Company Name: Intuit
Company Ticker: INTU US
Date: 2017-08-22
Event Description: Q4 2017 Earnings Call

Market Cap: 35,396.37
Current PX: 138.15
YTD Change($): +23.54
YTD Change(%): +20.539

Bloomberg Estimates - EPS
Current Quarter: 0.068
Current Year: 4.993
Bloomberg Estimates - Sales
Current Quarter: 853.000
Current Year: 5631.857

Q4 2017 Earnings Call

Company Participants

- Jerry Natoli
- Brad D. Smith
- R. Neil Williams

Other Participants

- Michael Nemeroff
- Kash Rangan
- Walter H. Pritchard
- Sanjit K. Singh
- Ross MacMillan
- Nandan G. Amladi
- Scott Schneeberger
- Sterling Auty
- James MacDonald
- Kartik Mehta
- Raimo Lenschow
- Michael Millman
- Brad Robert Reback

MANAGEMENT DISCUSSION SECTION

Jerry Natoli

GAAP and Non-GAAP Financial Measures

Some of the numbers in these remarks are presented on a non-GAAP basis

We've reconciled the comparable GAAP and non-GAAP numbers in today's press release

Brad D. Smith

Business Highlights

CFO Succession Plan

- As you read in our press release today, we've announced a CFO succession plan
- Neil has served as CFO since January 2008 and plans to step down at the end of January 2018
- I'm pleased to share that Michelle Clatterbuck will assume the role of CFO on February 1, 2018
- It has been a well-crafted succession plan that we'll cover in a few minutes, but let's start with the business

Small Business

QuickBooks Online Subscribers and Online Ecosystem

- We had an excellent fourth quarter and a strong finish to FY2017
- Fourth quarter revenue grew 12% and full-year revenue grew 10%
- We're encouraged by the accelerating momentum in Small Business, including a continued strength in both our QuickBooks Online subscribers and Online ecosystem revenue growth
- We're also pleased with our results in both consumer and professional tax, which delivered at the high-end of our expectations in a complicated tax season
- Across the company, we continue to innovate and improve our product experiences to deliver meaningful benefit for our customers
- For example, we improved the end-to-end experience for QBO customers, which resulted in a 22-point increase in our Net Promoter Score
- We solved important pain points for self-employed business operators, such as the ability to separate personal and business expenses, send invoices and receive payments and track their mileage
  - This led to a quadrupling of our QuickBooks Self-Employed customer base

SmartLook Video Chat Capability and One Intuit Ecosystem

- We expanded our SmartLook video chat capability to help our TurboTax Online customers answer that one nagging question that could cause them to abandon the product
- Customers who used SmartLook rated their care experience nearly 20 points higher than those who did not
- Our One Intuit Ecosystem has evolved into an active ecosystem, creating greater value for our customers while building new sources of competitive advantage for Intuit

New QBO Matchmaking Platform

- Let me share just a couple of examples
- First of all, our new QBO matchmaking platform is connecting small businesses with the right accountant
- We know that 89% of small businesses believe they're more successful when they work with an accountant
- And this year, 53% of our small business customers are now doing so
  - That is a 10-point increase vs. last year
  - This has the potential to be a key driver of small business success and a catalyst for Intuit's growth over the long term

Client Leads, TurboTax and QuickBooks Self-Employed Bundle

- Second, we're helping accountants grow their practices, delivering three times more client leads than we did just one year ago
- Third, our TurboTax and QuickBooks Self-Employed bundle is putting more money in our self-employed customers' pockets, eliminating work and making it drop-dead simple to track and deduct business expense

  - As a result, we are generating more than $4,300 in tax savings for self-employed customers, which is 8% of their income on average
- We'll share more about our plans to further strengthen and accelerate our One Intuit Ecosystem at our upcoming Investor Day in October, but now let's talk about our fourth quarter and FY2017 results, and we'll start with Small Business

Subscriber Growth

- We delivered another strong year, with subscriber growth continuing at a rapid pace and online ecosystem revenue accelerating
- We added over 870,000 QuickBooks Online customers in FY2017
  - That's twice as many as we added in FY2016
- We finished the year with over 2.3mm customers, driving subscriber growth to 58%, up from 41% last year
- We continue to deliver strong QBO growth in the U.S. and international markets
- Our U.S. subscriber base grew 53% y-over-y to nearly 1.9mm subs, up from 40% growth last year
- Outside the U.S., our subscriber base grew 75% y-over-y to over 500,000 subs, up from 45% growth last year

Net Promoter Scores

- We've also seen our Net Promoter Scores improve in every country y-over-y, giving us confidence that our international growth formula is working
- As a reminder, our playbook when entering a new market is to focus on product market fit first, then we lean heavily into marketing to drive subscriber growth
- We continue to feel good about our position in Canada, the U.K. and Australia, surpassing the 100,000 subscriber mark in all three countries this year
- Our teams in France, Brazil and India are working hard to reach product market fit in their respective countries
- We'll share more on our progress in the coming quarters

QuickBooks Online

- Within QuickBooks Online, self-employed subscribers grew to approximately 390,000
- That's up from 360,000 last quarter and 85,000 just one year ago
- Our bundled self-employed offering in TurboTax contributed approximately 170,000 subscribers to this total

Summary

- Summing it up, our momentum in QBO subscriber growth continues to drive top line revenue, with online ecosystem revenue growth accelerating to 33%; that's up from 30% last quarter
- We expect subscriber growth to continue north of 40%, and we now expect online ecosystem revenue to grow more than 30% over the next few years

    - That is up from our previous guidance of 25% to 30%

Tax

- Turning to tax
- Consumer Tax revenue finished the year up 9% in a complex season that was defined by below-normal IRS returns growth and a highly competitive environment in the free category
- We performed well with our paid customers driving our revenue growth this season
- Our team is already hard at work reimagining our tax business and building the next wave of innovation to better serve our customers in both the free and the paid segments
- There is no question there is still a ton of opportunity in this business, especially as we leverage technology to provide even more value to our customers
- We are very excited as we look ahead to next season, and we'll share more with you when we see you at Investor Day

ProConnect

- On the ProConnect side, revenue also finished the year at the top end of our guidance range
- We continue to focus on multiservice accounting firms that do both books and taxes
    - This is in service to driving our accountants customer success and growing our small business ecosystem

Investments

- Taking up the nose of the plane, let me share some context for where we're headed as a company
- Over the past nine months, our senior leadership team has invested significant time completing an extensive outside-in, future-back exploration to set the foundation for our next chapter of growth
- The end result is the most comprehensive collection of market and customer insights we have ever amassed
    - And this has led to a complete refresh of our company's game plan to win, from the company's mission, all the way down to the metrics

One Intuit Ecosystem Strategy

- Our One Intuit Ecosystem strategy, as we're calling it, will power the next chapter of growth
- It capitalizes on our tens of millions of active customers and the vast amounts of data that we steward on their behalf
- When you match that data with our leading technology and our machine learning capabilities, we are able to deliver deeply personalized experiences through a trusted open platforms and create indispensable connections, not only between people, but between products, and we can do it in a way that is not easily matched by our rivals
    - As new participants enter this Intuit ecosystem, the value increases for everyone, unleashing the power of many for the prosperity of one

- In support of our refresh strategy, we have made some deliberate decisions to target investments in several key areas during FY2018
  - You'll hear more about these investments from Neil in a minute
  - We expect these initiatives to further accelerate our long-term revenue growth

R. Neil Williams

Financial Highlights

Revenue, Operating Loss, Income and Diluted EPS

- In Q4 FY2017, we delivered revenue of $842mm, up 12% y-over-y; a GAAP operating loss of $10mm vs. $56mm loss a year ago; non-GAAP operating income of $78mm vs. $36mm last year; GAAP diluted EPS of $0.09 vs. a loss of $0.16 last year; and non-GAAP diluted EPS of $0.20, up from $0.08 last year
- You'll note that our GAAP EPS includes the tax impact of early adoption of the accounting standard update for share-based compensation
  - This added $0.13 to our GAAP earnings for the quarter and $0.28 for the full year
- For full FY2017, we delivered revenue of $5.2B, up 10% y-over-y; GAAP operating income of $1.4B, up 12% vs. a year ago; non-GAAP operating income of $1.7B, also up 12% vs. last year; GAAP diluted EPS of $3.72 vs. $3.69 last year
- As a reminder, our GAAP results in FY2016 included a net gain of $0.65 per share from the sale of discontinued operations
- And our non-GAAP diluted EPS of $4.41, up from $3.78 last year for an increase of 17%

Business Segments

- Turning to the business segments, total Small Business revenue grew 14% for the quarter and 13% for the year
- QuickBooks Online subscriber growth remained strong, and we exceeded our guidance for the quarter and the full year, reaching 2,383,000 subscribers, up 58% y-over-y
- TurboTax was a significant channel for QuickBooks Self-Employed for the year, accounting for 11 points of QBO subscriber growth, a great example of the power of the One Intuit Ecosystem that Brad just mentioned
- Small Business online ecosystem revenue accelerated to 33% in Q4 and grew 30% for the year
  - This is above the high end of the 25% to 30% growth range we've talked about and is driven by continued growth of online accounting revenue
- Our online payroll and payments businesses remain healthy, growing revenue 21% and 12% for the year, respectively

Outlook

As Brad mentioned, our outlook over the next few years calls for over 40% growth in QBO subs

We expect online ecosystem revenue to grow better than 30%

- And that subscriber growth is on top of the 58% increase we've posted in FY2017, demonstrating the confidence we have in our strategy

Our Small Business desktop ecosystem, total revenue grew 8% for the year despite desktop units being down 8%

For FY2018, we expect QuickBooks Desktop units to decline low double digits and desktop ecosystem revenue to be up mid-single digits

- That revenue growth is driven by continued strength in our QuickBooks Enterprise business

Consumer Tax revenue was up 9% for the year, reflecting two points of unit growth, and ProConnect revenue grew 2% for the year

Capital Management

- Turning to our financial principles, we continue to take a disciplined approach to capital management
- With approximately $800mm in cash and investments on our balance sheet, our first priority is investing for customer growth
- Our goal is to drive double-digit revenue growth and to grow operating income faster than revenue

Share Repurchases, Dividends and Investments

- We return cash that we can’t invest profitably in the business to shareholders via both share repurchases and dividends
- We repurchased over $360mm of shares in Q4 and over $830mm for the year
- Approximately $1.5B remains on our authorization
- We returned approximately 85% of our FCF to shareholders last year and more than 100% over the last five years
  - That level is not sustainable, so you’ll notice the share count guidance for FY2018 reflects a slightly more moderate buyback program than in recent years
- We expect to begin the market each quarter, and we’ll continue to keep an eye on investment alternatives and overall market conditions as we manage our program
- In FY2018, we expect to pay a cash dividend of $1.56 per share, with the first dividend of $0.39 per share payable on October 18, 2017
  - This represents a 15% increase vs. last year
- As Brad mentioned, we’re reallocating over 10% of our annual spend to strengthen our investment in several key priorities over the next three years, including:
  - Increasing our capability in artificial intelligence and machine learning
  - Accelerating our transition to Amazon Web Services
  - Enhancing our brand and marketing effectiveness globally
  - And enabling our engineering organization to increase effectiveness and efficiency
- We expect these initiatives to set us up to deliver strong growth in the coming years

Operating Margin, Revenue and EPS

- Even with these investments, we expect our operating margin to expand modestly in FY2018
- Our full-year FY2018 guidance includes QBO subscribers of 3.275mm to 3.375mm, total company revenue growth of 9% to 11%, GAAP EPS of $4 to $4.10 per share, and non-GAAP EPS of $4.90 to $5
- Our Q1 FY2018 guidance includes revenue growth of 8% to 11%, a GAAP loss per share of $0.17 to $0.19, and non-GAAP EPS of $0.03 to $0.05
- You can find our Q1 and FY2018 guidance details in our press release and on our fact sheet

Segment Reporting Change

- We're making a few changes to our segment reporting in FY2018
- Our principle is to align our segments with our core customers and business partners
- We are creating a consumer segment by combining our consumer ecosystem offering, which includes our Mint business, with the Consumer Tax segment
- We are renaming the Small Business segment as Small Business and Self-Employed, and renaming ProConnect as the Strategic Partner segment
  - This segment will manage our professional tax offerings, while also focusing on partners instrumental to the success of our ecosystem
  - All these changes are reflected on our fact sheet
- On a personal note, over the last several years, it's been a priority for me and my team to think about our long-term strategy, and that includes finding and nurturing awesome talent
- As we announced today, I'll be stepping down in January
- I'm really confident in Michelle
  - She thinks and acts like a COO and demonstrates a unique blend of partnering and influencing skills that are backed by deep domain expertise
  - She brings credibility as a strategic thinker, who connects dots that others often don't see
  - I look forward to working with her over the next five months to ensure a smooth transition

Brad D. Smith

Closing Remarks

I know our CFO transition isn't official until February, but I wanted to take this moment to express my sincere admiration and appreciation for all that you've contributed over the past decade

Our financial foundation has never been stronger

We successfully navigated a business model transition

We're posting double-digit revenue growth, expanding margins and we have a strong investment-grade rating

Your commitment to recruiting and developing top talent has created a deep bench of strong financial leaders, which makes a seamless transition of our leadership team possible

And Michelle, she has risen to every occasion at every step along the journey, consistently delivering outstanding performance across multiple strategic leadership roles and multiple business units over the past 14 years

- We're excited to have her succeed you as our next CFO in February

So with that said, let me bring our introductory comments to a close

It's another strong year in the books for Intuit, reflecting increasing momentum in our QuickBooks Online ecosystem and strength in our tax businesses

I am proud of the innovations that our team continues to deliver every day and we're looking forward to sharing more with you in October

QUESTION AND ANSWER SECTION

<Q - Michael Nemeroff>: Brad, if I may, just on the Small Business side, it looks like the TurboTax SE promotion was highly successful in this tax season and actually last quarter as well. I was wondering if you could maybe tell us about some of the other cross-promotional activity that you plan going forward. And then also if you could maybe tell us if there is any noticeable difference in the retention of the TurboTax SE vs. the standalone SE subscribers so far?

<A - Brad D. Smith>: Thank you, Michael. Let me start by saying this was an incredibly inspiring year to see the power of our ecosystem. It's not just connecting products like QuickBooks Self-Employed and TurboTax Self-Employed, but it's connecting people. I gave the example of the power of connecting a small business with an accountant, and now accountants are getting three times as many leads as they did last year. And we have small businesses increasing their rate of success, and they're working with accountants more often; so that's the power of bringing people together.

On the Self-Employed side, we had a very good the one year. When I say a version one year, 170,000 active subscribers, but we know in the TurboTax base, there are roughly 3mm of our filers who have Scheduled SE filing, and they are Self-Employed customers. So we have a lot of upside opportunity there to continue to accelerate the growth.

We also had success last year in connecting our credit score in Mint with TurboTax to begin to move beyond just the tax filing needs of a consumer and begin to think about their entire financial life. That's why we are moving these two businesses together and having one consumer-backed business unit now that Neil just mentioned. That was a great example.

And then we have the matchmaking platform. And what we basically did was take QuickBooks Online for accountants. We added some practice management capabilities, and we've enabled the ability now for a small business looking for an accountant to be connected with one that actually meets their needs. And those are just a few examples. We have many more, and we plan to showcase those at our October Investor Day, but we're excited to see this ecosystem really starting to create value for multiple parties.

<Q - Kash Rangan>: Sure. Neil, are you sure you want to miss the tax rush of April 2017, that not being around for the 11th year to watch the units?

<A - R. Neil Williams>: You know, Kash, it's going to be a big miss, but I'll do my best to shove through through it.

<Q - Kash Rangan>: That was a facetious question. Well, congratulations. It's been great working with you over the past 10 years. Brad, sorry, you get the serious question. It's really impressive to see the QBO SE business take a dimension of its own. What's your best guess/prediction as to how this installed base of customers, QBO SE, behaves differently than the typical QBO customer? In other words, you've had a legacy set of systems that typical QBO customers, desktop customers have been tethered to. Do you think this new customer base has a completely different demographic, different business profile? And therefore, are there other ways in which Intuit could monetize this exciting new dimension of the business by adding other value-added services and products that you previously had not envisioned in your typical QBO customer base as far as their behavior is concerned? Thank you so much. My only question.

<A - Brad D. Smith>: Thank you, Kash. And I think I'd rather answer Neil's questions. I'll take that one – and by the way, it gives me a chance to double-back to Michael. I didn't mean to leave off a piece of Michael's question, which was do we see any sort of behaviors in retention around QuickBooks Self-Employed, TurboTax Self-Employed. And the answer is, we're still in the early phases of that, but its performing exactly as we had hope and actually slightly more positive. So we'll talk more about that at Investor Day, Michael, and I'm sorry, I didn't close that out.

Kash, to your point, I've got to tell you, Self-Employed is one of the more exciting things I've seen in my 15 years here. We talk about a TAM of $800mm small businesses around the world. $750mm of those qualify as self-employed or businesses of one. Today, this is about 34% of the workforce around the globe. It's going to be 43% in the next handful of years. And it's a very real phenomenon.

And what makes it exciting in terms of their behaviors and some of the differences that you asked me about, it's not just the numbers, it's their needs. When you get underneath what keeps a self-employed business operator awake at night, the first is the fluctuation of income. It's feast or famine. They may have lots of rides in Uber and then a period of time where there are no rides, or if they're working for TaskRabbit or DoorDash, lots of deliveries and then not a lot of deliveries, and they have to find a way to kind of even out that cash flow so that they have the ability to cover their necessities and live a daily life.

The other thing is finding the next gig. They often work two or three of these different jobs. So sometimes they drive, and then sometimes they deliver, and sometimes they'll actually do tasks. And so we're bringing a combination of matchmaking capabilities, the ability for you to separate your personal and business expense, the ability for you to predict your income, and then what you're going to need to have for a certain bill. And we're trying to help them manage their lives that way.

So there are a lots of unique things that we have assets that we can apply different ways that we think will help solve their most important problems. I loved when you finish your question which is, are there services we could sell? We got used to razor and razor blade in QBO. That model also applies to Self-Employed, but in different products. It's not going to be payroll on payment, but it could be TurboTax, the ability to manage your finances and then connect to taxes, which is what we proved this year. We have added payments capability, the ability to send an invoice, track it like a Domino's pizza, and then get paid electronically through your mobile phone. So we have additional services, but I would say this, ARPC for us isn't the primary focus in Self-Employed, it is getting all 750mm, even if its $10 a month, that is a beautiful business, and we're super-excited about the Self-Employed opportunity. So I hope I covered all your aspects. And Michael, I hope I get out of jail free on the one I went back and answered for you.

<Q - Walter H. Pritchard>: I'm wondering, just on tax, if you could help us understand, I think units have been the focus of your growth, and units were a little disappointing in FY2017. And you've come back with pretty strong tax guide for FY2018. I'm wondering if you could – I know you give us a lot of detail generally on Analyst Day, but I'm wondering if you could give us any sort of early glimpses to how you think that 7% to 9% comes together as you look into 2018.

<A - Brad D. Smith>: Yeah, sure, Walter. Let me start first with our guiding principle remains we want to expand the category, grow the number of people using our services, which were customers, and then look for ways to translate that into revenue and profit growth. And those are our priorities. And at the end of the day, this year, we didn't see that play out. We saw customer growth being a little more tepid at 2%, but we did get strong monetization and were able to deliver above the guidance we had provided.

I'm proud of the team. I think we left this year encouraged by two things, the way we were able to still achieve our financial results and also some lessons learned in terms of how we can accelerate both category and customer growth as we look ahead. As you know, it's a hypercompetitive tax category, so I don't want to unveil too much now. We'll talk a little bit more about it when we get closer to tax season, but I will give you three major buckets, which we did talk about last year.

One is the ability to continue to accelerate do-it-yourself category and compete more effectively in the free segment. The second is the opportunity to begin to transform the assisted tax category, bringing the best of technology with human assistance together through our SmartLook capabilities.

And the third is to begin to expand beyond tax and solve additional financial problems that these consumers are wrestling with. And an example last year was credit score, and now with Mint and other assets combined, we see those as opportunities and catalysts for growth as well. That's what gave us the confidence to be able to give you the outlook of 7% to 9% growth, which is an acceleration from this past season.

<Q - Walter H. Pritchard>: And then, Neil, just on the expense front, it sounds like you were almost calling out some investments that you would make this year that were kind of unusual and are ones that you needed to make. Is that the case? Or how should we think about the level of incremental OpEx that you're guiding for in 2018 vs. how you'd kind of steady state run the business?

<A - R. Neil Williams>: Yeah. Walter, the four areas that I called out and mentioned, they're all things that came out of this strategic reassessment that Brad mentioned at the beginning of the call. As we begin to plan really for the next few years, we felt like we really needed to put more investment and more focus and more attention around artificial intelligence, machine learning, improving the effectiveness and efficiency of our engineering investment, which, as you know, is a considerable investment, accelerating our transition to AWS, and then also improving the effectiveness of our marketing in the U.S. and around the world.

So, those were all areas we felt like maybe we had been under-investing in the past. And so there's a very diligent effort for 2018 and really going forward to step up in those areas with clear benefits delineated from them around the product offering and around customer benefits. So, yeah, that was a big focus of our plan for 2018 and really going forward.

<Q - Sanjit K. Singh>: I guess, first to start off, Neil, sad to see you go. It's been a pleasure working with you, but best of luck in retirement. In terms of questions to start off, I had sort of quick clarification of the tax guidance. Embedded in your tax guidance, to what extent are you looking at an improvement in terms of overall filing growth? I know this year was a little bit of a weird year in terms of overall tax filing growth. Are you assuming a sort of return to normalcy going into next year?

<A - Brad D. Smith>: Yes, this is Brad. First of all, it wasn't – it was an unusual year this year, and we'll have to wait until October to see where it ultimately finishes it up. What we're seeing across the industry is a little bit of an uptick in extension filing. So whether this year ends up being flat or slightly up, it is still more like 2013 and not like a typical cycle.

So, right now, in our plan, to answer your question specifically, we're in that 0% to 1% range. That's sort of where we are. Now, sometimes the industry is little more bullish than that, and they'll say it's 1% to 1.5% or 1% to 2%, but we're in the 0% to 1%, that's what we factored in, and that's the model that we're using for the guidance we just gave.

<Q - Sanjit K. Singh>: Got it. And then just a follow-up on margins, both short term, looking into next year and maybe a little bit longer term, when we look at margins expanding slightly next year, what are sort of the main factors that are driving – what are the opportunities for you guys to drive margins next year? And then longer term, with this QuickBooks Self-Employed emerging as a massive opportunity, when we think about margins longer term, how does that fit into your overall long-term margin framework?

<A - R. Neil Williams>: Yeah, I'll take this one. Just a reminder, our first priority is always to grow our customer base and our top line revenue. So that's our first financial principle, and always the thing we think about first. We're excited and we're encouraged by the growth we saw in 2017 and some prospects we see going forward. And that's really encouraged us to lean in and to invest more, to fund and accelerate some of this growth.

And I think our ability to do that, the ability to put money into the areas I just mentioned in a more concentrated way and still deliver some margin expansion for 2018 is just a tremendous thing, and it shows our commitment to our second financial principle of growing our operating income faster than our top line revenue. And it's also indicative of just really a very intense focus inside the company to concentrate our investments in the areas we think are really going to drive growth long term.

How the margins play out in future years will really just be determinant on the investment opportunities we see at the time. So, I really can't comment on that. But I'm really delighted with where we ended up in the margin guidance for 2018 to drive the type of investment that we're seeing in top line growth and still deliver some good margin expansion, I think, is – I'm pleased with that.

<Q - Ross MacMillan>: Just on the Consumer Tax outlook, Brad, I just had a couple of questions. You outlined three things that you – the major buckets, if you will, that you think can drive the growth. And I had two specific questions. One is on the acquisition of – or transition of assisted. Are we getting to a point now where SmartLook is actually driving sort of more users to TurboTax? And if so, do they tend to be higher-value users in the sense that they're not 10, 40 filers, they tend to come from assisted, so they're already sort of higher value? That's question one.

And then question two is when we think about additional services, I think you talked about, about 20% of the ARPU uplift this year came from things like fraud protection or audit insurance. Is that an expanding part of the pie? Is that going to continue to drive an incrementally higher amount of growth in Consumer Tax? Thanks a lot.

<A - Brad D. Smith>: Yeah. Thank you, Ross. Let me start first with the transform, assisted. As you know, about 40% of the market uses a DIY service and 60% roughly unassisted, if you throw stores and CPAs in there together. And then if you look at where the dollars are spent, they're disproportionately much more towards assisted. So there is a big value pool there, and a lot of them, we believe, could be using is a do-it-yourself solution and they simply have this nagging question that we have found SmartLook solve delightfully well, and we're able to get them into the DIY category.

So, what we did see this year with SmartLook were three things. One is the sources of new customers this year did come at a higher percentage from those who have been using an assisted method last year. So, yes, we are getting people into the DIY category with the SmartLook offering.

Number two is when they use it, they were delighted. They had a 20-point higher customer satisfaction rating than those who did not use, which we believe will translate into the third lever, which is fewer people who have a nagging question in the future, will think they have to leave a do-it-yourself solution and go to assisted, we think it will help with retention. So we think the transform assisted is early days, but we've seen enough proof points to say that this is something that we're going to lean into aggressively, and we had a really good year this year with it.

The second on the value-added services, we do recognize that customers pay for value, and while some portions of the tax market are free, and we certainly have led that way for many, many years, we do discover if we solve additional promise for customers, they're willing to pay for those services. You came out with a couple of them in your question, and we are exploring others, that's why we put the Mint business and the TurboTax business together to begin to think more holistically about the overall financial needs of a consumer.

I don't want to go much more into detail there, but the answer to your question is yes. You can imagine portions of this value prop will start to get – there will be more free, and then it will be more other areas where we'll be able to monetize, and that's why we continue to look at strong growth in both customers as well as revenue.

<Q - Ross MacMillan>: That's helpful. Thank you. And then one follow-up just quickly on the investments in FY2018. There was four buckets there that Neil mentioned. I just wondered on enhanced branding and marketing, to what extent you're going to lean into acquiring more free uses in TurboTax or look to sort of up the ante on Absolute Zero or whatever marketing plan you have for the forthcoming year?

<A - Brad D. Smith>: Yeah, I would say two things. One is that enhanced brand and marketing will be across the ecosystem. So we have services from QuickBooks Online to Self-Employed to global markets we're opening up to, obviously, TurboTax. So think about that as an aggregate bucket, because we've learned if we get one growing, we can accelerate the growth of the other.

I want to hold off, if you don't mind, on revealing too much about what we plan to do or not do with Absolute Zero at this point, just given the competitive nature of the market. But suffice it to say that just as we always do, we came out with some lessons learned, and we're excited to get back in the game next year. So, we'll share little bit more closer to season.

<Q - Nandan G. Amladi>: I hope to see you in a few weeks at Analyst Day. Brad, the question on the sustained 40% unit growth for QuickBooks Online, how much growth are you expecting in the Self-Employed and international as part of the 40%?

<A - Brad D. Smith>: Yeah, Nandan, that will be a key piece of it. We still see lots of upside in the U.S. We have a good significant number of small businesses here that are still using Excel spreadsheets and shoeboxes. And so that will be core growth in the U.S. Whether it's in the Self-Employed segment or what we historically thought of as core QBO, we now see that as a QBO lineup. Just like, we have TurboTax, Basic, Deluxe and Premier, we're going to have the same thing here with QBO.

And as we open up new markets, we've got real acceleration happening in the U.K., Canada and Australia. We're still in the final stages of getting product market fit in India, France and Brazil. And so those will add to units over time, but we haven't, at this point, shared what percent of the mix will come from any one of those pieces. Instead, what we're focused on and what we would ask you to think about is total subscriber growth north of 40%; the ecosystem revenue growth north or 30%, which is, by the way, an increase from what we've been saying, we've been saying 25% to 30%.

And then what we'll continue to share with you at Investor Day is we watch the LTV to CAC, are we actually acquiring this customers profitably and anything north of three is positive, and we are well above that number when you blend it all in, whether it Self-Employed, it's new countries or its core U.S. And so those three things should give us all confidence that we're growing a healthy and profitable franchise.

<Q - Nandan G. Amladi>: Thank you. And a quick follow-up on QuickBooks Enterprise. You mentioned that you're expecting units to decline, but revenue to be up slightly. How much impact are you seeing from consolidation in the market there, Sage particularly entering the U.S. market with their purchase of Intacct? Is there any pressure to move to a cloud-based solution in the QuickBooks Enterprise family?

<A - Brad D. Smith>: Thank you for the question, because it gives us a chance to clarify something that I think we may have created a misperception. When we said that our QuickBooks Desktop units will be declining, that includes our core QuickBooks, not just Enterprise. So we have a QuickBooks Pro, a QuickBooks Premier and then QuickBooks Enterprise. The Enterprise category actually isn't declining in units. It continues to grow, and it tends to be the low-end disruptor for that mid-market space, where we're about 30% cheaper than the names that you just listed and our product and our Net Promoter Scores tend to be better than those alternatives.

So what we are seeing is even though we have a decline in overall desktop units as more people now opt for the cloud with QBO or they even migrate over to QBO, we still have a very healthy and growing QuickBooks Enterprise franchise that's growing both customers and market share, and it's growing revenue and that's what's basically keeping the total desktop revenue ecosystem slightly positive.

<Q - Scott Schneeberger>: My question is on the new investments and just a feel for a timing. Is this a multi-year thing? Or are these four initiatives going to be in this single year? You mentioned EBIT margin will expand, and you're going to rain in on share repurchases. Is that a 1-year thing or a multi-year thing? Just a general gist of the question however you'd like to approach it? Thanks.

<A - R. Neil Williams>: Yeah. The increased investment, Scott, are really multiyear investments. I wouldn't think of them being incremental or increases every year, but I think our commitment is to do fewer things really, really well, and to really start and complete some projects that have the most impact. So, I would think of it as clearly a multi-year assignment.

On the share repurchase buyback, I wouldn't overreact to that. If you look at what we have guided around our share count, the 15% dividend increase, we're still going to be returning roughly 70% of our FCF through share buybacks and through dividend increases even at the low-end. So we'll see how the market plays out and see what other investment opportunities we have. But as I said, I think the adjustment in that program is going to be pretty modest. I think about 85% return this year or in 2017, and probably something in the low-70s for 2018. So, it's going to be a pretty modest adjustment there.

<Q - Scott Schneeberger>: Great. Thanks. And just as a follow-up on, comments, Brad or Neil, on seasonality for the upcoming tax season? I know it's early yet, but we have this slow start this past year on IRS fraud prevention. Just wondering what you're hearing at this point this summer from the IRS and what you think we may expect? And then, as part of that, that prior question on your enhanced marketing spend, Brad, you said it was across the ecosystem. Just curious how that might impact marketing spend, specifically in the TurboTax category, Thanks.

<A - Brad D. Smith>: Yes, Scott, it's still really early to be able to anticipate what's going to happen. But if you just look at some of the leading indicators, Congress is still trying to debate whether there will or won't be changes to tax flow. You've got a transition of the Commissioner of the IRS that'll be occurring in the fall. Obviously, you have new leadership stepping in to some of our competitors roles.

And so I think at the end of the day, it's going to be a fast and furious, get everything done and get ready for tax season. So we're anticipating that. We're agile. We're able to react. We've got quite a few years of doing it. And the another thing we do know is it is human nature as technology makes it easier, and the last we want to think about is filing taxes that people continue to push later and later into the season. So I believe we're going to continue to deal with those kinds of phenomenon.

In terms of the marketing stuff, we don't want to talk about, as I had mentioned a few minutes ago, about specifics around whether we're going to increase any focus in any particular product. What we are going to do, as Neil said, is we reallocated dollars now that we see a healthy LTV to CAC.

We see our Net Promoter Scores really improving. I mentioned the QuickBooks Online up 22 points y-over-y. And anytime we see that, we say now is a good time to step on the accelerator and build category awareness and get our products out there. So, I don't want to comment on what we're going to do with TurboTax other than to say we're excited for the whistle to blow and the new season to start.

<Q - Sterling Auty>: I want to circle back to Consumer Tax and some of the discussion around unit volumes. Can you give us a sense of what you saw in terms of maybe some of the share shift at the low-end vs. the high-end and how does that play into your strategy for the upcoming tax year?

<A - Brad D. Smith>: Yeah, Sterling, we'll unpack more of that at Investor Day. We tried to get as granular as we can without giving up too much of the secret sauce. I would say, overall, we roughly held share this year. And so on one hand, you could say in a very complicated tax season where total IRS returns were not healthy and you had new competition and intense competition, you could say that's not too bad. But for us, it was a disappointment, because we always want to grow share at least a point each year.

The second is, we have lessons learned here. We've been around the block a few times. And if I take you back to 2013, that was a year where we grew our units 3%, we grew our revenue 4%. We came back to the locker room, we watched the game film, and the next year we came out and we were able to grow the unit 9% and the revenue 7%.

So we've come back and we've kind of figured out, okay, what is it that we're excited about? What is it we think we could have done differently? And what will we do as a result? And that stuff, we'll share a little bit closer to tax season. But right now I can tell you that we held share, we performed better in paid than we did in free, and we think we have some good lessons learned of how we are going to go after that a little differently this year.

<Q - Sterling Auty>: And then one follow-up on QBO. Given the increased focused here on SE, does it change how the innovation engine around QBO works? In other words, where you're investing more of the resources from a development effort?

<A - Brad D. Smith>: Yeah. I want to first just make sure that I have at last the false perception. When I say increased focus on SE, that's not away from QBO. QBO has a ton of headroom, and it was QBO that improved its Net Promoter Score 22 points y-over-y. And so that business is really accelerating.

QBSE is incremental on top of that. It was a category that we used to over-serve with QBO. They don't need full accounting. All they need is separating business, personal expense, the ability to send that into a tax return or an accountant, and then be able to track an invoice and get paid. So we have a right offering for Self-Employed, and we have a right-for-me offering for QBO. So I would just simply say that, today, we feel like it's an and, not an or, and there isn't going to be any massive shift away from QBO to go after QBSE.

<Q - James MacDonald>: Brad, I was very interested in something you said in your later remarks about QBO growing 40% as a goal for, apparently, a longer period. As you get to these big numbers, you're starting to add as many units as you used to have a couple of years ago, could you talk a little bit about how long you can keep doing that?

<A - Brad D. Smith>: Yeah, Jim, I know that there's always a double-edged sword when you get sort of a guiding principle like that. And for us, it's subscribers of 40%-plus and it's the online ecosystem revenue of 30%-plus. But we really are early days here. The shift to the cloud has put all the decisions back up for consideration. I think I've shared in prior quarters that in 2005, we saw a tipping point where the number of people in TurboTax leaning towards the cloud was 50-50 vs. desktop.

You fast-forward just a couple of years, and it became 90-10 for TurboTax, cloud vs. desktop. Two years ago, we hit that 50-50 tipping point, with QuickBooks Online vs. Desktop when it came to new users. That number is now 80-20, people leaning to the cloud. And so, as you think about more people leaning to the cloud, more countries we can serve and you throw in SE on top of that, which was a category we could never even go after in the past, we don't see in the near term, the next several years, a need to back off of the 40%. But if we do, we'll be the very first to come out and change the expectation. But today, it's a law of large numbers. We've got $800mm prospects, and we currently have 2.3mm existing customers, and we think there's plenty of room to grow.

<Q - James MacDonald>: Great. And we haven't talked about acquisitions in a while, so I thought I'd ask. Are acquisitions part of your investment approach in terms of maybe buying in some technology or talent?

<A - Brad D. Smith>: Yes, Jim, they are. Typically, as you just suggested, they are technologies or product features that enable us to fill out a roadmap that will help us get to market faster or their talent. And when Neil mentioned artificial intelligence and machine learning as one of the four areas we're investing in, you can think of that being us much about talent acquisition as it is about the algorithms and capabilities we might buy in a product. So we are using M&A. It gets held to the same ROI hurdles as everything else, a 15%-plus return over a five-year period. And so you really won't see any deviation from that as we look ahead.

<Q - Kartik Mehta>: Brad. I wanted to ask you a little bit about what you said about the tax business transforming the assisted side. And I'm wondering, as you move up the ladder, what kind of impact do you think that has on the tax segment from a revenue perspective and a margin perspective?

<A - Brad D. Smith>: Yes, Kartik, I would say a couple of things. One is we believe there's a lot more revenue opportunity to be captured there. We believe with the assets we bring and the accountant relationships we already have and then a platform or technology that matches a consumer who needs tax filing needs with a pro who may be willing to lean in on that platform and help get those needs taken care of, we think we have a lot of opportunity for growth on the revenue side.

We haven't provided any guidance around any revenue or margin expansion beyond next year. When we get to Investor Day, we often share here's what the outlook you can think about in Small Business and in Tax, and we'll talk more of them. But right now, our guidance is 7% to 9% for next year, which is a healthy year for TurboTax coming off of last year's guidance which was 6% to 8%.

<Q - Kartik Mehta>: And then maybe, Brad, you talked about anticipating about 0% to 1% growth in the overall tax market. What do you anticipate for DIY? What kind of a difference would you anticipate the DIY category will grow vs. the total category?

<A - Brad D. Smith>: Yeah, I think there is a continuing trend that's gone on for more than a decade, is that category, DIY, is secularly advantaged. As people have grown up with technology and technology enables you to do some magical things, more and more people are choosing to do their taxes using software, whether it is a PC or it's a mobile phone. And as you start to introduce concepts like SmartLook, the ability to have a live video chat with a pro, while doing your taxes on a phone or on a computer, that's only going to expand the DIY category. Historically, it's been a 3% to 5% sort of category growth. And so, at this point, we haven't deviated from that outlook.

This year, of course, was a crazy year across the board for every category, including the overall IRS, and so we didn't quite see that growth like we would have expected, but we don't think that this year is predictive of the future. And I think if you look back over the last 10, you'll see that those numbers are pretty well supported.

<Q - Raimo Lenschow>: Brad, it seems like around AI, there seems a increased urgency from your side. And I guess, I see that from the market as well. Can you talk a little bit about the impact that the whole AI machine learning could have on your business? I mean, it seems like the whole world is going to be reshaped here. I'm just thinking about how that will play out for Intuit. And I know you'll probably talk a little bit more on the Analyst Day at that? Thank you.

<A - Brad D. Smith>: Yeah. Thank you, Raimo. You're right. We're at this precipice now where all this massive amounts of data and then the ability to match it with the processing power and the data storage and the smart algorithms can allow you to do some pretty magical things for customers.

And we don't kid ourselves. We know the categories we're in are required, but not desired. People don't wake up excited about accounting or paying their taxes or paying their utility bill. And so we have three benefits that our customers have always expected of our products. That is more money in their pocket with little to no work and complete self-confidence that they didn't mess anything up in the process.

When you think about artificial intelligence, it is uniquely suited to solve these problems. It can help you by looking at your characteristics, find better deals, whether it's small business loans or lower credit card fees, it can help you get rid of the questions that you would have to answer in TurboTax or anything in accounting, so you literally don't have to think about it, so there's no work. And it can double-check your work for you to take the human being and match it with computers, so you have complete confidence that you didn't mess anything up.

So we really do believe this is the core of our strategy going forward, and we're not at a standing start. We shared before, we have over 100 patents that we have filed. We have over 30 applications in market, but we're only ramping this up and we think it's going to be a big opportunity in the future.

<Q - Raimo Lenschow>: Perfect. And one quick follow-up, like on QBO, you obviously saw in terms of unit growth, a nice step-up this year, and you guided for unit number for next year, which is kind of slowing down the growth a little bit. Is there – how do I – what are the puts and takes there? Obviously, you have a greater scale like we discussed a couple of questions before? And what are the other factors we should think about there? Thank you.

<A - Brad D. Smith>: Yeah, and you know, we're coming off of a really strong year this year. As you mentioned, it was our first year of being able to take advantage of some new countries, catching fire like the three, Canada, U.K. and Australia. We had our first year with TurboTax Self-Employed bundle, which spend a 170,000 units over into QuickBooks Online to the Self-Employed products.

So we're going to have some seasonality, we're going to have some comparison grow overs. And so when we gave our guidance for this year, it's still that 40%-plus number. And I expect coming out of the gates, we're probably going to see some more favorable numbers, because we aren't going to have some of those things we have to compared against in income tax season. We're going to have to grow over a pretty good year this year. But that's not to say we're out of gas in tax. As I mentioned, 170,000 of them are active, and there's 3mm of them in the TurboTax base. So we plan to actually not make that an issue, but that's why our guidance right now was in that 37% to 42% range. That is not a ceiling for us. We simply think we have some grow over we're going to have as we continue to learn and figure out how we're going to keep this accelerator going.

<Q - Michael Millman>: So, following up on what you've discussed, couple of questions on tax. One is, over the last three years, what's the number of distinct visitors that you've had on tax? And kind of related to that, you've been talking without saying just the word disruptive, but in terms of tax, what market share does translate into disruptive?

And then I have another question.

<**A - Brad D. Smith**>: Okay. Michael, I may need clarification on the second, but on the first one around the number as unique visitors, we had a slide that we put in our Investor Day in the fall, and it has FY2015 and FY2016. We haven't yet released 2017. We'll do that in the fall when we come back together in October. We had 89mm unique visitors that logged-in in FY2015. It went to 92mm in FY2016, and we'll talk more about what we saw when we get together in October for 2017. So, I'd say a very large population of people that come to turbotax.com each year. Now, could you help me with your second question around disruptive? I'm not – I wasn't sure if...?

<**Q - Michael Millman**>: Disruptive means taking that number and increasing conversion. So, I'm not sure what conversion is now, but maybe you can give us an idea, ask in a different way, of how much you can increase conversion and what would that mean in terms of how many returns that you could be doing?

<**A - Brad D. Smith**>: Okay. Gosh! I think that would probably be easier for us to walk through with a funnel when we get together in October, and we'll try to unpack for you sort of what goes from a someone who's a unique visitor, someone who actually clicks into the product and tries it, to someone who converts and becomes a full-time user.

But I could tell you, at the highest level, roughly 155mm people are filing their taxes. 92mm came to TurboTax a year ago. We ended up with roughly 35mm who filed with TurboTax. And then if you throw in our Pro segment, we've got roughly 55mm to 60mm between those two products. We think SmartLook, plus the improvements in our TurboTax product, give us the ability to serve a much larger population of those 150-plus million that we are today. And that's why we talk about transform. I don't know if I would use the word disruptive, because the accountants are our friends here. We're working with them and they're providing the expert service. But we do plan to be disruptive to competitive alternatives, because we think we can do it with the more advanced technology at a lower price point for customers that they can, and that's what we plan to try to prove.

<**Q - Michael Millman**>: And the other question is on your desktop, with the [ph] frosts (01:01:04) – or the gray area for payers kind of moved out of the market, where do you see desktop going?

<**A - Brad D. Smith**>: Desktop is becoming, as it is in the consumer space and now the small business space, as we look at the accounting professionals, they are leaning aggressively into our cloud-based solutions, and they're wanting to collaborate with their clients, whether their consumers are small businesses using cloud technology, the ability to exchange documents electronically.

Now, it is earlier days there. We haven't hit the 50-50 tipping point. So we have definitely seen on the accountant side, more people using our online product, and competitors have also tried to introduce online products. If it goes back to TurboTax, we have 90% in the cloud and 10% in the desktop, those desktop customers are sticky. They don't indicate right now they want to move to the cloud, and we're fine with that, because were able to deliver and serve them efficiently. But when it comes to the Pros, it's much earlier days.

<**Q**>: On the Small Business side, what are your expectations for ARPU trajectory in FY2018? I mean, I understand the subscriber base still are growing very strongly globally, including the Self-Employment which should pressure ARPU. But I think it would be helpful to get your view on the puts and takes there, and potential upside drivers? And also quick follow-up for, Neil, are there any updates you can share at this time on ASC 606? Thank you.

<**A - Brad D. Smith**>: All right. Let me take the first one and will hand it to Neil for the accounting treatment. On ARPU, as you know, we talked about this, it's a mixed thing. So, on an apples-to-apples basis, we continue to see opportunities to improve the revenue per customer for Self-Employed, the revenue per customer outside the U.S. and the revenue per customer for the QBO customers in the U.S. When you put it all together, you see that ARPU number looking like it's going down, because we're growing fast in the Self-Employed segment, we're growing quickly outside the U.S.

But for us, ARPU is not what we focus on. But what we ask everybody to focus on is the ecosystem revenue growing faster than 30%. It was just 90 days ago that we used to guide 25% to 30%. And so it's getting healthy and healthier, and our Lifetime Value to CAC continues to be an opportunity for us to get those customers efficiently.

We'll talk a little bit more. Neil often does this. We'll do it at Investor Day. We'll show a chart that says, you know, our ARPU overall, our product line, which direction is it moving. But I would say, when you put it into the mix, the best thing to focus on would be to focus on revenue at the ecosystem level growing faster than 30%. Neil, you want to take ASC 606?

<A - R. Neil Williams>: Yeah. The headline on ASC 606 is it is not going to have a significant impact on our results over the next few years. We may see some movement in the quarters. And so our quarterization may change a little bit on our tax products. But at the total company level and at the full-year level, it's not going to have a significant impact on our results.

<Q - Brad Robert Reback>: Neil, just real quickly, with the push to AWS, does that longer term change the CapEx requirement for the business? And sort of as a corollary to that, does it impact the gross margin percent looking forward? Thanks.

<A - R. Neil Williams>: Yeah, Brad. The primary reason we are so eager to move to AWS is really to enable developer productivity, enable us to get things tested and get features out to market faster. So it's a big component there of improving the effectiveness and efficiency of our developers.

That said, you'll notice that there is some improvement or some decrease in our CapEx spending in 2017 vs. 2016 and 2018 vs. 2017. So there's certainly an impact there. I frankly don't think the impact on the gross margin is going to be huge. But it's certainly going to have an impact and – but the bigger driver above all is to try to get more efficiency and effectiveness out of our R&D dollars. And I think that's where you'll see some big improvement in getting the products and getting things to market faster.

Brad D. Smith

Closing Remarks

We obviously covered a lot of territory, not the least of which was the news that both Neil and Michelle have announced, and we're excited for both of them

If you take anything away from the call, what I hope you hear from Neil and myself today is, we're pleased with our results in FY2017

We're increasingly encouraged by the momentum that we're carrying into FY2018

We're looking forward to seeing you at our Investor Day, where we'll share more about our refresh mission and our strategy and how all these pieces come together

And until then, we hope you have a great remainder of the summer