, you can actually go into TurboTax Live from the product that you're in. So one, it really helps with final conversion, helps with retention, which is all driven by confidence. We also have seen and will talk about this more at Investor Day, more conversion coming from prior year assisted, because these are folks that are coming in for the first time, they're used to engaging with a human being on the other side to get their taxes done and now they can come in, and again, with the click of a button they can get the help that they need.

So it's an end, it's all the above, because there's so much churn back and forth within the categories and between the categories that this really is going to go after the heart of what matters most, which is confidence.

Q - Kartik Mehta {BIO 2038331 <GO>}

Michelle, I know there's been a lot of discussion about margins. I wanted to get your perspective on that. You're obviously using AI and other technologies to make all the products better, but especially the TurboTax and QuickBooks Live. So is there a situation right now where you may be investing more in these technologies? And as a result, maybe it's impacting margins. And then in a few years, the benefits will really start accruing? Or is this something where you think the investment will level, will stay the same?

A - Michelle M. Clatterbuck {BIO 20314804 <GO>}

Hi, Kartik. Thanks for the question. We are investing in AIML. As I said last year, actually at Investor Day, and gave the example of the five big investment areas for us for

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FY '19. AIML was one of them as was our migration to the Cloud, TurboTax Live and so forth. It is one more of, I would say, it's more of prioritization. So we are absolutely seeing the productivity impacts on TurboTax Live abusing AI, we're seeing the benefits to the customer, from a customer experience standpoint in our products, both in Consumer Group and in Small Business.

But if you're thinking of that afterward are we going to be done or leveling off in a couple of years and then therefore some of that will flow to the bottom line. From our standpoint, we follow our financial principles and it's really every single year looking at what is the best use of the cash we have, and where can we invest it in a best way to drive customer and revenue growth. I wouldn't think of it so much as we're going to be done with investing and then therefore we just want to invest those dollars anymore.

Q - Kartik Mehta {BIO 2038331 <GO>}

Thank you, Sasan and Michelle. I appreciate it.

A - Sasan K. Goodarzi {BIO 15750219 <GO>}

Thank you.

Operator

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

Q - Josh Beck {BIO 17868061 <GO>}

Yeah. Thank you for the question. I wanted to ask about International. It seems like the QuickBooks Online subs there may be accelerated to the high 50s from the mid '50s in the last couple of quarters? So anything inflecting or that you'd call out in terms of the success you're having there?

A - Sasan K. Goodarzi {BIO 15750219 <GO>}

Hi, Josh. Yes, I would touch on two things, talent and our global playbook. By the way, the same thing applies also to our services and the progress that we're making in services, which is just really adding great team members that are focused entirely on pain point that matter most to our customers. In this case, we have structured International such that we have international leader that owns delivering for our customers international and owns growth. Which means that, he's able to ensure that we allocate the proper resources, the proper focus across the portfolio of countries to ensure that we're going after the biggest customer impacts and the biggest growth opportunity.

So the investment in just talent and people really has made a difference. The other is, we now have a global playbook where several years ago we step back and we studied our own history, the decisions that we made, the mistakes that we've made, what worked, what didn't work, we studied others that are in our space. We also studied others that are global players that are not in our space, interviewed them, understood their playbook and that will inform a playbook that we now have, that we are following. I think it's a

combination of having a very systematic playbook, being very deliberate about resource allocation and the talent of that, just giving us the ability to maintain this kind of growth rate at a far larger base than even when we were a couple of years ago.

Q - Josh Beck {BIO 17868061 <GO>}

Okay, great. And if I could ask one follow-up on consumer. You talked a bit about the opportunity beyond tax and, obviously, almost tripled the number of Turbo users. So maybe just help us understand what you're imagining when we think it's going to these other services that you could add to Turbo users?

A - Sasan K. Goodarzi {BIO 15750219 <GO>}

Sure. The biggest problem that our customers face beyond making sure that they get, especially, in the United States, the largest check of the year, which is the tax refund, is making ends meet. This is about being able to pay off debt and savings money. And most of folks, and I'll just use US as an example, are under duress when it comes to how do I put food off the table? How do I pay my bills? How do I ensure that I've got close on my kids back? And so our focus is really to help our customers make ends meet, by really being an agnostic platform that matches our customers to products that are right for them. So if I just paint the picture of what this looks like is, imagine a tax time helping our customers find the highest yield savings account, where we're not pushing a financial product, we're helping them understand the best financial product.

It's helping connecting them to a personal loan at the best rate versus because the financial institution only providing one rate. It's helping them understand their credit score and the actions that they can take to improve their credit score. It's to understand how to best get an auto loan before they go by the auto, so that they can actually save money. So it's really -- and those are just illustrative examples. But based on the customer consents, letting us use their data to deliver benefits for them, we can, in essence match them the benefits that could really help them prosper back to our mission of powering prosperity around the world. So that's our focus. And we're excited about the fact that we have 14 million customers that we're testing with in terms of what benefit make the most sense for them.

From a revenue perspective, very early innings. But from a focusing on what matters most to our customers, which is where our focus is right now, we're excited about the possibilities. So that's kind of the picture of what it would look like.

Q - Josh Beck {BIO 17868061 <GO>}

Very helpful. Thanks, Sasan.

A - Sasan K. Goodarzi {BIO 15750219 <GO>}

Sure. Thank you.

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. And congratulations, Jerry and Kim. And good work all. The -- my first question on retention. I heard online tax retention improved. Michelle, if you could just put some color around that? And maybe if you could delve into some categorization and actually touch upon what you saw as far as retention over in TurboTax Live? If you don't want to tell your numbers, maybe some anecdotes either one of you. Thanks so much.

A - Michelle M. Clatterbuck {BIO 20314804 <GO>}

Hi, Scott. Thanks for the question. As we looked at this year, one of the issues that we know, we've had just with customers overall, when you think about TurboTax when they're going through to complete their return is, they're going [1:09:19] confidence. And so that's one of -- the reasons why we've been very excited about TurboTax Live is, it gives us an opportunity to provide an expert who can really provide that level of confidence to someone so they can complete their return and opens up the assisted market for us. And so, we had: Number one, as I said, hope to pull people in from assisted; Number two, hope to keep people in the category overall. And so, as we said, we have seen increases in our TurboTax Online retention for this year. We haven't given any additional details on that. You might get some more information around that in our Investor Day on October 3, but right now, we haven't given any additional information.

Q - Scott Schneeberger {BIO 5302695 <GO>}

Thanks. Fair enough. As a follow-up, just a lot of cash on the balance sheet right now, it looks like you're going to generate a lot of free cash flow next year, even though you have slightly tweaked up CapEx. It just kind of curious, I mean, I saw the smaller acquisition in the quarter and obviously, a very nice dividend increase, but still it looks like you're going to have a lot more cash at the end of next year, then you do right now at this buyback pace. Just curious, I know your typical approach to it, but what's your view of what type of cash or what amount of cash you want to carry? And might we see a step-up in spending or returning or what have you? Thanks.

A - Michelle M. Clatterbuck {BIO 20314804 <GO>}

Thanks Scott. I would say, yes, we do have more cash than year, but none of our financial principles have changed, our M&A strategy hasn't changed. And so, our approach is really, we step back, we look at our financial principles and then we see what makes sense to us. When we look at our investments, we absolutely want to invest that cash in the business to drive customer and revenue growth. And then we will look at acquisitions to fill out our products road maps. And then we will return cash to customers. I mean, excuse me, to shareholders that we can use profitably in the business. And we have this financial principles that are in place and we will continue to follow those. We have not changed those.

Q - Scott Schneeberger {BIO 5302695 <GO>}

Thanks very much.

Operator

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

A - Sasan K. Goodarzi {BIO 15750219 <GO>}

Yes. First of all, thank you so much for joining. And again, a huge thank you to our employees for an amazing fiscal year '19. We're very excited about 2020 and we look forward to seeing all of you at Investor Day. Until then, thank you.

Operator

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

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