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COMPANY PARTICIPANTS

R. Neil Williams

OTHER PARTICIPANTS

Kash Rangan - Analyst

MANAGEMENT DISCUSSION SECTION

Kash Rangan

Good morning, everybody. Welcome to day two of the BAML Tech Conference. Neil Williams, Executive Vice President and Chief Financial Officer of Intuit. I'm happy to have you again as a repeat guest at this show or conference.

Neil actually made a really good observation and he asked me, how's the conference going? And I said, we work 363 days of the year to make sure the two days of this conference are really special, and I really mean that. Why? Because it's those two days when you get to see the companies that you work with, and you're talking to them on the phone most of the time, you actually see them in person here. These two days are very special because we get to see clients and companies, the idea is that companies should have fun at the conference, clients should have fun. Hope – are you guys having fun at the conference? Is it good?

R. Neil Williams

Absolutely.

Kash Rangan

Smiling faces. And we, the host, should also have fun. When those three things happen, it's magical. And Neil jumps in and says, that's like tax season. We work...

R. Neil Williams

Last two days of the tax season. I'm sure all of you use TurboTax and if you don't, you should be embarrassed. But if you do and you unlikely have a question and call in to care or support, you might get Brad or I on the phone. And so, we do have a blast and we spend those last couple of days in Tucson, Arizona where we have our big call center.

And it's a great thing for the people who work there and it's a great opportunity for people that – in our company who don't talk to customers every day necessarily in a care experience to get up close and personal with someone who's trying to get their taxes done on the last day of the season and has run into a problem or an issue and they're frustrated. And typically, about that point, customers are so grateful for your help and support that you get lots of accolades. It's always funny when somebody ask for Brad who his supervisor is because they want to give feedback or something like that. So, it has happened.

Kash Rangan

It's so funny. I'd love to see a video recording or an audio recording of a conversation like that.

QUESTION AND ANSWER SECTION

Analyst: Kash Rangan

Question – Kash Rangan: So, let's – I know that tax is the dominant business at Intuit, but you know the topic that I would like to start off with, and it's my favorite topic which is QBO. It's been a topic of fascination ever since we first met some eight, nine years back or so.

Answer – R. Neil Williams: Right.

Question – Kash Rangan: And my light bulb's went off inside my brain (02:19) at that time. So, Intuit is really becoming a small business growth story. You've got in the most recent quarter phenomenal growth in QBO subs, how do you see this playing out? What is the long-term vision for the QBO franchise?

Answer – R. Neil Williams: We're excited about it and ever since we've been talking to you, Kash, we always talked about having a large addressable market. But for many years, our customer base was kind of stuck around 5 million customers in our small business portfolio. And people ask us a very good question around, if this addressable market is real, how do you get deeper penetration, how do you get more of those in? And I think in the last couple of years, we have really focused on first-time use, getting people to be able to set up and use QuickBooks Online in a really simple, easy way.

And also, we've introduced a QuickBooks Self-Employed version which is mainly focused for people who want to get their taxes right, who want to track their deductions and be sure that they have a really simple, easier way to connect with their bank, categorize transactions and do their compliance, and it's really driven a huge increase in customers and in units and in revenue as well. So, we're excited. We're still kind of at the tip of the iceberg in a sense that our actual customers, they are still a very small percentage of the addressable market in the U.S. and outside the U.S., but we're excited about it. It's doing quite well.

Question – Kash Rangan: And, Neil, could you just expand upon the total available market and how the definition might have changed in light of recent developments? You have a Self-Employed product that you haven't had before. How should we think

about your TAM?

Answer – R. Neil Williams: Yeah. Well, we think about in the markets where we have a great product market fit and that's typically the U.S., Canada, Australia and the UK. And we think about around 65 million customers really being ideal candidates for a small business accounting solution. These are typically people who are either self-employed or have less than 8 to 10 employees working. And these are typically people who do a lot of the accounting work themselves. So, being able to connect to the bank, download your transactions, categorize them for you, things like that is critically important.

Over half of that 65 million are in this lower category, people who are self-employed and sole proprietors. And these are people in the past who would have tried QBO and felt like, hey, I don't really need budgeting, I don't need financial statements, I don't have time to deal with a lot of the product setup that is necessary. But in Self-Employed, who do want to track their mileage, who do want to have a quick and easy way to download expenses and categorize them as personal or business, who want to be able to send invoices and look (05:09) professional and get paid electronically. And so, finding that sweet spot between delivering a real good money alternative and helping these customers make more money with a minimal amount of work and effort on their part, I think has been critical to the acceleration we're seeing.

Question – Kash Rangan: Got it. Is this growth that you've experienced in the most recent quarter or the past couple of quarters, how sustainable is that? Those are big numbers.

Answer – R. Neil Williams: Yeah. They are large numbers. And again, when we look at the TAM, we don't see a reason or an excuse for that really to slow down. We're pretty excited about it. Our most recent third quarter certainly was a beneficiary of a bundle we sold with our tax offering. And so, in TurboTax, we have about 4 million customers who follow Schedule C. And we had a really simple product bundle this past tax season where QuickBooks Self-Employed and TurboTax can be purchased together, really enabled completing that Schedule C for you, and we added 160,000 customers this past tax season just through that one bundle. So, that's great to have 160,000 new customers. It's small in relation to the 4 million customers we know and love TurboTax and have a Schedule C. So, we're continuing to work that group, continuing to work that alternative, but we're still in early days outside the U.S. as well. So, we're pretty excited about the growth alternatives.

Question – Kash Rangan: You hit all the rest, then your TAM is...

Answer – R. Neil Williams: Right.

Question – Kash Rangan: Sorry, your base, not the TAM, TAM is actually a big number, but your base could actually be double (06:44). Excellent. I know that we have to – what's on top of most people's minds is the tax season. As you have dug deeper, I know you reported earnings just a couple weeks back, and you've probably had more time to do the diagnosis and come back with your aha moments and how you're going to strategize a little bit differently, regroup for the upcoming tax season, so what were the things that you uncovered in the analysis?

Answer – R. Neil Williams: Well, the biggest mystery to us remains the number of tax filers overall. If you've followed our company long term, you know there are four levers that really drive the success in our tax business. The first one being how many people file a federal tax return in the U.S. primarily and it looks like that number is going to be flat to down for this most recent tax season. We typically expect that to grow about 1% per year. We really don't have a good explanation for that, and the IRS isn't offering one yet either. If this holds up, it'll be the slowest growth year since 2013 we've seen, and we're watching to see if there's more information that comes out about that.

But the pieces we can control is that we typically look to increase the do-it-yourself category by a point or so each year by moving people into doing their own taxes themselves. And we also expect to grow our share within the do-it-yourself category, and both of those were on the lower end of the range of what we typically expect. And what we've learned from that and what we're thinking about now is the opportunities we have to continue to grow in the free category. There are many people who have a really simple Form, a 1040A or 1040EZ who look to file their e-taxes (08:24) without paying and there are a number of alternatives. We had an Absolute Zero product for many years that's done quite well.

This past season, there were other alternatives in the market that people could use. And I think going forward, we want to think about how we continue to grow that category and how we continue to monetize at the low end. And that's important to us for two reasons. We know that people who have simple returns many times grow up into more complicated returns. And so, they do turn out to be paying customers in the future.

And also, we think there are different ways to monetize those customers beyond user paid that frankly we need to get a lot better at. And so, we're thinking for next season, how we can be much more aggressive and how we can develop new ways for us to get paid from somebody who use one of our free offerings, but without selling additional things to that particular customer. And there are some great ways beyond user paid that we can – we can do that.

Question – Kash Rangan: Okay. And expanding the category itself, not just the low end first time or free, but what are your thoughts on how that can happen over a period of time and as dominant as you are in the software segment, the software segment itself is tiny relative to the overall number of filers?

Answer – R. Neil Williams: That's right. And I think one of the things that excites us and keeps us very motivated in the tax space is, if you look at how – it's the money that people pay to get their taxes done that the bigger profit pool and revenue pool is really in the stores and CPA category. And with new technology out now that we used last season called SmartLook, which enables our customer to see the agent and the agent to actually see their screen or their mobile device and actually help them work on their taxes is a great way to have a do-it-with-me or a do-it-for-me experience in doing your taxes that we then monetize either directly or through a premium offering, and it's a really good experience for customers.

And so, we've had that out the last couple of seasons. We leaned into it pretty hard this past year and my guess is, we will make that an even more important part of our growth trajectory in coming years because many tax payers may be have one or two questions, they may get hung up and not feel confident doing their taxes themselves. If they can get a professional alternative to get that question answered and get some assistance to move forward, then they're more comfortable filing their own taxes and...

Question – Kash Rangan: Like a virtual CPA...

Answer – R. Neil Williams: Exactly.

Question – Kash Rangan: ...as opposed to – yeah.

Answer – R. Neil Williams: Exactly. And the digital alternatives now...

Question – Kash Rangan: It's just a helpdesk, but it's actually a virtual accountant.

Answer – R. Neil Williams: Yeah. It's a CPA or it's an enrolled agent. And one of the exciting things about our business is that this past season, many of the people who actually fielded these calls were customers of our ProTax Group. So, they either use our professional tax software or they are a ProAdvisor. And so, they were delighted to get the extra work and the referrals. And we knew that we're aligning the customer up with someone who really did have the credentials and the experience to answer their questions.

Question – Kash Rangan: So, this plays out – this could be a nice tailwind to expand the category itself?

Answer – R. Neil Williams: Yeah. I mean, I think the way we're thinking about it now is kind of a like a barbell strategy where there's opportunities for us to get deeper and monetize even more consistently on the top end for people who have complicated returns or needs a little bit of a help, and also to focus on the simple and free category with a third-party pay model to really work both ends.

Question – Kash Rangan: Yeah. Got it. I know in the most recent tax season there was a nice ARPU lift and your revenue outperformed unit growth. So, can you talk to what those drivers were free cat (12:00) and if this is sustainable and this could be the beginning of a trend in the future as well that we should not be over reading into units?

Answer – R. Neil Williams: Yeah. This past season, our units were up too, and our revenue year-to-date is up about 9% in the ProTax business – I mean, in the Consumer Tax business space. And we would've liked in seeing more growth in that free category this past tax season, but the improvement we saw in revenue per customer really came from three pieces. About 60% of it came from just the mix shift of more customers being in the paid categories and paid SKUs, fewer free customers in. We also increased the price of our Self-Employed SKU at the very top end for those customers who are self-employed and who use our QuickBooks Self-Employed product.

And then we always work on different and additional features and options we can give a customer as they come into monetize along the way. And so that was accounted for about 20% of the improvement in ARPU. But we have a goal each year to improve revenue per user, through additional services and features we had, not through just increasing the base price of the product. Price is usually a barrier to getting adoption in, in a do-it-yourself space and so we try to make that as cost effective as we can.

Question – Kash Rangan: Got it. Also, with respect to the – there was a bit of misinterpretation, if I believe, that looking at government statistics, a lot of it was paper-based filing that was not properly accounted for. Can you talk about that discrepancy that surprised a lot of us and how prepared we should be and could be for this to happen again in the future?

Answer – R. Neil Williams: Yeah. For the last few years, it's been pretty easy to measure online growth and share for companies like ours compared to the online statistics that the IRS puts out and produces and most of us, I think, have gotten accustomed to using those terms synonymously.

For this past tax season, the IRS imposed a new restriction to reduce fraud that required for customers doing their taxes for the first time in your software solution. You had to know either your e-filing PIN or your adjusted gross income from past years. No surprise to this group, most people don't know either one of those two items and don't remember them and don't have them written down.

So if you're coming in for the first time and didn't know either one of those items, a surprisingly large number of customers printed their returns and put them in the envelop and mailed them in. We talked to the IRS commissioner before the season started. We knew this was a likely outcome and the IRS knew it as well. I think their conclusion was, was that the end justified the means in terms of reducing fraud and knowing who those customers were.

But the upshot was, for Intuit, we've had about 0.5 million customers who actually printed and mailed in their returns on paper as opposed to e-filing, which was a dramatic departure from what we've seen in prior seasons up until now. And I think there'll be some better technology alternatives out to the IRS before next season, to ease this identification process for customers coming in. But it meant that there's about 0.5 million returns that actually came through our system on a do-it-yourself basis, but it didn't show up in our online results or didn't show up in the IRS e-file results, because they got them in on paper.

Question – Kash Rangan: Because you would count them only if they're submitted and they were not submitted, they just got printed and mailed out.

Answer – R. Neil Williams: Right. Right. But the customers did pay for the most part. I mean these were typically paying customers. You have to pay to print your returns, just like you have to pay to e-file it. So they were in our units and they were in our revenue numbers, but not in some of these share calculations that people do.

Question – Kash Rangan: So I just want to talk about the competitive dynamics and the tax kind of things. I know you focus a whole lot on whole different new territory, because it's increasingly getting competitive. But do you see any big threat that could come in the tax space in the next year or two that could – whatever levers we have to like protect your space, that may not be enough to protect against the new entrant.

Answer – R. Neil Williams: Yeah. I think we clearly saw this past tax season that the tax is an attractive space to be in. It's fairly easy to stand up an online offering that will do simple returns and do them reasonably well. And there are big opportunities there in terms of the customer information and customer data that you can get and other things that you can do with it.

And so, people theorized that they'll be able to monetize that customer relationship in different ways. And I think generally that's true. The approach we take and remember, these are not new entrants. TaxAct came into the market, I think, back in 2005, with a free tax return and they're still around, but they're not necessarily gaining share.

These new entrants come in just as an incentive for us to make our product better. We have a saying inside Intuit that's the light don't dilute, which basically means don't dumb down our free product just to make it free. It still got to be a really good offering and we think at the end of the day, people will choose the best product.

In consumer tax, that means the product that's going to make it easy for you to download your W-2 electronically from your employer and going to have the most W-2s conceivable in that database. It means one is going to streamline and ask you the least number of questions to get your taxes done, enabling you to do it on a mobile device and start and stop on multiple devices. I do

think the takeaway from us from this past season is that we have to accelerate our own efforts at third-party monetization. I think for the majority of customers who are filing 1040As and 1040EZs, they ought to be able to do it for free, and it ought to be totally free to them.

We're still like here to make money, so that means we have to find other ways to monetize that customer relationship in a way that makes sense to them and in a way that is consistent with their own goals and their best interests. But I think that's the way we defend against this. And at the end of the day, this is a scale business and I think we have some big opportunities there with the scale that we have. But it keeps us on our toes. And we don't take anything for granted in that respect and it's all about making the product the very best and making sure you have the best value of equation for that customer who comes in.

Question – Kash Rangan: Got it. And then, next year tax season, in terms of growing the units, the free units and what are the steps that you would take next year versus this year, is it something that you still aren't thinking about it or you already have it figured out that to give investors confidence about how to grow the units next year?

Answer – R. Neil Williams: Yeah. I mean, I'll give you some high level observations. We're a long way from having our plans for next year baked as you can imagine, but there are some observations as we reflect on last season. A really obvious one is that in our marketing and advertising, we didn't really focus on free a lot last year.

The past two seasons, we had talked about an Absolute Zero product that we still have where you can do your state and federal return for free in TurboTax early in the season. We still had that offering last year, but we didn't talk about it as much externally as we had in the prior two seasons. And so, that's one of the things we'll think differently about going into next year.

There are definitely some product enhancements that we want to make, that will make a product even easier to use and even better. And then, the monetization alternative is one we'll be thinking about next year so that we can make an even stronger offering to those customers who want to do their product for free.

On the other end of the spectrum, people who have more complicated returns or people who just have a question, there's still lots of room to grow and to make what we call SmartLook, but it's this digital professional, if you will, who can either enter a few questions for you or who can act to review a return and sign off on it. And we think there are just tons of opportunity to grow in that space, kind of on the top end of the market. And those are the big themes that we'll be thinking about. The specifics of what the product offerings look like and pricing and things like that will come later in the year, but those are the kind of the big takeaways from last season.

Question – Kash Rangan: Switching gears back to QBO, the desktop installed base, it's been slowly migrating to the cloud. I've noticed that the numbers are starting to look like an interesting number. What is causing that? What is enabling that? And could this not lead to a much more pronounced shift of your QBO desktop base? I think the last time you disclosed the data, it was about 4 million units or so. How rapidly could that go online?

Answer – R. Neil Williams: Well, we keep trying to look for catalysts or things that we can do that accelerates the migration. We say roughly around 150,000 customers a year move out of that desktop base into QBO. And typically, there are a couple of catalysts. Someone will observe another small business owner at Starbucks or at a traffic light or something like that, seeing an invoice or checking their bank balance or things like that, and we'll say, hey, how do I get that functionality and how do I get that?

The other catalyst is your accountant. And getting your accountant to be a QBO customer and get their clients on QBO is the other big catalyst. And so, those are moving along. The interesting thing to me though is that there are millions of desktop customers who are very happy, who like the product, who like the work, have their work streams...

Question – Kash Rangan: I suggest you plant some bugs and make the user interface more complicated and have a little icon or button on the side (21:58) saying have you tried the Online?

Answer – R. Neil Williams: Yeah. Yeah. There's a good reason, Kash, that you're in your business and we're in ours (22:05).

Question – Kash Rangan: (22:08).

Answer – R. Neil Williams: Yeah. Yeah. We try not to plant any bugs intentionally, but we worked a couple of years ago to try to incent people move over to QBO more aggressively. We do think there are tons of advantages to being in the online version. But we found a lot of customers who just didn't want to be bothered and who liked the desktop version and have their routines and their practices attuned to that.

And so, our process now is to be a little more sanguine about those customers. Be sure they stay happy. We think they're going to come over eventually and we're always looking for things, alternatives that we can do to encourage them to come along. The most significant one right now is really working with your accountant and we know that if an accountant switches their practice to QBO, they'll bring their clients along with them and they'll help the client in the transition. So that's the big idea we've been working on for the last year or so, but I think it's going to be pretty steady for a while.

Question – Kash Rangan: How many of the accountants, Neil, are on the online version? Is that something you track as leading indicator?

Answer – R. Neil Williams: We do. It's a small number as a percentage of the total. What we have right now is probably most of our ProAdvisors have a blend of a desktop base and an online base. There are a few, what we call, early adopters who have a QBO practice only. But it's thousands, not tens of thousands or hundreds of thousands.

Question – Kash Rangan: One of the talk that I had was with respect to this conversion. If you look at Adobe and Autodesk, both of them, I know that you're probably in touch with your peer group there. Adobe said, we're going to stop releasing new functionality with the desktop version. We're going to stop development. We're going to sunset the development just going to maintenance mode. And in the future, all of the functionality, the improvements is going to be focused on the cloud version.

And Autodesk has slightly different stance and said, we're going to offer you a big discount, a really big discount that compared to the maintenance that you're paying, if you just pay a little bit more, you get the cloud subscription. Is there anything from those experiences that is applicable to Intuit?

Answer – R. Neil Williams: Yeah. I think the first one, for sure, the desktop product now is not driven by features and additional functionality. We're not investing in that at all. We're watching carefully bugs and call drivers. We don't want the desktop product to be inferior in terms of user experience, but we're not investing in new feature functionality.

One of the things always happens at this time of the year is we're doing our planning for next year in our resource allocation, always ask how much are we spending on development for QuickBooks desktop. I'm always disappointed, because it's still very small, and there's not a lot of money there that we can shift to anything else and that's mainly on bug fixes. It's supporting platform changes or changes in PCI or regulations and things like that.

But really, no feature functionality, and we are gradually increasing the price point of desktop and trying to find that equilibrium where customers are willing to pay a bit more and we're always pitching QBO. Sometimes people tell me it's hard to find a place where they can renew their QuickBooks desktop license, and that is music to my ears. We're not trying to...

Question – Kash Rangan: You should introduce a link to the QBO website.

Answer – R. Neil Williams: Exactly, exactly, kind of make it a continuous cycle.

Question – Kash Rangan: Or maybe make the QBO look like the desktop, so people think they're actually signing up for a desktop. Of course, there's a reason why I do what I do and you do what you do.

Answer – R. Neil Williams: Yeah. We're capturing all these marketing ideas.

Question – Kash Rangan: I think there was a couple of ideas generated a couple of years back when the Apple iWatch was introduced. I don't know, Jerry Natoli, do you remember, we had a lively chat about how you could use the iWatch for filing your taxes?

The iWatch was not apparently turned out to be what we thought. So, maybe next year. Let's talk about global QBO. I know Brad has talked about in the past a certain collection of geographies as being the focal area. What has the company discovered in your attempts to take this QBO franchise more globally? Is there any firming of who the more viable, applicable target market is today? Which are those countries and do you see yourself focusing your marketing, selling and development efforts on a few select countries that have the highest potential for QBO?

Answer – R. Neil Williams: Yeah. I think, Kash, the thing that we've learned over the last few years is that the accountant relationship and the accountant as recommender is even more important outside the U.S. than it is here. Most small businesses outside the U.S. do have some relationship or connection to an accountant for tax filing and things like that. And so, we've learned that having the endorsement and the approval and recommendation of the accountant community is even more critical than here.

So, that means that when we enter a new market, and this is the stage where we are right now with France and Brazil, we go in first with a small subset of accountants who cater to and have a large small business accounting base, who can really work with us and work with the product development teams to be sure that we meet all the local compliance requirements, think about use tax, think about value-added tax, payroll reporting, e-file requirements, things like that, that are quite extensive outside the U.S. Bank connectivity is another, where you can connect to your local bank and download transactions electronically. Having those things right before you ever roll out the product is a critical thing. This is not like other areas of software...

Question – Kash Rangan: And you've not talked about this in prior events (28:07)...

Answer – R. Neil Williams: Oh, yeah.

Question – Kash Rangan: This is a new insight.

Answer – R. Neil Williams: Right.

Question – Kash Rangan: Yeah.

Answer – R. Neil Williams: Yeah. And it's not like other forms of software, where you can roll out kind of an okay version and expect to improve it over time. If customers try your product and it didn't work very well, they are not very inclined to come back and try it again later, and accountants are certainly not going to waste time with their clients on a product that's less than full-featured. So, that's a journey we're on. Canada, UK and Australia, we would say, are very strong and are really what's driving the growth outside the U.S. in most recent quarters, where we do have that product market fit and we do have accountant base recommending. Brazil is a market that's under development right now. That's probably the next in line as one that can be a really good growth driver for us.

France is close behind that. And then, we have a product out in India that we're working on, and that's a huge market for us. We have over 1,000 employees in India in our development center there. So, we want to win and be there. But we want to find a way to monetize the product and be sure that it's a profitable product for us as well. We have some pretty rigorous lifetime value to acquisition cost metrics that we follow closely in each one of these markets. And so, it's not enough just to have a product out. We have to find a way to monetize and make money on it as well, and we're a little further behind there than some of the other markets. But UK, Canada and Australia are doing quite well for us. I think you'll see Brazil and France being big contributors next year to the growth in QBO and some other countries behind that.

We also have our Self-Employed offering out now outside the U.S., and we announced on our last earnings call that we're rolling it out in Singapore and Hong Kong. There are a couple of markets behind that that will come out. And the idea behind this is that the Self-Employed offering, because it is simpler and easier to use, has simplified localization requirements. It's a less expensive product, and so we typically don't have a feet on the street or a marketing – a heavy marketing component with that. And so, we want to see how that does. But it's early days, but we're excited about the opportunity there. We know there's a big addressable market. The question will be will the Self-Employed product be good enough to gain wide adoption, so stay tuned. But that'll be another driver of QBO subs, I think, in the months ahead.

Question – Kash Rangan: So, jumping to payment and payroll within the Small Business, from a high level, do you think it's too important for the success of Small Business? The reason I ask is that, the way I understand it is it's probably more a monetization opportunity versus actually an important thing to get new customers. But I also understand that the attach – those customers attached with the QBO, they're going pretty fast, but then the stand-alone products aren't.

Answer – R. Neil Williams: Right.

Question – Kash Rangan: So, maybe you can talk about what's the puts and takes around why you think you need payroll and payment, and maybe even talk about the profitability aspects of being in that business as well.

Answer – R. Neil Williams: Sure. There was a time in Intuit when we thought that payroll and payments might be good front doors for the franchise, and so we have offerings and you still see some remnants of them around, where you could do just payroll or just payments without using our accounting product offering. And candidly, those did not do very well for us historically, and the remnants of that business we have now is actually declining. So, we don't see it as being a big front door for the franchise.

On the other hand, for the accounting customers who use QuickBooks Online, if you have employees or if you accept credit cards and debit cards, having our applications to do that is a much simpler, easier use experience. And so, most customers, if they're going to use our accounting offering, want a payroll and payments alternative just for ease-of-use. It simplifies their reconciliation process, much less work that you have to do on the front-end. So, that's why it's important for us to have it. It's also an important way that we monetize the business over time. So, our payroll and payments business for QBO connection is growing about – in the mid-30s, most recent quarter in terms of revenue, and it's a great use experience for those customers.

So, the way I think of it is that payroll and payments for us is not a one-size-fits-all or a winner-take-all type thing. We're not trying to be the most dominant payments provider in the world. But we do think, for people who use our QuickBooks Online alternative, we ought to be their payments or payroll alternative. So, it's something that people want to make a great use experience and to make it an end-to-end product for them. But we're not trying to compete on those on a stand-alone basis. And it is an important lever for monetization. Customers expect to pay more for payroll and payments processing, and it's a relatively nice way to monetize the accounting product.

Question – Kash Rangan: So, we've got a few minutes to wrap-up. Anybody that has a question, feel free to raise your hand. Yeah?

Unidentified speaker

Question – Unidentified speaker: (33:22-33:41).

Answer – R. Neil Williams: Yeah. You're exactly right. We honestly don't see a lot of customers convert from some other accounting solution to ours, and we don't see people leave our accounting suite and go to somebody else. Typically, your alternative is to get someone either when they're forming the business for the first time or when they're getting to a size and complexity where an envelope or shoebox doesn't work for them anymore. You're getting the first-time customer to adopt accounting.

But you're exactly right. Once you start on another solution, unless you're just a trialer, if you're adopting and using some other alternative, we don't see a lot of customers convert from those other alternatives to ours. So, it's all about competition for first-time users and first-time adopters. And they're great competitors, alternatives especially outside the U.S. It's been good for us honestly to compete against some of those and to learn – we've enjoyed a lot of market share in the U.S. for a long time.

But it's a good thing for us to compete with others in Australia and the UK, and it's made us more scrappy. It's made us more fleet to get things out and to get things improved and built into our products. But candidly, we don't spend a lot of time thinking of how to win customers over from some other alternative. We think about how do we get the lion's share of recommendations for first-time users or people who are opening and developing a small business.

The key thing we focus on there is Net Promoter Score. We have an internal goal that we want to be at least 10 points higher than any other alternative. We're not there in all markets yet, but it's something that we watch obsessively and think about how do we improve the customers likely going to recommend our solution, our alternative to somebody else.

Unidentified speaker

Question – Unidentified speaker: (35:33-35:41).

Answer – R. Neil Williams: Oh, gosh.

Unidentified speaker

Question – Unidentified speaker: (35:42).

Answer – R. Neil Williams: In the U.S. in particular, probably 30 million or something like that. It's a huge number.

Unidentified speaker

Question – Unidentified speaker: (35:50).

Answer – R. Neil Williams: Okay. If you break that down, probably 10 million to 12 million, we would say, are people who should be using a software alternative but are not today. And when I say should be, we leave out people who are either at the top because they're a really big business or people who are self-employed or really, really small. If you're like people who have employees, even if you only have a few, we think you've ought to be using QBO. If you have inventory, anything like that, if you're a service-based business sending invoices. So, it's many millions. I love those people by the way. It's not that they're doing nothing.

Many of them are going to an accountant at tax time with all their receipts and records in a lump and asking their accountant to sort it out. And by the way, the accountant doesn't like this business typically. It's not their most profitable work. And so, they would rather have – that's why they recommend products like ours for their small business customers, so that the customer can do some of the categorization, data entry, receipt sorting and things like that, and enable the accountant to work on more value-added work. But the people who aren't using anything are probably relying on somebody at the end of the year to sort it out for them.

Analyst: Kash Rangan

Question – Kash Rangan: Any other final question? If not, I have one final question. Neil, how should we think about Intuit's potential of putting up potentially a double-digit top line growth rate in the years ahead? Because I notice a dynamic where your small business ecosystem is growing rapidly, online small business ecosystem is growing rapidly. It's becoming a larger part of the

business, not to minimize tax, but in the grand scheme of things. If QBO becomes a larger part of the small business ecosystem, small business ecosystem itself becomes a larger part of the picture, then growth could accelerate. How do you see – how does the board and the management think about double-digit growth rate going forward?

Answer – R. Neil Williams: Well, we have four financial principles that we use to run the company, that we share with the board and the people like you. The first principle is that we ought to be able to drive organic revenue growth 10% or better at the top level. And that's not something chiseled in stone that we don't review from time to time. We talk about it relentlessly, is it realistic or not. And we're sticking with that.

We think it's very realistic for the total company to grow at 10% or better organically in terms of revenue, for operating income to grow faster than that, to generate cash that we can use to reinvest in the business or to repurchase shares or pay dividends, and to keep a really strong conservative balance sheet with our investment-grade rating intact. So, those are kind of four guardrails that we look at, at the very top of the company and be sure that we're not doing anything that gets us off track on any one of those four.

Got it. With that, why don't we wrap it up. Thanks so much for your attention. Thank you, Neil, for making the trip out here.

Sure.

And we'll see you next year hopefully.

I'll see you before that.

(38:53)

Thanks.