

Intuit (INTU) \$152

- Potential for QuickBooks Online Growth of 40%+ for next 5-10 years
- High confidence in QuickBooks Online TAM
- Scale and scope matter in the land grab: Intuit's online \$10/month subscription is a game changer.
- Intuit's dominant position in the US and expansion opportunity globally makes it a potential core holding even at a 3% FCF yield.

November 13, 2017

Potential Upside: \$227 (+50%): QuickBooks Online is successful. Total revenue accelerates.
Sensible Downside: \$118 (-22%): Based on SOTP and DCF. Revenue growth slows to 5%.

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WHAT DOES INTUIT DO?



- Intuit provides software to consumers, small businesses, and the self-employed.
 - **To date, key market strength has been in the U.S., however the company is now expanding globally.** This is mostly enabled by the cloud transition.
- Key products: TurboTax, tax products to accounting professionals reported under ProConnect and QuickBooks (QB).
 - TurboTax has already transitioned to the cloud, while QuickBooks is early in the process.
 - Intuit also owns the Mint App.
- **With the transition to the cloud Intuit is becoming a platform for small businesses and the self employed.**
 - You can purchase apps through the QB Online platform.
 - Connecting accountants and customers.
 - Adding ancillary services. Payroll and payment solutions are the two main products.
- Interestingly, **Intuit has just been through a large retooling of its hardware and moved to an Agile software development process.** Both were necessary to facilitate the shift into the cloud, however **few of the long term benefits have yet been seen in the financials.**

Revenue Split	
TurboTax	42%
ProConnect	8%
QuickBooks:	
Desktop	34%
QBO	16%

We see a massive opportunity in automation of workflow such as e-invoicing for the self employed and small businesses over the next 5-10 years. We believe, INTU's recent \$10/month self-employed subscription is a game changer. The huge potential growth opportunity and the high quality of the business makes Intuit a core holding.

1. QuickBooks Online Growth of 40%+ for next 5-10 years

- Accounting software for small businesses is going through the same cloud / automation transition as larger businesses.
- Re-platforming to the cloud has enabled a new era of innovation, also a land grab for new customers.
 - **Cloud offering at \$10/month has opened the gates for this market**
 - **Longer term we are very positive on the potential upsell** and increased attach rates for higher value services such as payroll and payments

2. High confidence in TAM

- Our work shows Intuit has a realistic TAM of 40-50m, in geographies where they have product today, versus 2.4m subscribers today.

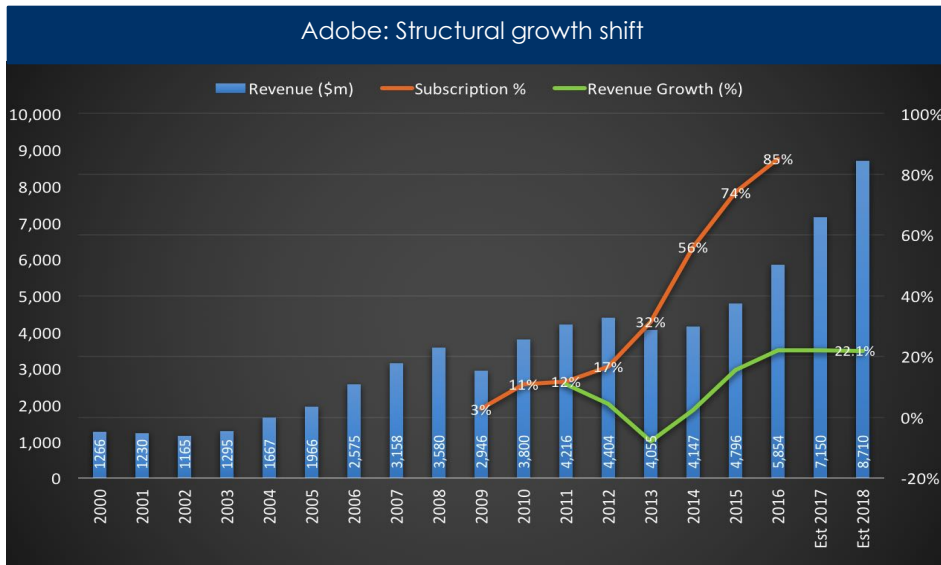
3. Wide moat of a dominant position and pricing power from sticky business

- Intuit has a dominant position in both QuickBooks Online and Turbo Tax in the US with >80% market share
- **Accounting software is almost as sticky as an ERP, generating annuity like cash flows**
- We expect that after the current land grab, Intuit will show significant pricing power.

MOVE INTO SAAS EXPANDING THE MARKET?



- The massive growth shift being seen at ADBE and MSFT was a reason we were asked to look into INTU. Is it possible that the same could happen here?
- **QBO: “nine out of 10 customers that come to us are new”**
 - They are coming from Google Sheets, Excel and paper.
 - **Why?**
 - There are a number of reasons, but the big one that changes with SAAS is entry price. Instead of spending \$200 to \$300 on a box of software, you have 6 months at \$20.
 - Intuit has commented that advertising for QBO works. “46% of our growth can be explained by the direct investment in advertising that we make.”
- **Lower entry price expands the market**
 - This has been shown by: ADBE, MSFT, ADSK.
 - **Adobe has seen revenue growth accelerate post transition to 21% from ~12% pre transition.**



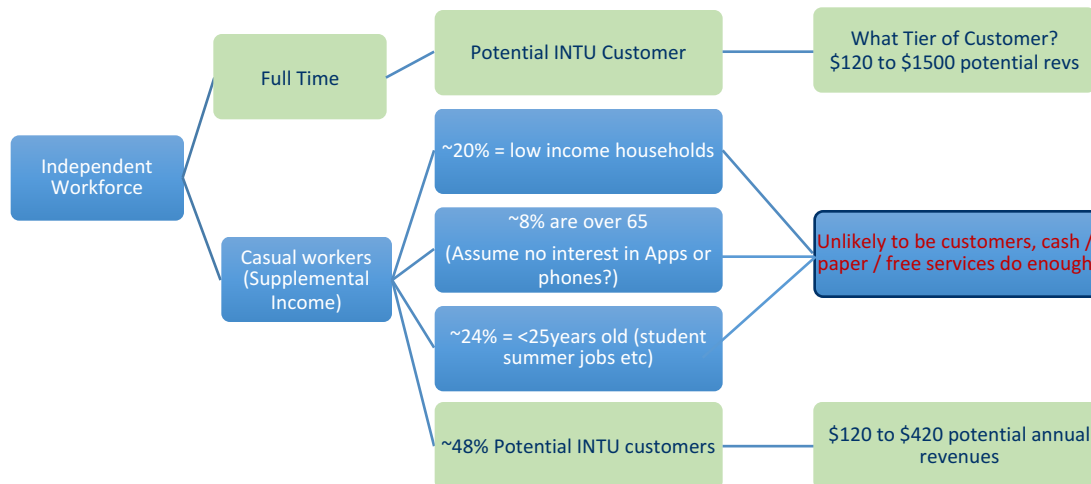
- MSFT 365 consumer is going through something similar.
 - 2017: Office Consumer revenue +14%, (\$425m) driven by Office 365 consumer (PC market growth of ~0.6%.)
 - 2016: Office Consumer revenue -2%. (PC market was weak)
 - 2015: Office Consumer revenue -17% (Transition year, + Japan mkt was weak, which impacts pre installs)
 - 2014: Office Consumer revenue -8%. (Transition). Office 365 consumer revenue grew \$316 million, primarily reflecting subscriber growth.
- ADSK looks to be going through a similar pattern, but is earlier in the process. Licence sales declined rapidly, while subscriptions look to be continuing the rapid growth, suggesting an expansion in the market.

HOW BIG IS THE TAM TODAY?



- **The TAM has clearly increased giving the potential for much higher long term growth.**
- The U.S. market is the key market for QB Online.
 - Intuit has a dominant, entrenched position, also the US has the highest revenue per user and is 77% of the QB Online installed base.
- **We think that the TAM has expanded to ~32m Potential customers in the U.S.**
 - **40-50m TAM in current markets.**
 - Current online subscribers are 1.9m
 - Current market share is 80-85%.
 - **I.e. excluding the international market, there is an ~13x market potential from the expanded TAM**

This is how we size the number of potential customers



Estimated Potential Customer Numbers				
Full Time:				
U.S.	U.K.	Australia	Canada	
22-24m	3-4m	1.2m	1.3m	
Supplemental Income:				
U.S.	U.K.	Australia	Canada	
10-12m	1-2m	500k	500k	
Total				
U.S.	U.K.	Australia	Canada	
32-36m	4-6m	1.7m	1.8m	

= 40m to 50m

HIGH QUALITY: DEEP MOAT AND PRICING POWER



- **QuickBooks**

- We consider accounting software as well entrenched in the workflow of small businesses as ERP, hence very sticky with annuity like cash flow. Accountants are very conservative.
- Most of the churn is around people going from self employment to corporate employment or businesses being sold or going bankrupt.

- **TurboTax**

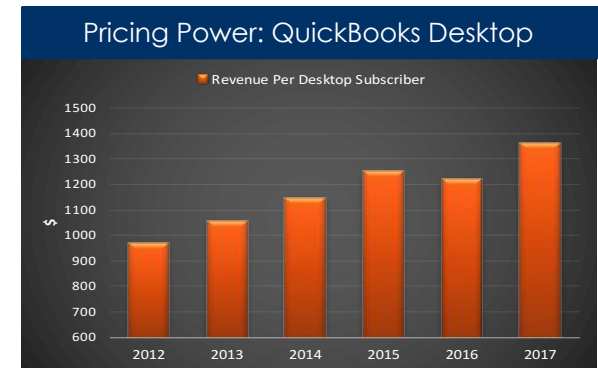
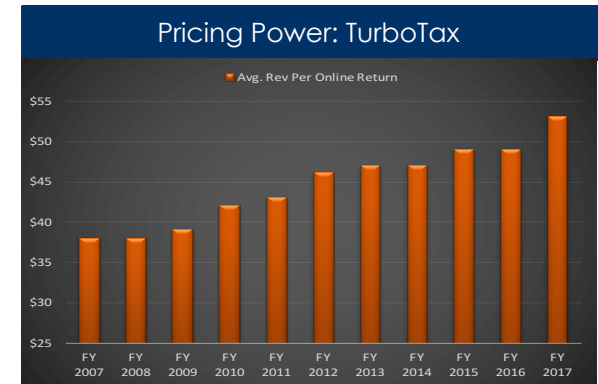
- 73% of the revenue comes from returning customers.
- **TurboTax has 80% market share of paid DIY returns.** 65% share in units on DIY Tax market.

- **Both businesses have a dominant position:**

- **QuickBooks has had high market share of > 80%** in the small businesses desktop in the US for many years.
- Even in the fast growing online segment, **we estimate QuickBooks Online has around 85% U.S. market share.**
- We believe QBO is almost 15-20x the next competitor Xero or FreshBooks in the US.

- **We don't see INTU's competitive position weakening**, it is only strengthening as QBO becomes a platform.

- Although there is a clear global land-grab happening today.



DOWNSIDE ASSUMPTIONS



- Total revenue growth declines from 10% to 5% over 5 years.

QB Online

Growth slows rapidly over the next 5 years.

- Growth starts struggling at 6-7m customers.
- Self-employed increases to 80% of additional subscribers.
- Cross-sell / attach rate improves to 2016 type numbers for small business subscribers. (<50% of the rate of desktop)

	2017	2018	2019	2020	2021	2022
Additional subscribers Mix						
Self employed	35%	40%	50%	60%	70%	80%
Small Businesses		37%	30%	24%	17%	10%
International		23%	20%	17%	13%	10%
Accounting Product revs (\$m)	442	712	945	1,143	1,298	1,435
Services revenue (\$m)	411	474	575	705	816	918
Total revenue (\$m)	853	1,185	1,520	1,848	2,114	2,353

	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
Revenue (\$m)	4,694	5,177	5,706	6,182	6,608	6,979	7,331
Consumer Tax Revenues (\$m)	2,045	2,201	2,355	2,473	2,596	2,726	2,863
ProConnect	428	437	446	455	464	473	482
QuickBooks:							
Desktop	1564	1686	1,770	1,735	1,700	1,666	1,633
QBO	657	853	1,135	1,520	1,848	2,114	2,353
Growth Rate Assumptions							
Consumer Tax	8.7%	7.6%	7.0%	5.0%	5.0%	5.0%	5.0%
ProConnect		2.1%	2.0%	2.0%	2.0%	2.0%	2.0%
QuickBooks:							
Desktop	4.3%	7.8%	5.0%	-2.0%	-2.0%	-2.0%	-2.0%
QBO	24.7%	29.8%	33.0%	34.0%	21.6%	14.4%	11.3%
Total Revenue Growth	12.0%	10.3%	10.2%	8.4%	6.9%	5.6%	5.0%

Consumer Tax

TurboTax Grows at 5%, remains highly profitable, ~40% fully costed operating margins.

Desktop

QB Desktop, begins to shrink at 2% per annum.

- We feel this is **conservatively negative**. The shift to subscription within desktop is a positive, however we could easily argue for a quicker shift to QBO having a net negative impact

DOWNSIDE (-22%)



- **DCF Downside based on the scenario above gives downside of -27%.**
- **SOTP: downside of -18%.**
 - TurboTax: Valued at \$11bn
 - ProConnect: Valued at \$2bn
 - QB Desktop: Valued at \$7bn
 - QB Online: Valued at \$12bn (based on 7x estimated revenues 3years out, discounted back)
- **What do you pay for a \$1bn, fully scaled cloud business growing subscribers at ~50%?** With the opportunity to upsell those subscribers?
 - Removing all the discounts, and estimating a current installed base revenue run rate, we estimate that QB Online would have ~\$1.2bn in revenues.
 - What is this worth?
 - Using a Salesforce multiple of sales = 7x.
 - Gives a PV of ~ \$8.4bn. (This is a sensible downside value to attribute to the business given current trends)
 - Which also gives downside of ~27%.

	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	2023
Sales	5,177	5,706	6,182	6,608	6,979	7,331	7,697
Sales Growth (%)	10%	10%	8%	7%	6%	5%	5.0%
Operating Profit	1,367	1,556	1,703	1,847	2,225	2,337	2,454
Operating Margin (%)	26.4%	27.3%	27.5%	27.9%	31.9%	31.9%	31.9%
Incremental Op Margins (%)						31.9%	32.0%
Interest Expense	-	-	-	-	-	-	-
Tax Rate	29.5%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%
Net Income (GAAP)	979	971	1,097	1,200	1,300	1,565	1,643
Net income margin		17.0%	17.7%	18.2%	18.6%	21.3%	21.3%
Cash From Operating Activities	1,291	1,444	1,590	1,712	1,998	2,098	2,059
D&A	236	248	260	273	287	301	316
Capital Expenditures	522	230	231	232	232	232	232
Change in deferred revenues	84	100	130	139	147	154	100
SBC (fully expensed)	-326	-359	-389	-416	-431	-431	-431
Free Cash Flow (CFO-CAPEX)	1,061	1,213	1,358	1,480	1,766	1,866	1,927

Rev Growth in 2032	5.0%
Terminal Growth	2.50%
Operating Margins at: 2032	33.6%
Incremental Margins at Terminal	40.0%
Discount Rate	8.50%
Current Share Price	152
Downside	110.3 -27%

UPSIDE ASSUMPTIONS



- Total revenue growth Accelerates from 10% to 20% over 5 years.

QB Online

Growth accelerates over the next 5 years.

- Total customers reaches 17m in 2022
- Self-employed increases to 60% of additional subscribers.
- Cross-sell / attach rate improves across all subscribers as the platform strategy begins to have an effect. Hence services revenue growth accelerates in 2020.

	2017	2018	2019	2020	2021	2022
Additional subscribers Mix						
Self employed	35%	40%	45%	50%	55%	60%
Small Businesses		37%	30%	24%	17%	10%
International		23%	25%	27%	28%	30%
Accounting Product revs (\$m)	442	712	1,032	1,500	2,146	3,028
Services revenue (\$m)	411	475	606	869	1,259	1,841
Total revenue (\$m)	853	1,187	1,638	2,369	3,405	4,869

	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
Revenue (\$m)	4,694	5,177	5,780	6,519	7,532	8,867	10,619
Consumer Tax Revenues (\$m)	2,045	2,201	2,377	2,567	2,747	2,939	3,116
ProConnect	428	437	446	455	464	473	482
QuickBooks:							
Desktop	1,564	1,686	1,770	1,859	1,952	2,049	2,152
QBO	657	853	1,187	1,638	2,369	3,405	4,869
Growth Rate Assumptions							
Consumer Tax	8.7%	7.6%	8.0%	8.0%	7.0%	7.0%	6.0%
ProConnect		2.1%	2.0%	2.0%	2.0%	2.0%	2.0%
QuickBooks:							
Desktop	4.3%	7.8%	5.0%	5.0%	5.0%	5.0%	5.0%
QBO	24.7%	29.8%	39.1%	38.0%	44.7%	43.7%	43.0%
Total Revenue Growth	12.0%	10.3%	11.6%	12.8%	15.5%	17.7%	19.8%

Consumer Tax

TurboTax Grows at 7-8%

- Could be as high as 10%, but we did not want this to be a point of debate, hence 7-8%.

Desktop

QB Desktop grows at 5%

- The shift to subscription and stickiness of the model make this a real possibility.
- Historic pricing power in the business has been 9-12%.

UPSIDE DCF



- Key driver is revenue growth assumptions
- We have put through very limited operating leverage until growth slows to ~5%.

	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	2023
Sales	5,177	5,780	6,519	7,532	8,867	10,619	11,893
Sales Growth (%)	10%	12%	13%	16%	18%	20%	12.0%
Operating Profit	1,367	1,576	1,822	2,142	2,522	3,020	3,403
Operating Margin (%)	26.4%	27.3%	27.9%	28.4%	28.4%	28.4%	28.6%
Incremental Op Margins (%)							30.0%
Interest Expense	-	-	-	-	-	-	-
Tax Rate	29.5%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%
Net Income (GAAP)	979	971	1,111	1,283	1,507	1,773	2,122
Net income margin		16.8%	17.0%	17.0%	17.0%	16.7%	17.8%
Cash From Operating Activities	1,291	1,458	1,673	1,931	2,237	2,635	2,206
D&A	236	248	260	273	287	301	316
Change in deferred revenues	84	100	130	150	177	212	237.2
Capital Expenditures	522	230	231	232	232	232	232
SBC	-326	-364	-410	-474	-549	-646	-679
Free Cash Flow (CFO-CAPEX)	1,061	1,227	1,441	1,699	2,005	2,403	2,528

Rev Growth in 2032	Terminal Growth
3.0%	2.50%

Operating Margins at: 2032	31.5%
Incremental Margins at Terminal	40.0%

Discount Rate	8.50%
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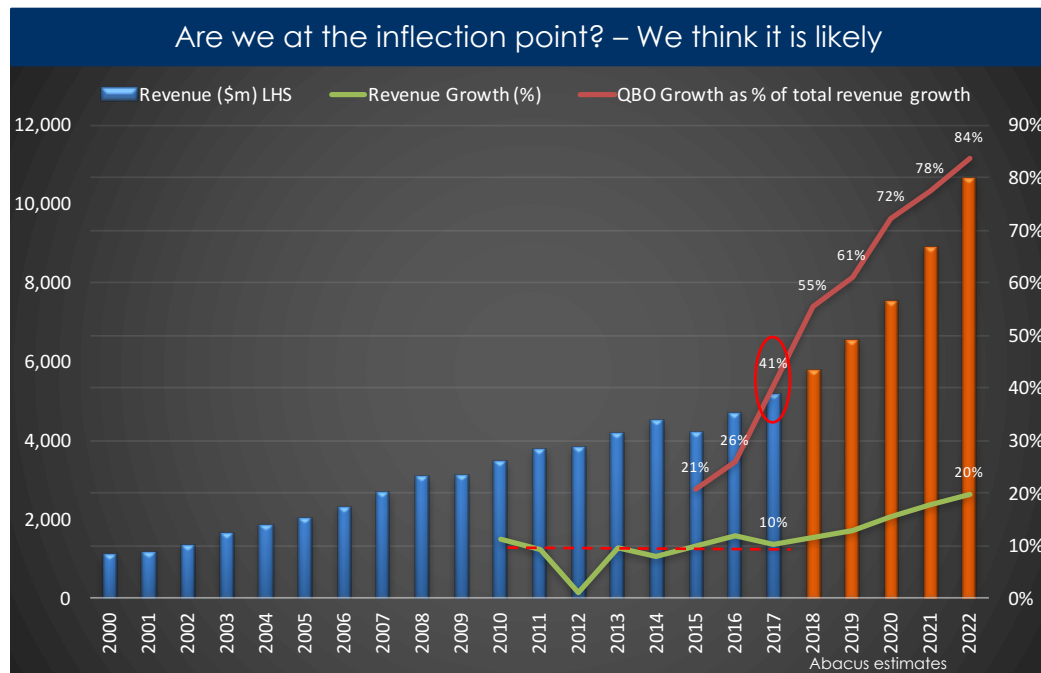
Current Share Price	152
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Upside	226.9	49%
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WHY NOW? ARE WE AT AN INFLECTION POINT?



- **QuickBooks is a platform in the making, reported revenues barely scratching the surface in terms of potential.**
 - **Re-platforming and cultural change are only 9 months old in terms of visible evidence** of change.
 - **Self employed product launched recently** and is taking off.
 - Success is not yet proven.
- Revenue acceleration in the next 2 years is a realistic outcome. If this happens the company will be revalued by the market.



- **Self employed remain skeptical and slower automation adoption**

- Our upside forecast of QBO subscribers of 17m in 2022 (from current 2.4m) turns out to be overly optimistic
 - Self employed adoption is the key to the upside estimates
 - A bad recession could make the self-employed tighten their belts and remain with excel
- There is little push from government to automate
- The black economy grows (cash usage has steadily increased since 2009) putting pressure on potential customers willingness to buy accounting software.
- International growth remains limited to just a handful of countries.

- **Churn**

- We have not specifically modelled churn. Small businesses fail, contractors move back to self employment. If churn in self-employed is very high, then our model will be much too optimistic.

- **Average revenue rate struggles for longer**

- We assume growing attach rates even for Self Employed and new QBO customers
- Although these customers start with base products, **we have assumed INTU is able to entice them into higher value products such as payrolls and payments.**
 - This could be slower than our assumptions, or potentially the new subscriber base will never want them.

- **Xero is bought by a competitor with deeper pockets**

- Xero has a highly competitive online product and very successful in Aus/NZ and the UK
- We are still early in the land grab, especially internationally
- At this time Xero has very limited chance of success in the US, however, a more serious owner such as Sage or larger software companies could see this as an opportunity

| Quality?

HIGH RETURN WITH STRONG CASH GENERATION



- Attractive returns and margins
 - **Majority of existing revenues are recurring in nature need minimal marketing expenditure.**
 - As discounts reduce after 6 months, it becomes an automatic tailwind for growth and high incremental margins
 - **Return on capital is likely to increase in the coming years** as the revenue is likely to accelerate with high incremental margins in the QBO business
- **Solid Free Cash flow**
 - Capex of only 15% of operating cash flows allows INTU to consistently increase dividends and buyback shares.
 - Bulk of capex is capitalised software costs.
- **Margins will improve when growth slows**
 - Margins are artificially depressed by discounted prices for new customers for 6 months and international sales. This will reverse when growth slows down

Consensus estimates

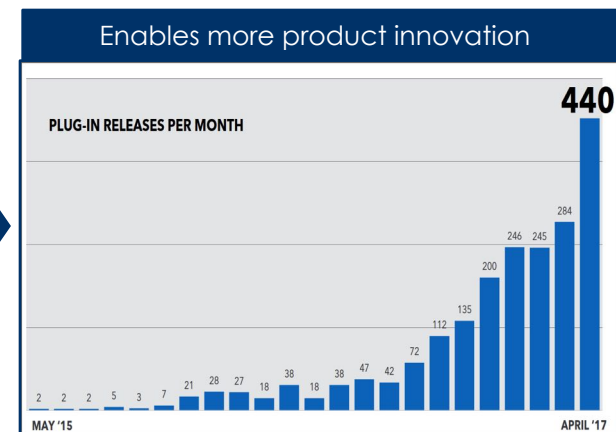
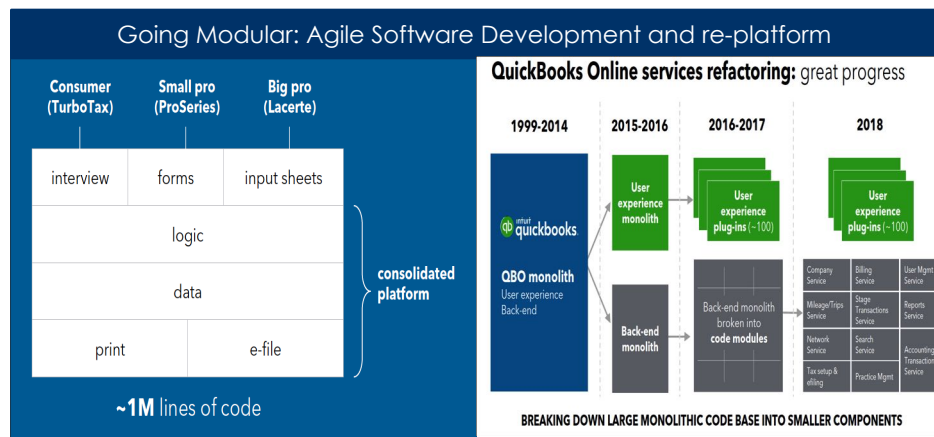
Intuit Inc	7/08	7/09	7/10	7/11	7/12	7/13	7/14	7/15	7/16	7/17	7/18E	7/19E
Return on Capital (incl.GW) (%)	17%	15%	16%	19%	23%	22%	26%	12%	31%	48%	62%	70%
ROE (%)	49%	19%	21%	23%	30%	27%	27%	13%	56%	77%	62%	73%
Operating Cash flow (\$ m)	830	812	998	1,013	1,246	1,366	1,446	1,504	1,460	1,599	1,290	1,416
Capex (\$ m)	(262)	(182)	(130)	(213)	(186)	(195)	(186)	(261)	(522)	(230)	(200)	(221)
Free cash Flow (\$ m)	568	630	868	800	1,060	1,171	1,260	1,243	938	1,369	1,090	1,195
FCF Yield%	0	6.6%	7.0%	5.7%	6.2%	6.1%	5.4%	4.2%	3.3%	3.5%	2.8%	3.1%

Intuit Inc	7/08	7/09	7/10	7/11	7/12	7/13	7/14	7/15	7/16	7/17	7/18E	7/19E
Gross Margin (%)	79.7	80.1	81.1	82.8	84.6	86.2	85.8	82.7	84.0	84.4	84.7	84.7
SG&A (% of revenues)	57.3	58.1	56.1	55.3	54.0	56.6	55.1	65.1	57.5	57.4	51.1	50.4
EBITDA Margin (%)	29.4	30.8	32.4	33.9	37.0	35.1	35.3	23.1	31.5	31.5	38.0	38.6
Operating Margin (%)	22.3	22.0	25.0	27.5	30.7	29.6	30.6	17.6	26.5	26.9	33.7	34.4
Net Margin (%)	15.5	14.4	16.6	16.8	20.8	20.6	21.4	8.7	20.9	18.8	22.7	23.1

RE-PLATFORMING: INNOVATION ONLY JUST SHOWING UP



- **We have noticed how important re-platforming is when companies go through a cloud transition.**
 - Not only is there a tech stack change that is necessary (Intuit is shifting to AWS), but **it is equally important to enact culture change.**
 - This manifests itself in faster innovation and product launches. This has been the case for TRU, PYPL and QuintilesIMS.
- **Intuit has clearly undergone a significant change in both tech stack /technology, and innovation rate.**
 - *“More of our spend is now shared by our business units” CEO.*
 - **The change at Intuit is very young. The project has been ongoing for 2-3years, however the results only began to show 8months ago.**
- Company is investing in machine learning / culture change.
 - Focused on making better decisions faster.
 - *Accelerating our decision-making and making speed in getting to market quicker across the company [is] a much bigger initiative for us.*
 - Driving productivity in the developer community



| QuickBooks

- **QuickBooks is potentially relevant to small businesses and the self employed.**
 - **Key primary reasons for adopting:**
 1. Expense tracking
 2. Issuing invoices
 3. Other benefits: time sheets, payroll management, payment processing.
- There are two products:

 - **Online: Which has been expanding the QB addressable market.**
 - **Desktop: Slowly migrating towards subscriptions, some customer conversion to online product.**

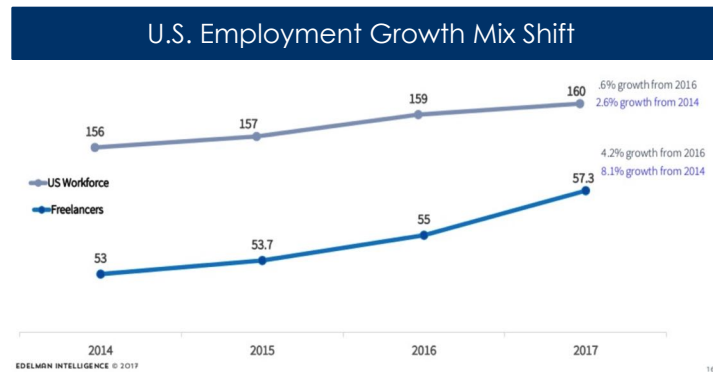
- **Growth is driven by penetration of a larger TAM**
 - **Ease of use:** Major driver as **more linkage with banks enables more automated workflow.** Or automatic miles driven tracking.
 - **Pay as you go vs. desktop software upfront payment**
 - Mobile Apps: enabled by the move to the cloud.
 - Special software for self-employed: Expands the TAM to more than just small businesses.
- **And cross sell**
 - There are hundreds of add-on solutions that can connect to services like QuickBooks Online and Xero.
 - Payroll and integrated payments are the two most successful products. Over time the value of the ecosystem will become clear, today it is too early to see any financial impact.

| Market Growth

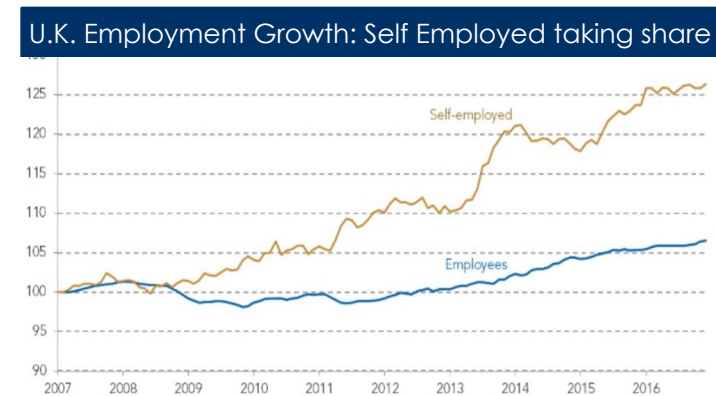
THE TAM IS GROWING



- McKinsey Global Institute surveyed ~8,000 respondents across Europe and the United States.
 - **Their conclusion: Up to 162 million people in Europe and the U.S. 20% to 30% of the working-age population, engage in some form of independent work.**
- For reference, the US workforce is 160m people, the working age population is 205m. The UK workforce is 32m people



Source: Commissioned by Upwork and Freelancers Union



Source: Resolution Foundation

- **There are two key trends affecting the TAM:**
 - **Aging Population:** Despite being “retired,” over 65s continue to **work part-time because they want to or need to.**
 - **Millennials**, who for one reason or another have a **greater propensity to have some self employed income.**
 - According to the Freelancers Union survey: Asked whether they started freelancing more by choice or necessity, 63% of freelancers said by choice, up 10 points since 2014.
- **Signs suggest that this is a long term trend:**
 - The independent workforce is starting gain the attention of policy makers and companies.
 - Whether you call it an “agile” workforce or a “gig” economy, the number employees working on a project or contract basis has been on the rise.
 - **This is a combination of full time and “supplementary income” workers.**
 - There is a fundamental shift in the international market towards assignment and project based work

TAM SUMMARY

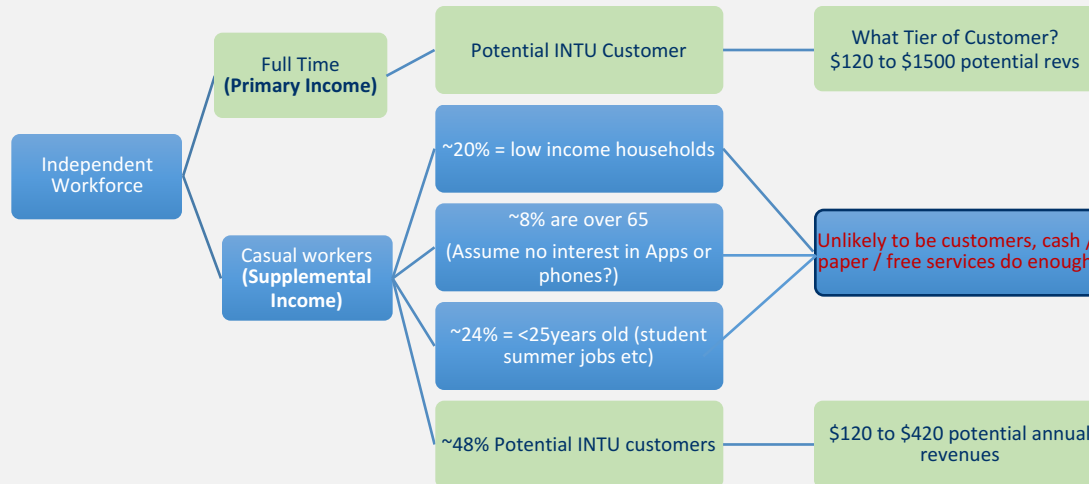


- We don't agree with Intuit's definition of 65m potential customers in the U.S. or other markets
 - Sizing the independent workforce, is very challenging. There are many different surveys, using different definitions, so there is no definitive answer.

Market Sizes				
Abacus TAM estimates	32-36m	4-6m	1.8m	1.7m
Intuit TAM estimates	US 65M	UK 5M	Canada 3M	Australia 3M
CUSTOMER GROWTH	2016: 1,226 2017: 1,880 +53%	2016: 71 2017: 166 +132%	2016: 90 2017: 150 +67%	2016: 53 2017: 104 +95%

- What we should care on is the number of potential customers, with the ability and willingness to pay ~\$400 a year to Quick Books Online or a \$120 a year for Self-employed package.**
 - Two different groups of customers: Those that generate their primary income, and those that generate supplemental income from independent work.

This is how we size the TAM



Estimated Potential Customer Numbers

Full Time:			
U.S.	U.K.	Australia	Canada
22-24m	3-4m	1.2m	1.3m

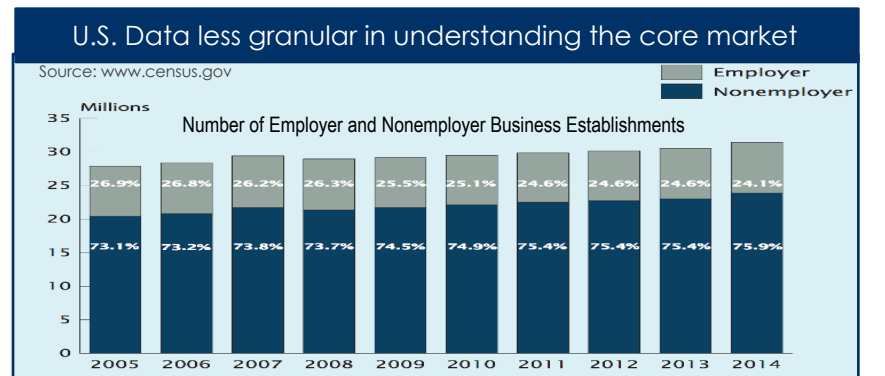
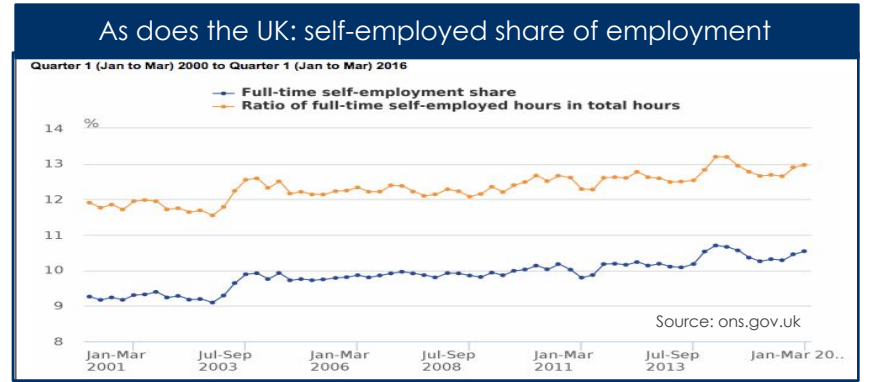
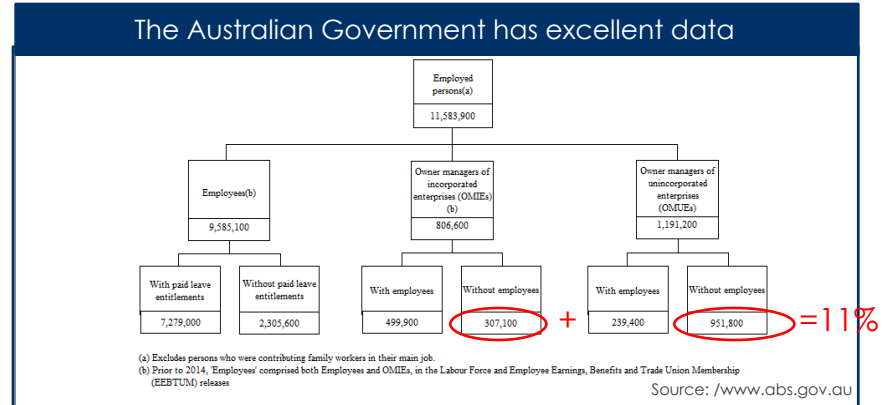
Supplemental Income:			
U.S.	U.K.	Australia	Canada
10-12m	1-2m	500k	500k

HOW MANY FULL TIME, PRIMARY INCOME INDEPENDENTS?



- **This is the easier question to answer:**
 - The data is consistent across geographies
 - **Approx. 10-12% of the workforce generate their primary income as independent workers.**

- Australia
 - Australia data suggests that a worst case number would be 4.7% of all employed persons.
 - **10.8% of employed persons are self employed and have no employees.**
- U.S.
 - **There are about 22m non employer businesses in the US.**
 - This suggests about 13.7% of the workforce. (160m)
 - Using the MGI data, this translates into 24m independents that derive their primary income from being independent.
- U.K.
 - **Again, 10-11% Primary workers are self employed and have no employees.** (source: ONS)

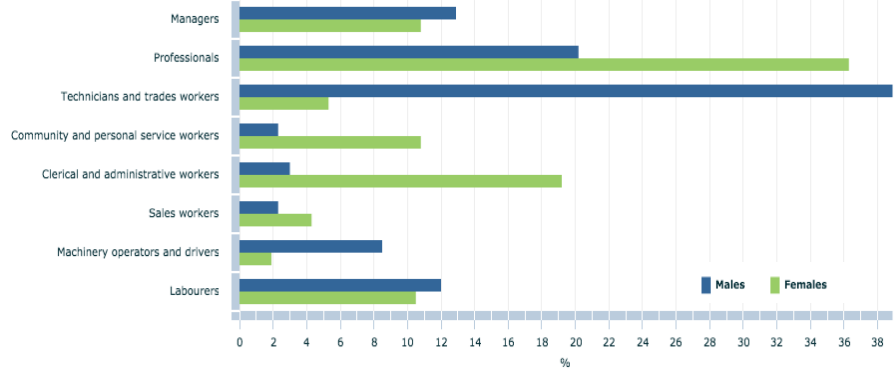


WHAT JOBS DO THEY DO?



- No job type has a large share, occupations similar to the broader economy.

Australia: Distribution of Independent Contractors by Occupation



U.S.: Self-employed Jobs Equally Diverse

Share of 2016 Self-Employed	
Childcare Workers	4.9%
Maids and Housekeeping Cleaners	4.5%
Farmers, Ranchers, and Other Agricultural Managers	4.1%
Construction Laborers	3.9%
Managers, All Other	3.7%
Carpenters	3.4%
Hairdressers, Hairstylists, and Cosmetologists	3.3%
Landscaping and Groundskeeping Workers	3.3%
First-Line Supervisors of Retail Sales Workers	2.3%
Real Estate Sales Agents	2.2%
Heavy and Tractor-Trailer Truck Drivers	2.1%
Lawyers	1.8%
Painters, Construction and Maintenance	1.7%
Management Analysts	1.6%
Janitors and Cleaners, Except Maids and Housekeeping Cleaners	1.5%
Retail Salespersons	1.5%
Personal Care Aides	1.4%
Automotive Service Technicians and Mechanics	1.2%
Construction Managers	1.1%
Accountants and Auditors	1.1%
First-Line Supervisors of Non-Retail Sales Workers	1.1%
Taxi Drivers and Chauffeurs	1.0%
Self-Enrichment Education Teachers	1.0%

Source: Emsi occupation employment data

- **The U.S data shows that 40% of self-employed charge below \$13 an hour.**
- In 2017, 3.2 million Full Time Independents make more than \$100,000 annually, up 4.9% from 2016.
 - This population is now about 15% of full time independents.
- The other interesting fact is that hourly wages are generally ~20% lower than full employees.
 - There are clearly other benefits that make up for this, namely flexibility.

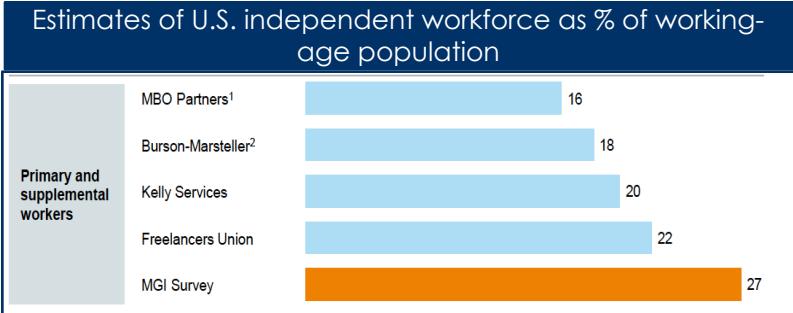
U.S.: Median Hourly Pay Ranking

1st Quartile	Less than \$12.76
Median	\$16.20
3rd Quartile	Less than \$23.12
Top Decile	>\$36

Source: Emsi occupation employment data

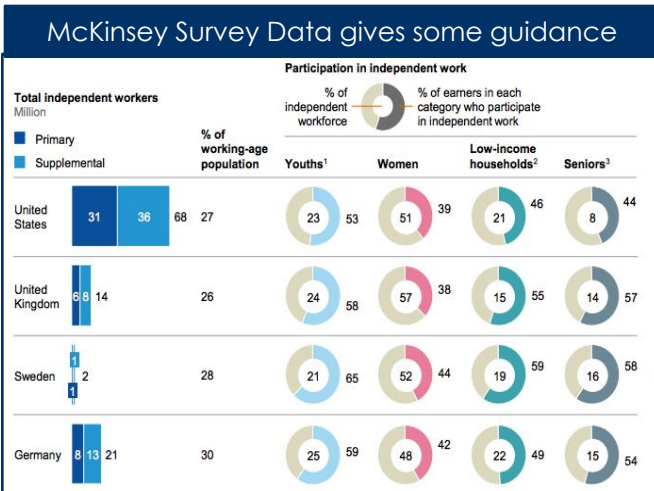
HOW MANY SUPPLEMENTAL INCOME WORKERS?

- This is very difficult to reach a satisfactory conclusion
 - **How many supplemental workers are potentially relevant for QBO?**
 - **They must earn enough and have sufficient complexity** to warrant paying ~\$120 to \$420 a year for the software.
 - How much of what they do is cash based / potentially in the black economy?

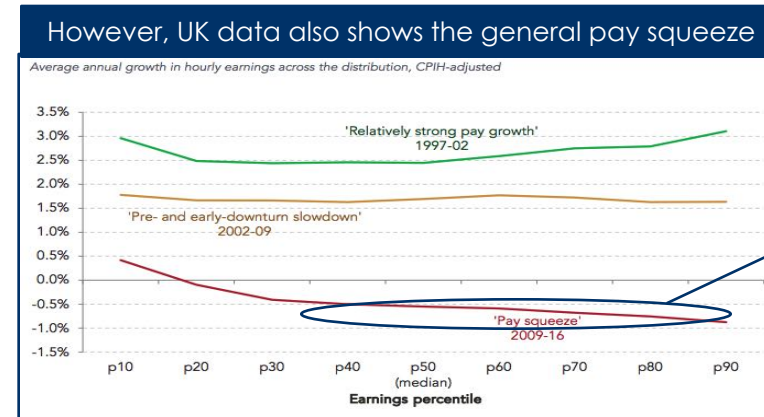


Surveys have wide spread on the number of supplemental workers.

- And none of them give average yearly earnings from supplemental work.



Source: McKinsey Survey



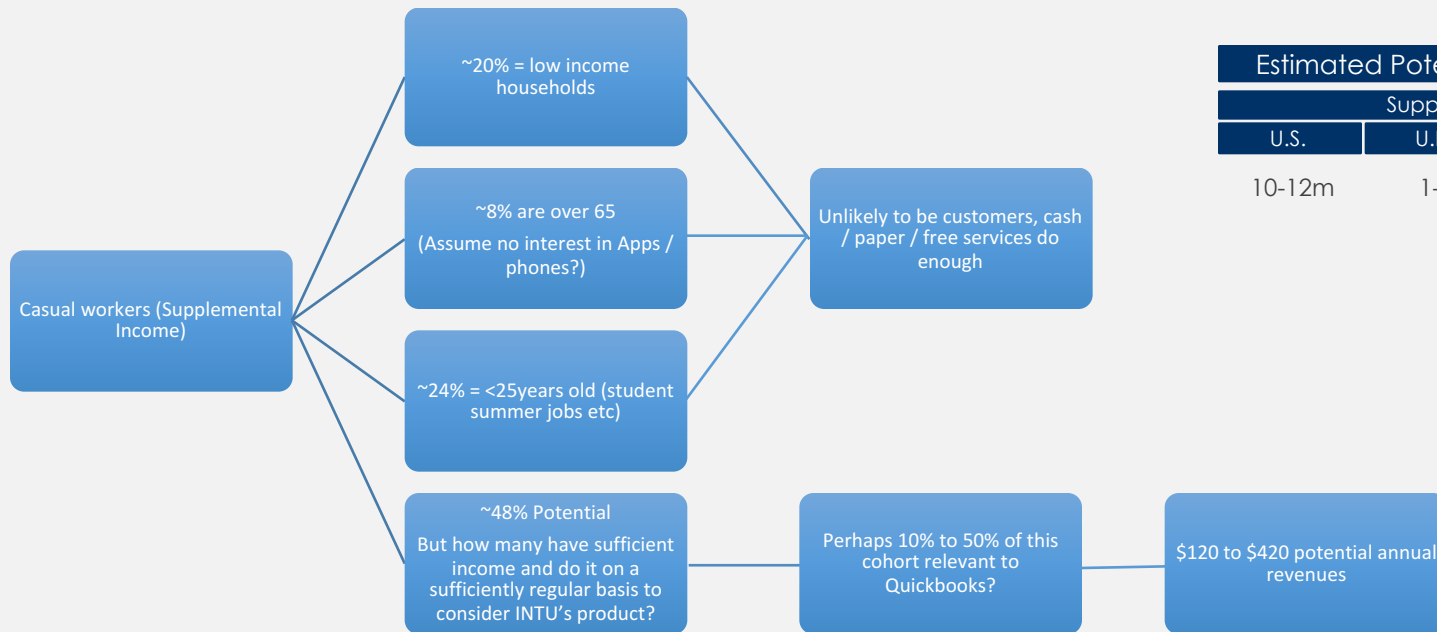
This is where the economy has been, pushing people into supplemental income generation

HOW MANY SUPPLEMENTAL INCOME WORKERS?



- **Generally speaking supplemental workers are a slightly larger population than primary independent workers.**

- We estimate that ~48% of supplemental workers have the potential to earn enough income to be relevant to QB.
 - **Of this 48%, what % has enough declared income to warrant paying QB?**
 - Unfortunately it is best guess territory... we have not been able to get any data on this cohort.
 - Our estimates are that ~25% of the supplemental workforce have both the willingness and ability to pay for a QB product.



| Competition

TWO KEY ONLINE ACCOUNTING SOFTWARE PLAYERS



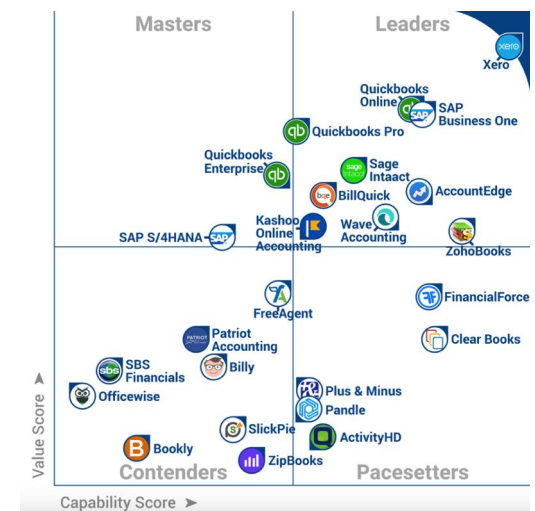
- Business accounting software is a crowded market, although dominated by a handful of players.
 - **No new competition in desktop for years:** The survivors of what was once a crowded field have been around since the early 90s. They are QuickBooks (the desktop version), Sage 50c (which started its life as Peachtree Accounting), and AccountEdge Pro (formerly MYOB).
- **Traditional office accounting software providers have acted like incumbents and have been slow to move to online and mobile except for Intuit.**

- **In the U.S., QB Online dominates the market**

- QB Online: 1.9m subscribers
- XERO: \$9m revenue, estimated 250k subscribers.
- FreshBooks: 0.5m?
- Sage Live/Intacct: new

- **Xero is the main online competitor**

- Xero has a strong installed base in Australia/NZ and has been expanding globally.



Source: Gartner's Frontrunners for Accounting (Oct 2017)

- In 2013/14 Xero stock price crashed down to ~\$15 from \$45
 - **Key reason for the decline was the disappointment due to Xero's lack of progress in the key US market** – “if it doesn't succeed there, even its current share price may be too high”. (press Jan 2015)
- The reasons that Xero has been finding it so tough in the US:
 - **Intuit is dominant with ~80-85% online share.** Previously it had 95% share of the retail channel.
 - US accountants are more conservative, they are more afraid of being sued than their counterparts in the countries in which Xero has gained significant traction. (Australia, UK, New Zealand)
 - **Intuit, seems to be far more proactive in migrating** its customers from desktop software to the online versus Sage.
 - **Xero's has yet to develop a full range of products**
 - **The complexity of the US payroll and sales tax regimes and the fragmented nature of the country's banking sector**, has been a challenge for Xero to grow subscriptions:
 - Bank-feeds are important time savers for bookkeeping. Essentially automatically importing expenses.
 - In NZ and Australia, Xero has direct feeds into its software from all four of the major banks, as it does in the U.K. All three countries have consolidated banking sectors.
 - The US market is much more fragmented with about 6000 banks - and the top five have only about 38% of the market
 - Xero is working to sign up banks, it's mainly relying on a third-party aggregator, Yodlee, for bank feeds in the US
 - The UK started slowly, after signing HSBC in 2009. Xero had to rely on Yodlee for other banks until 2015
 - Xero has been implementing projects with large banks and now has 4 US banks, versus Intuit has feeds for 18,000 banks

- **Cloud has allowed accounting software companies to grow geographically more rapidly than desktop versions could have allowed**
- The U.K. is the main focus as an example of fierce international competition.
 - Prices are ~ 40% cheaper in the UK than in the US market.
- **Xero is online leader in the U.K. with QBO closing the gap, but still at #2**
 - Xero UK business has just passed 250,000 subscribers (Sep 2017)
 - Over past 12 months **Xero has established technical partnerships with every major bank in the UK** – all with the aim of digitizing the finances of small business.
 - As the Government implements its Making Tax Digital legislation, there is a wave of digitization expected that will help the market growth rate.
- Intuit's head of small business, Sasan Goodarzi, who is based in Silicon Valley, said Intuit was now "nearly" matching Xero sale-for-sale in the UK. If true, this is a huge improvement for QB Online.
- Intuit has 53,000 customers in Australia – **far fewer than Xero's Australian customer base of 446,000.**
 - Xero dominates NZ, which Intuit has decided to not participate because of Xero's dominant position and small market size
- **As part of the land grab, Xero is going into markets that Intuit has not had time to focus on / launch in.**
 - Given the stickiness of the business, Intuit is making significant effort to offer its products in more countries

| QuickBooks Growth

- **The desktop ecosystem is seeing a slow shift towards a a subscription model**
 - Roughly two-thirds of the Desktop units sold in fiscal 2016 were upgrades (repeat customers)
 - Some volatility from the repurchase cycle. Three-year cycle. IF you are using any of the QuickBooks-based products such as payroll, credit card processing, or online banking you have to upgrade at least once every three years.
- Three separate products: QuickBooks Pro/Premier, QuickBooks Enterprise, and QuickBooks for Mac.
 - *Mac: The 2016 version is the last, and support will expire on May 31 2019.*
 - QuickBooks Pro is much like QuickBooks Online as far as features, and the target business type.
 - Premier is the product for businesses with advanced needs and QuickBooks Enterprise goes one step further.
 - **Premier and Enterprise customers are much more likely to purchase “attachments”.**

QB Desktop	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017
Mix: Unit sales	85%	82%	77%	74%	74%	71%
Mix: Subscribers	15%	18%	23%	26%	26%	29%
Total Users	1550	1520	1450	1200	1282	1237

QB Desktop	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017
Total Revs	1498	1604	1661	1500	1564	1686
Revenue Growth		7%	4%	-10%	4%	8%
Rev per unit	966	1,055	1,145	1,250	1,219	1,362
Rev per Unit Growth (YoY)		9%	9%	9%	-2%	12%

- **Revenue growth per unit** has been consistently around the 9% range except in FY16.
 - This is partly because the shift towards subscription stops customers from skipping an upgrade.
 - Partly because it enables better cross sell.
 - And partly because INTU has been raising prices.
- **The shift to subscription does depress revenues as INTU offers a 30% discount for the first year.**
 - Given the slow adoption rate of subscription this will add ~1.2% to sector revenue growth as it rolls off the next year.
- **The larger factors are INTU pricing changes and how many users skip upgrade cycles.**
 - It is difficult for businesses to skip many upgrades as support ends after three years, however accountants have mentioned that it is easily possible to skip one.
 - Therefore, guesstimating the impact, it could be responsible for ~3% of the pricing power seen.

QUICK BOOKS: DESKTOP BUSINESS ANALYSIS



Sharp drop in FY2015 desktop revenue because of accounting change.

- INTU began delivering ongoing releases for future desktop offerings in order to improve the product experience.
- Timing of revenue recognition was changed to 3 years resulting in defer approx. \$400 million in revenue to future periods from 2015. (10K 2015)

In the fourth quarter of fiscal 2015 Demandforce, QuickBase, and Quicken businesses became long-lived assets held for sale

- accounting as discontinued operations.
- Revenues: Demandforce \$115m, QuickBase \$70m, Quicken \$51m

	FY12	FY13	FY14	FY15	FY16	FY17
Total Desktop Ecosystem Revenue (\$ m)	1498	1604	1661	1500	1564	1686
Revenue Growth		7%	4%	-10%	4%	8%
QuickBooks Desktop Units Sales ('000)	1327	1246	1124	882	956	881
QuickBooks Desktop Subscribers ('000) (ye)	223	274	326	318	326	356
Desktop Mix						
Unit sales	85%	82%	77%	74%	74%	71%
Subscribers	15%	18%	23%	26%	26%	29%
Desktop Clients (TTM, '000)	1,536	1,505	1,432	1,206	1,276	1,224
Unit sales change yoy		-6.1%	-9.8%	-21.5%	8.4%	-7.8%
Desktop Subscription change yoy		22.9%	19.0%	-2.5%	2.5%	9.2%
Desktop revenue change yoy		7.1%	3.6%	-9.7%	4.3%	7.8%
Desktop revenue/subscriber (\$/sub)	975	1,066	1,160	1,244	1,226	1,377
Change yoy		9.3%	8.8%	7.3%	-1.5%	12.3%

The focus remains on slowly switching unit sales to subscription and Online

How does Desktop have an average rev per customer of \$1362?

- **Upgrades:** annual basic upgrade costs **\$220 to \$299**. (unit sale)
- **Payroll:** The monthly plan costs **\$39.00/mo**, while the annual plan costs **\$32.50/mo**. Both plans are currently offered at a 30% discount
- **Phone Support:** **\$89/three months** or **\$59.95** for a single call. (really...)
- Additional users cost **\$199** and there is a maximum of three users total for QuickBooks Pro.
- Automatic Data Encryption Back-Ups: \$10 per month
- **Hosting Service:** QuickBooks partners with Right Network and provides online servers for companies in need of mobility. This service costs an additional **\$750 /year**, i.e. you should switch to QuickBooks Online.

QB ONLINE REVENUE GROWTH



- Total QB Online subscriber growth has consistently been in the 40%-60% range
- Number of new subscribers is growing at 870k per year as of Q4 FY17. (latest Q) a meaningful increase over Q1'17 where QBO was adding subscribers at 470k per annum.**
 - Number of subscribers added in prior 6 months reached a peak in Q3 17.

- Reported revenue growth has been lower than subscriber growth**
- Annualised revenue per subscriber in QBO has fallen dramatically over the last 2 years



	Q1 FY16	Q2 FY16	Q3 FY16	Q4 FY16	Q1 FY17	Q2 FY17	Q3 FY17	Q4 FY17
QuickBooks Online Subscribers (k) (ye)	1,159	1,257	1,397	1,513	1,638	1,871	2,220	2,383
QuickBooks Online Accounting (\$m)	66	72	78	87	93	103	117	129
Online Services (\$m)	85	83	93	92	98	97	106	109
Total Online Ecosystem Revenues	152	155	171	179	191	201	223	238
Annualised Revenue per subscriber (\$)	525	493	490	473	466	430	402	399
Number of new subscribers (k) YoY	420	416	432	438	479	614	823	870

- The changing subscriber base has meant that **cross sell has become harder.** (At least for now)
 - Payroll is a mature product in desktop and has 66% of users on the payroll product.
 - Payroll in QBO has been growing much more slowly than subscriber growth and has declined to 23% of subscriber base.**
 - Active payments started growing much faster in 2017 (17%), until then its growth rate was ~5%.

	Q1 FY16	Q2 FY16	Q3 FY16	Q4 FY16	Q1 FY17	Q2 FY17	Q3 FY17	Q4 FY17
Payroll Subscribers	404	427	455	474	499	509	523	540
Payroll Sub Growth YoY	18%	18%	21%	22%	24%	19%	15%	14%
Payroll Subs as % of Total Subscribers	35%	34%	33%	31%	30%	27%	24%	23%

WHY THE PRESSURE ON QB ONLINE REV/SUB?



	Q1 FY16	Q2 FY16	Q3 FY16	Q4 FY16	Q1 FY17	Q2 FY17	Q3 FY17	Q4 FY17
Annualised Revenue per subscriber (\$)	525	493	490	473	466	430	402	399
Online Services/ mature Sub / Q (\$)	115.02	98.69	96.37	85.58	84.56	77.17	75.88	72.04

1. Geographic mix shift

- The **average full price for non U.S. geographies is \$250 per annum vs the U.S. at \$420.**
- In 2017 this was a material drag on revenues as there was a 10% mix shift in revs mainly from QBO success in the UK.
- This had an approx. -5% impact to revenue growth in FY2017.

Est Revenue Split	2016	2017	2018	QBO Price (USD)	Discounted	Full		(USD)	2016	2017	Est 2018
US	84%	75%	77%	US	288	420	➔	Company Average Full Price	390	375	377
Canada	6%	7%	7%	Canada	178	253		Company Average Discounted Price	266	253	255
UK	5%	11%	10%	UK	117	234					
Australia	4%	6%	5%	Australia	178	254					
Brazil	1%	1%	1%	Brazil	18	20					
France	0%	0%	0%	France	210	300					

2. Discounting of new subscribers

- There are different competitive forces in each market. E.g. **the UK market is very competitive today, and QBO is having to discount 50%.**
- Discounting lasts for 6 months before subscribers revert to full price.
- Rate of subscriber growth has a meaningful impact to reported revenue growth.

3. Mix shift towards self-employed

- Intuit grew QBO subscribers by 650,000 in FY17, out of which 305,000 were on the Self Employed package.
 - **Full price of \$10/month vs \$35/month for essentials package,** hence diluting the average revenue per subscriber.
 - The bundled offering in TurboTax (TurboTax SE) contributed **approximately 170k subscribers** of the additional 305k.

SELF-EMPLOYED DRIVING GROWTH



- Self-Employed is a segment that doesn't need full accounting software.
 - They need to be able to separate business and personal expenses.
 - Plus issue / track an invoice and get paid

• Mix shift to lower paid subscribers

- Intuit grew QBO subscribers by 650,000 in FY17, of which 305,000 were from the Self-Employed package.
 - Mix of self-employed package has been increasing. Now at 35% of new additions.
- **Full price of \$10/month vs \$35/month for QBO Essentials package** and hence diluting the average revenue per subscriber.

• Self employed is a major component of the TAM

- About 90% of the TAM falls into the self employed bucket.
 - **Australian data shows that 80% of unincorporated entities have no employees.**
 - Of the Supplementary income TAM, we should assume that mostly all are self-employed.

How the mix shift is affecting average price

Self-Employed Mix Shift	2016	2017
QBO S-E New Subscribers	60	305
Total QBO new Subscribers	438	870
S-E Mix of New Subscribers	14%	35%
S_E Mix of Total Subs	6%	16%
Total QB Annualised Average Per Sub (Full)	369	300
Total QB Annualised Average Per Sub (Discounted)	251	202

• Today, it is all about the land grab

- ARPC (avg. rev per customer) is not INTU's focus and hence the \$10/month price.
 - **Long term we would be very positive on the ability of INTU to increase prices.**
- Bundled Product: TurboTax with self-employed is positive
 - **The bundled self-employed offering in TurboTax contributed approximately 170k subscribers to the additional 305k**
 - This is a key driver of QBO subscriber growth guidance to continue north of 40%
 - **Cross sell visibility?**
 - *"In the TurboTax base there are roughly 3 million of our filers who have Schedule C filing and they are self-employed customers. So we have a lot of upside opportunity there to continue to accelerate the growth."*
- **"We've been signing partnerships with Uber, Lyft, TaskRabbit, DoorDash, you name it, we've got all kinds of partnerships out there."**

CROSS SELL COULD ACCELERATE



- **Payroll growth has been slowing**, we assume that this is because of the mix shift in subscribers towards self-employed.
 - We can find no reason that international growth would not have a 35% attach rate of payroll, similar to Q1 2016. This would be especially relevant in Canada, UK and Australia.
 - **I.e. at some point payroll growth should inflect up.**
- Offsetting this **there has been a clear change in the growth rate for the payments solution.**
 - This is likely to be a product with high relevance to the self employed.
 - **New functionality likely driving the acceleration:**
 - The added payment capability, which is integrated with the mobile product, gives subscribers the ability to send an invoice, track it and get paid electronically. (Integrated with Paypal)
- **This trend clearly bears watching. It has the potential to be a very meaningful revenue upside driver.**
 - It also speaks to one of INTU's core competencies – working out where and how to charge for their software.
 - The evidence for this is the long and stable history of TurboTax monetisation. This is not something we would bet against.

QB Online: Cross Selling of Payroll and Active Payment Solutions									
	Q1 FY16	Q2 FY16	Q3 FY16	Q4 FY16	Q1 FY17	Q2 FY17	Q3 FY17	Q4 FY17	
Payroll Subscribers	404	427	455	474	499	509	523	540	
Payroll Sub Growth YoY	18%	18%	21%	22%	24%	19%	15%	14%	
Payroll Subs as % of Total Subscribers	35%	34%	33%	31%	30%	27%	24%	23%	
ActivePayment Subs	147	136	151	151	155	153	170	177	
ActivePayment Sub Growth YoY	4%	5%	6%	6%	5%	13%	13%	17%	
ActivePayment Subs as % of Total Subscribers	13%	11%	11%	10%	9%	8%	8%	7%	
Online Services Revenue (\$m)	85	83	93	92	98	97	106	109	
Growth YoY					15%	17%	14%	18%	

KEY ASSUMPTIONS FOR CROSS SELL GROWTH

1. **Attach Rate for self-employed** is very low, but improves over time.
2. Added services have different potentials for different client groups:
 - Basic + Tax = \$207 per year
 - Bill Pay = \$120 per year
 - Enhanced services = \$156 per yr
 - Payroll = \$39 to \$99 per month.

	2018	2019	2020	2021	2022
Number of subscribers y/e (k)	3,356	5,034	7,551	11,327	16,991
Self Employed	779	1,534	2,793	4,870	8,268
QBO Small business	1,853	2,361	2,952	3,585	4,151
International	724	1,139	1,806	2,873	4,572
Growth rate of subscribers					
Self Employed	100%	97%	82%	74%	70%
QBO Small business	24%	27%	25%	21%	16%
International	45%	57%	59%	59%	59%
Attach rate of services					
Self Employed	2%	7%	11%	16%	20%
QBO Small business	15%	15%	15%	15%	15%
International	2%	8%	14%	19%	25%
Services value (\$ per subscriber/year)					
Self Employed	200	204	208	212	216
QBO Small business	787	802	818	835	851
International	400	408	416	424	433
Total service revenue					
Self Employed	2	15	50	126	284
QBO	461	468	551	713	903
International	5	29	83	191	403
Total	468	475	596	845	1,220
Growth	13.8%	15.5%	25.5%	41.8%	44.3%

Attach rate for QBO small business declines. New customers come in with a 15% attach rate. Q1 2016 attach rate was 35%, hence we have used 35% as a long term number.

Over time the attach rate for services increases in both international and self-employed groups.

The result is that services revenue accelerates dramatically in 2019 and 2020.

UPSIDE CASE: QB ONLINE



- We estimate an ~11% drag relative to subscriber growth for QBO Accounting revenue growth due to mix shift.
- Big assumptions:**
 - Online services growth of 16% accelerates as cross sell becomes easier in the future.
 - Self employed product stabilises at 50% of additional subscribers vs 35% in 2017.

QBO Subscribers	2016	2017	2018 Est	2018 Est Growth
US	1226	1880	2726	45%
Canada	90	150	240	60%
UK	71	166	332	100%
Australia	53	104	176.8	70%
Brazil	16	22	26.4	20%
France	1	2	3	50%

- I.e. We have 50% subscriber growth in our bull case** and due to **additional services inflecting higher**, eventually nearly equalling subscriber growth, **revenue growth accelerates in the next 5 years.**

	FY 2017 Actual	2018E	2019E	2020E	2021E	2022E
Year End Subscribers	2,383	3,356	5,034	7,551	11,327	15,292
Sub additions YoY (%)		50%	50%	50%	50%	50%
Period Average subscribers	1,948	2,870	4,195	6,293	9,439	14,159
Additional subscribers Split						
Self employed	35%	40%	45%	50%	55%	60%
Small Businesses		37%	30%	24%	17%	10%
International	25%	23%	25%	27%	28%	30%
QBO price \$						
Self employed		120	120	120	120	120
Small Businesses		420	420	420	420	420
International		244	244	244	244	244
Normalised Accounting product revenue	442	712	1,032	1,500	2,146	3,028
Additional Services Revenue						
Services revenue	411	468	636	893	1,272	1,840
Services Revenue Growth	16%	14%	36%	40%	42%	45%
Total revenue	853	1,180	1,668	2,393	3,418	4,868
Revenue growth QBO		38.3%	41.4%	43.5%	42.8%	48.7%

Self-Employed Mix Shift	2016	2017
S-E Mix of New Subscribers	14%	35%
S_E Mix of Total Subs	6%	21%

Geographic Mix Shift
Continues to be a small drag in 2018, but due to the number of subscribers in the US it is less of an issue going forward.

Pricing Mix Shift	2016	2017	2018Est
Total QB Annualised Average Per Sub (Full)	369	316	281
Total QB Annualised Average Per Sub (Discounted)	251	213	191
		-15%	-11%

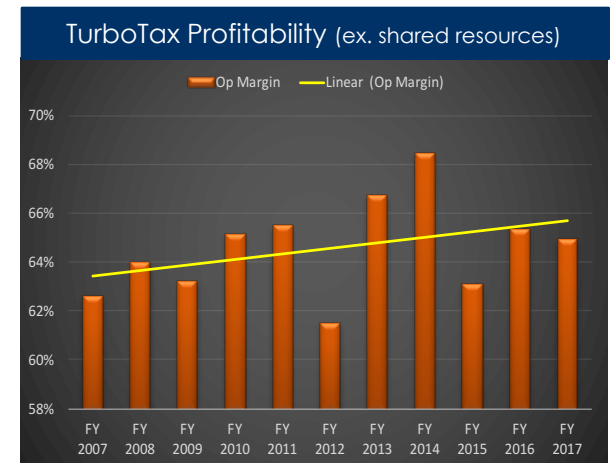
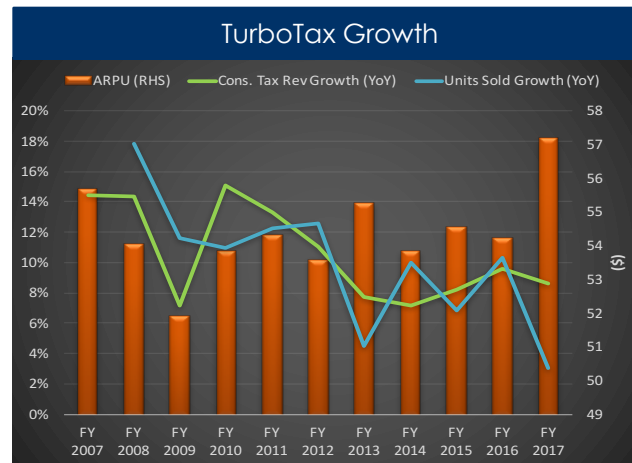
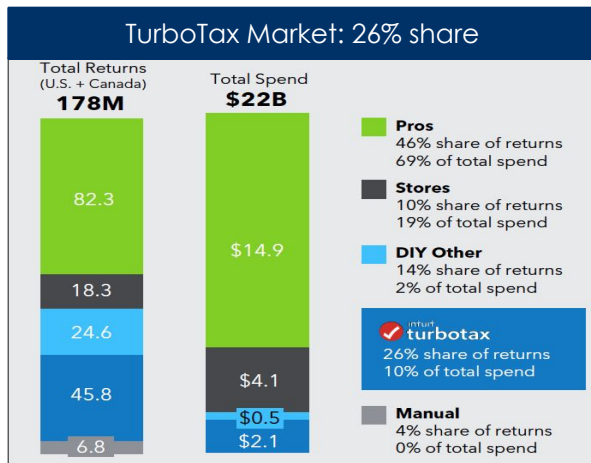
| TurboTax

SOME BASICS



• Stuff you need to know:

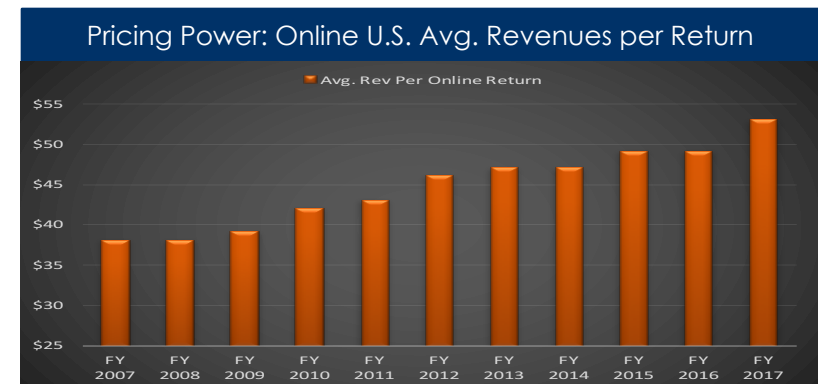
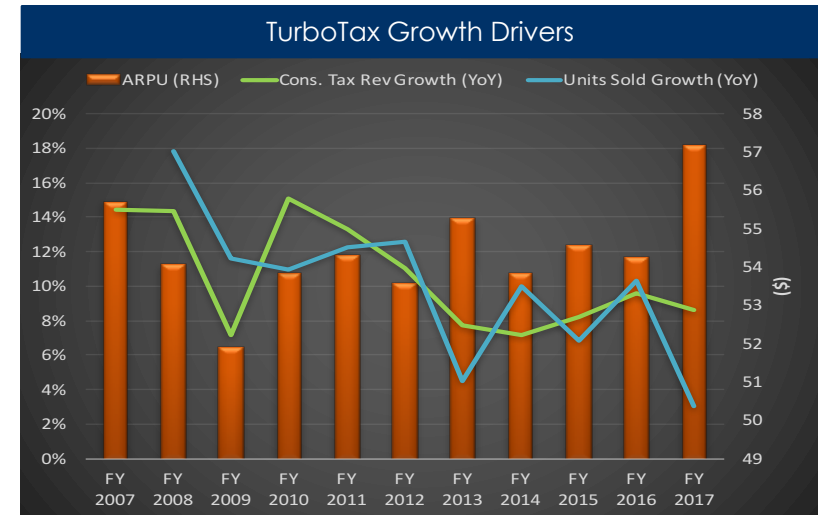
- The main pitch to consumers is: If you are confident in filing your own tax return, software removes friction and makes it easy to get it right.
- **Getting it right is much more important than the price TurboTax charges.**
- Most tax filers receive a refund: the **average refund in 2016 was \$3,000. 73% of filers earning less than \$100k get a refund.**
- There are 178m US and Canada filers. (150m IRS tax filers. Been constant since Tax Yr 2015)
- Intuit sold 37.5m units in 2017. Filed 45.8m tax returns.
 - I.e. they have a **26% share of total market.**
 - **TurboTax has 80% market share of paid DIY returns.** 65% share in units on DIY Tax market.
 - 6.8m returns still done manually
 - **Market share gains need to come from converting “assisted filers” into DIY tax filers.**
 - TurboTax is ~2x bigger than H.R. Block and 6x the #3 player
- **Each tax season is different.** Rule changes mean that the area of competition / how products trying to differentiate changes each year.
 - **FQ3 is the only quarter that matters. (reported around 23rd May)**
 - Getting any insight into the quarter is challenging
 - **Intuit has a long history of consistent execution, with consistent margins.**



TURBOTAX HISTORIC GROWTH HAS BEEN SOLID



- **Recurring Revenue:** “73% of the revenue we have in our plan for this FY 2018 will come from returning customers.”
- **Revenue growth over the last 10 years has been 7% to 14%.**
 - 5 year average growth of 8.3%.
- **FY2017 Units Sold growth was only 3%.** Much lower than historical levels of ~7%.
- 2017 Tax season volume drivers:
 - Total returns filed were flat YoY.
 - **Delayed start to the tax filing season** compared to prior years
 - **New IRS requirements to reduce fraud.**
 - More competitive environment in “Free category”
- **ARPU moves around due to mix shifts in product complexity and TurboTax pricing decisions.**
 - FY17 saw larger changes than normal hence the big change in ARPU.
- **Average revenue per online return has steadily increased.**
 - 81% of paying units are online.
 - **Price increase has been a 3.4% CAGR over the last decade.**

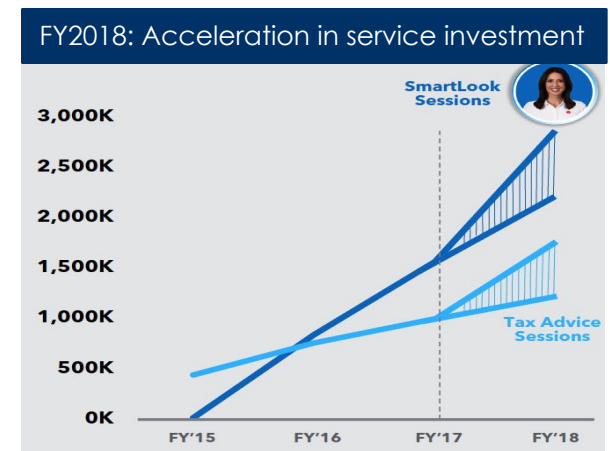


LONGER TERM INVESTMENTS TO KEEP GROWTH GOING



- **Since 2012 TurboTax has focused on ease of use:** it is a key differentiator for the product.
 - The design and workflow of the product has differentiated itself on removing as much friction as possible.
 - The customer interface has changed to become much more friendly / chatty, with less box ticking.
 - **As most U.S. tax filers get a rebate, the cost of miscalculation is perceived as very high**
- **To keep growing users, TurboTax and DIY needs to take more share from pros and tax stores.**
 - To do this **TurboTax is beginning to morph into a service platform** similar to fiverr.
 - The key products are SmartLook and Tax Advice. Both connect clients via chat, telephone and video to a professional to answer specific questions.
 - **Given the price difference with full professional tax advice this is potentially a winning strategy to expand the DIY TAM.**
 - \$261 is the average price that tax preparers will charge for a 1040 Tax Form with itemized deductions (Schedule A) plus a state tax return. (Source: IRS)
 - The average fee is \$176 with no itemised deductions.
 - TurboTax is ~\$55

- Service platform should reduce “churn”
- **~3 million people leave part way through filling in the form and go to a Pro. (2017 analyst day)**
 - *“it's just that **they need one question answered**, and they want to have the confidence of a Pro behind them”*
- Intuit has a goal of being able to schedule an appointment with a Pro in under five minutes. (how long will this take to set up?)
 - **Intuit has been scaling up its in house advisors.** Bear in mind that this is a seasonal job.
 - *“The Pros in our ecosystem ... are excited about it and see it as an opportunity for them to have [more] income”*



WHAT ABOUT TAX SIMPLIFICATION?



- Free filers unlikely to be affected.
 - **If tax changes were very large, theoretically many more people could be pushed into the free filing category.**
 - Historically Intuit has managed to move product boundaries and tiered price levels to consistently have positive pricing. Would this still be possible in a simplification scenario? We doubt it.
- **Simplification would probably push more customers into the DIY market, benefitting TurboTax, but hurting pro and assisted filers.**
 - Itemised deductions could have an impact on Pro's:
 - \$261 is the price that most tax preparers will charge for a 1040 Tax Form with itemized deductions (Schedule A) plus a state tax return. (Source: IRS)
 - The average fee is \$176 with no itemised deductions.
 - TurboTax charges ~\$54 for this service.
- Impact on TurboTax mix / pricing less clear, however **itemised deductions are not a deciding factor in ARPU.**

MORE COMPETITION IN THE FREE MARKET?



- **Free customers are the start of the funnel.** As customers age their tax situation gets more complicated. **Marriage, children, mortgages push you towards becoming a paying tax filer.**
 - Absolute Zero is TurboTax's marketing / entry product for getting to future paying customers early.
 - Absolute Zero gives you free federal and free state filing.
- Winning the customer in the first year is hard. **Competition is fierce. Although price has now reached bottom.**
 - **Credit Karma entered the free market last year.**
 - Credit Karma has a 75m installed base, essentially they have won in the financial App wars and are now looking to expand services they offer.
 - **Last tax season their product was approximately rubbish.** (technical term) However, assuming they eventually sort it out, it will add increased competition to the start of the funnel.
 - **Trust matters: Simple filers are almost certain to get tax rebates, so getting the rebate number correct is critical.**
 - Reading some of the reviews on Credit Karma's product it suggests that the accuracy required was just not there.
 - **Given that Credit Karma has an ongoing relationship** vs. the once a year relationship with TurboTax **when Credit Karma creates a good product it may have an outsized effect on TurboTax.**
 - However, given that a TurboTax's free product will most likely always be better than Credit Karma's it is difficult to see why there would be a mass migration towards another free product.
- **As customers season, revenues becomes annuity like.**
- Intuit has commented on their Free product a number of times recently.
 - **"One of the things that we realized is, we may have gotten slightly complacent in free"**
 - **Given the increasing competition they are refocusing on R&D and Marketing.**
 - What is the cost impact from this? And is it a long term impact?
 - Can Mint compete with CreditKarma? We are not sure it can. 10m subscribers vs 75m.

HOW FAST CAN TURBOTAX GROW?

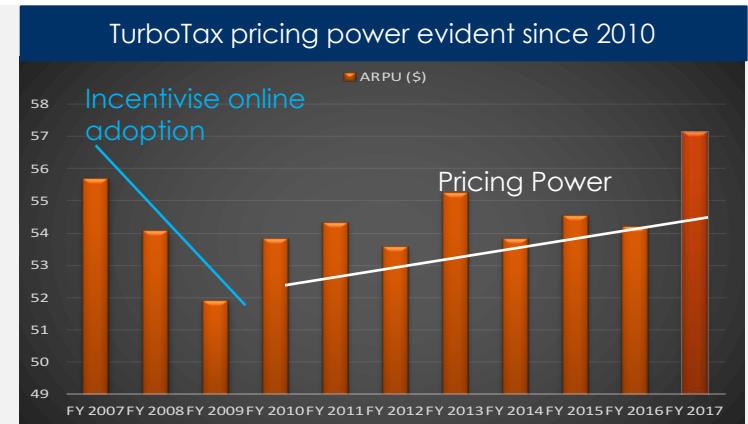


- **5-10%**

- If they execute on the platform development, **it could remain at 10% for a surprising amount of time.**
- The customers they are now going after are more complex, or require more hand holding. Which should equal a higher price, assuming TurboTax decides to charge for the service.

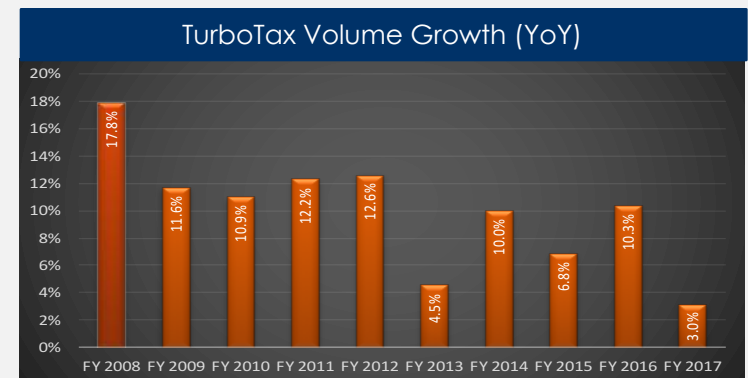
- **Pricing Power**

- **Online pricing power over the last decade has averaged 3.5%.**
 - Online units have increased from 54% in 2008 to 81% today. **Part of the pricing power seen may have been to incentivise the mix shift**, and therefore not sustainable.
 - **In 2009 Online share of units reached 65%.** Price incentive to adopt online product no longer required.
- Unit growth has been above revenue growth 50% of the time over the last 6 years.
- **As each tax season is different, pricing / product decisions by Intuit have meaningful effect from year to year.**



- **Volume growth**

- **Is the 3% volume growth achieved in FY2017 the sustainable number? As discussed before, we think not.**
- 4.5% growth in 2013 was due to:
 - tax returns filed with the IRS -1%. (a 1-2% drag)
 - Online adoption slowed.
 - **Online was more competitive**, so TurboTax did not gain share of online.
- **I.e. over the last decade a normal volume growth range is 7-10%.**



| ProConnect

WHAT IS THE PROCONNECT BUSINESS?



- **Software for accountants**

- There are two types of firms;
 1. Multi-service firms, which do both tax and accounting. Serve consumers, the self-employed, and small businesses.
 2. 1040 only firms, who only do tax. Primarily serve consumers.

- **Intuit's focus is on the multi-service firm**

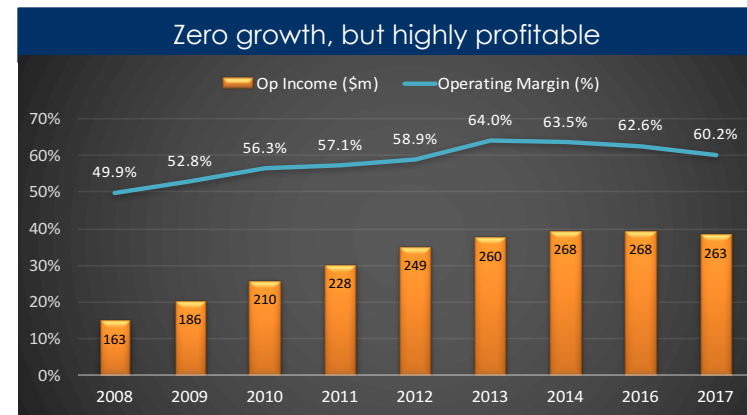
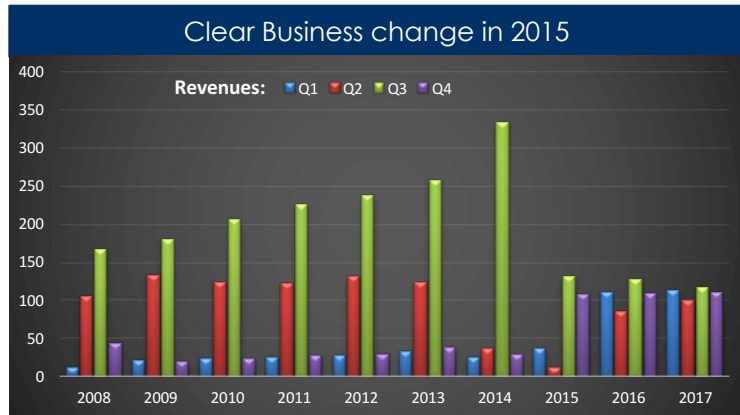
- **ProConnect business is strategic to Intuit and growing in importance.**

- **As Intuit transitions towards becoming a platform, already having a relationship /installed base of professional accountants gives Intuit a big advantage** vs newer products.
 - If Intuit can deliver a service marketplace, accountants should be a key beneficiary.
- Currently, accountants generate QBO new subscribers at a low cost. *"They have a lower cost of acquisition than any of our channels"*
- They increase first year retention rates for QBO, and they increase QBO ecosystem attach rates. (e.g. Payroll)
- Multiple Brands: Lacerte and ProSeries are the main brand names.

- **Mature market**

- **The number of accountancy firms is ~flat and there is pricing pressure.**
- Essentially Intuit pushed prices too high and competition increased. Lacerte in particular seemed to move up at a big rate.
- 2016 investor day: "going to have smaller price increases in the ProConnect Group"
- **Market Share of 31% according to the 2017 tax software survey** by The Journal of Accountancy: Wolters Kluwer and Thompson Reuters are number 2 and 3.

MATURE BUSINESS THAT HAS UNDERGONE REVENUE RECOGNITION SHIFT



Source: INTU reported segment margins

- Recurring revenue: **90% return customers**
 - Shifted to a pay per return model.
- **Began recognising desktop revenue over time, as opposed to up front in Q3 2015**
 - Now recognises revenue for these ProConnect desktop solutions as services are provided over the calendar year, once tax forms are available from taxing agencies and the agencies are able to receive electronic tax return submissions.
- **Online business is a pay per tax-return business.**

Online Product is a pay per tax-return model

1040 Return Pricing <small>Includes e-file for federal, state, multistate and municipal returns.</small>		Business Return Pricing <small>with modules: 1041, 1065, 1120, 1120S, 990, 709</small>	
Per return		Per return	
1-9 returns	\$41.95	1-9 returns	\$52.45
10-49 returns	\$29.45	10-49 returns	\$41.95
50-99 returns	\$19.95	50-99 returns	\$34.45

| Financials

- **It is difficult for QB Online to grow fast enough to make a significant difference in 2018.**
However, by 2020, it is possible that revenue growth will be accelerating, this could top out around 20% for total company.
 - I.e. the same impact that has driven ADBE shares.
- Given the land grab that is happening, expecting to see much operating leverage on the near future seems far fetched to us.
- Management has stated: that **G&A is a couple points too high**
 - *“there is a concerted effort in place that’s been in place now for a few months, to come up with some tangible improvements in [G&A] and drive that down a couple of points.”*
 - **However, it will go back into R&D.** Targeting machine learning and AI.

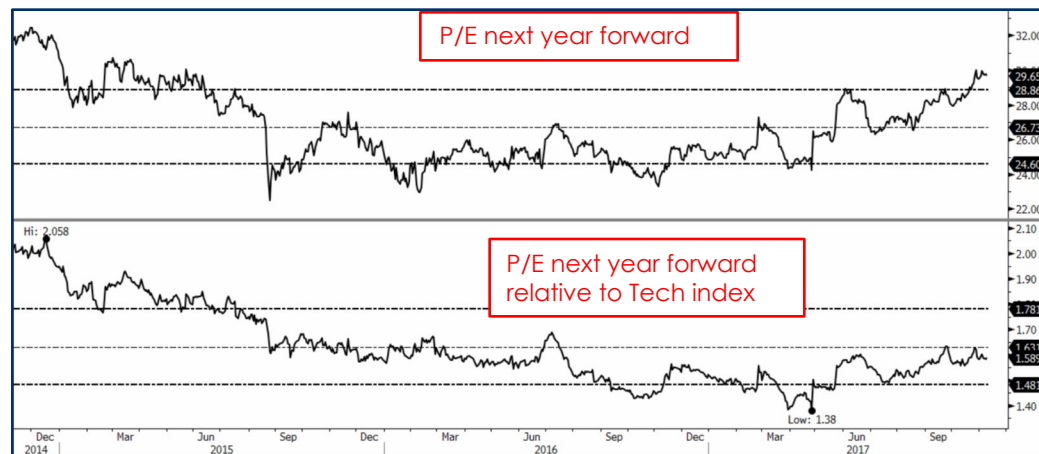
	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
Revenue (\$m)	4,694	5,177	5,780	6,519	7,532	8,867	10,619
	Street Revenue Ests:		5692	6217			
Consumer Tax Revenues (\$m)	2,045	2,201	2,377	2,567	2,747	2,939	3,116
ProConnect	428	437	446	455	464	473	482
QuickBooks:							
Desktop	1564	1686	1,770	1,859	1,952	2,049	2,152
QBO	657	853	1,187	1,638	2,369	3,405	4,869
Growth Rate Assumptions							
Consumer Tax	8.7%	7.6%	8.0%	8.0%	7.0%	7.0%	6.0%
ProConnect		2.1%	2.0%	2.0%	2.0%	2.0%	2.0%
QuickBooks:							
Desktop	4.3%	7.8%	5.0%	5.0%	5.0%	5.0%	5.0%
QBO	24.7%	29.8%	39.1%	38.0%	44.7%	43.7%	43.0%
Total Revenue Growth	12.0%	10.3%	11.6%	12.8%	15.5%	17.7%	19.8%

EBITDA (Not adjusted for SBC)
EBITDA Margins

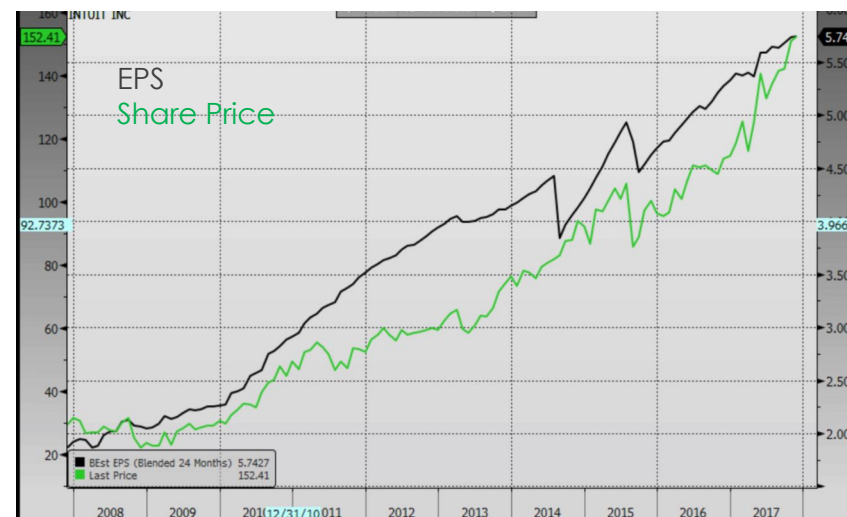
VALUATION – EARNINGS MULTIPLES



- Over the last 10 years earnings per share has grown at 12% per annum.
- Average next year earnings multiple last 3 years has been around 26x versus the current 29x as prospects have improved for QBO.



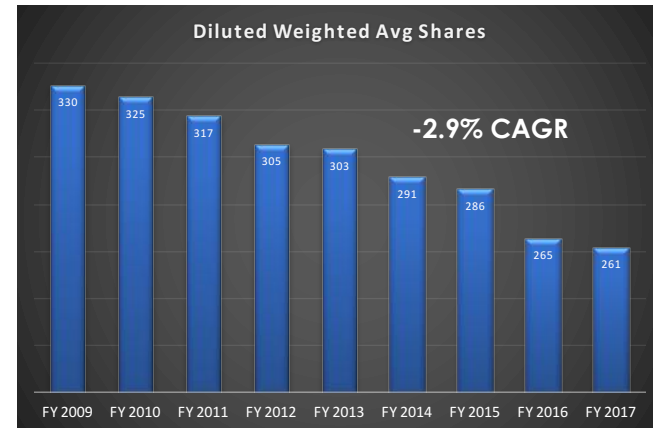
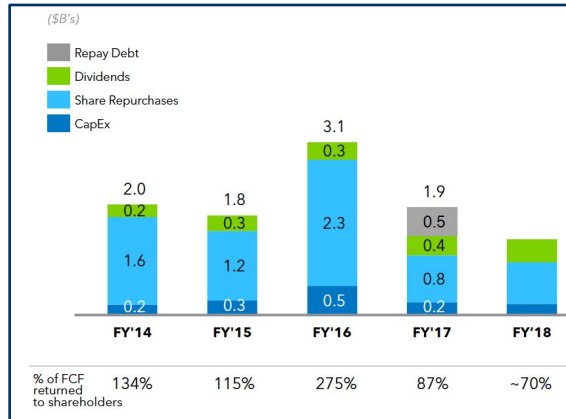
	Consensus						
Intuit Inc	7/13	7/14	7/15	7/16	7/17	7/18E	7/19E
Gross Margin (%)	86.2	85.8	82.7	84.0	84.4	84.7	84.7
Net Margin (%)	20.6	21.4	8.7	20.9	18.8	22.7	23.1
Net debt/Ebitda (x)	(0.7)	(0.8)	(0.9)	0.2	0.0	0.0	0.0
Capex/Revenues	4.7%	4.4%	6.2%	11.1%	4.4%	3.5%	3.5%
Price Earnings	23.5	28.2	61.0	36.9	36.7	30.7	27.4
EV to EBIT	14.6	16.9	38.2	23.0	24.9		
EV to EBITDA	12.3	14.7	29.1	19.3	21.3	17.9	16.1
Price to Sales	4.6	5.5	7.1	6.2	6.8	6.8	6.3
Price to Book	5.4	7.6	12.6	24.7	25.9	21.0	17.5
Dividend Yield	1.1	0.9	0.9	1.1	1.0	1.0	1.1



CAPITAL ALLOCATION AND SHARE SHRINKAGE



- **Capital allocation massively skewed towards share repurchase FY14 to FY 16.**
 - FY17 returned to a more normal allocation.
 - **Dividend per share grew 15% in 2017**, inline with prior year divi growth.



- Net corporate debt has returned to zero. **Net cash on B/s of \$280m**
- Capex requirements are small, all R&D is expensed. Intuit capitalises costs related to the development of software for internal use only. \$749m on B/s depreciated over 3-6years.
 - \$128m capitalised in FY2017.

| Management

MANAGEMENT COMPENSATION

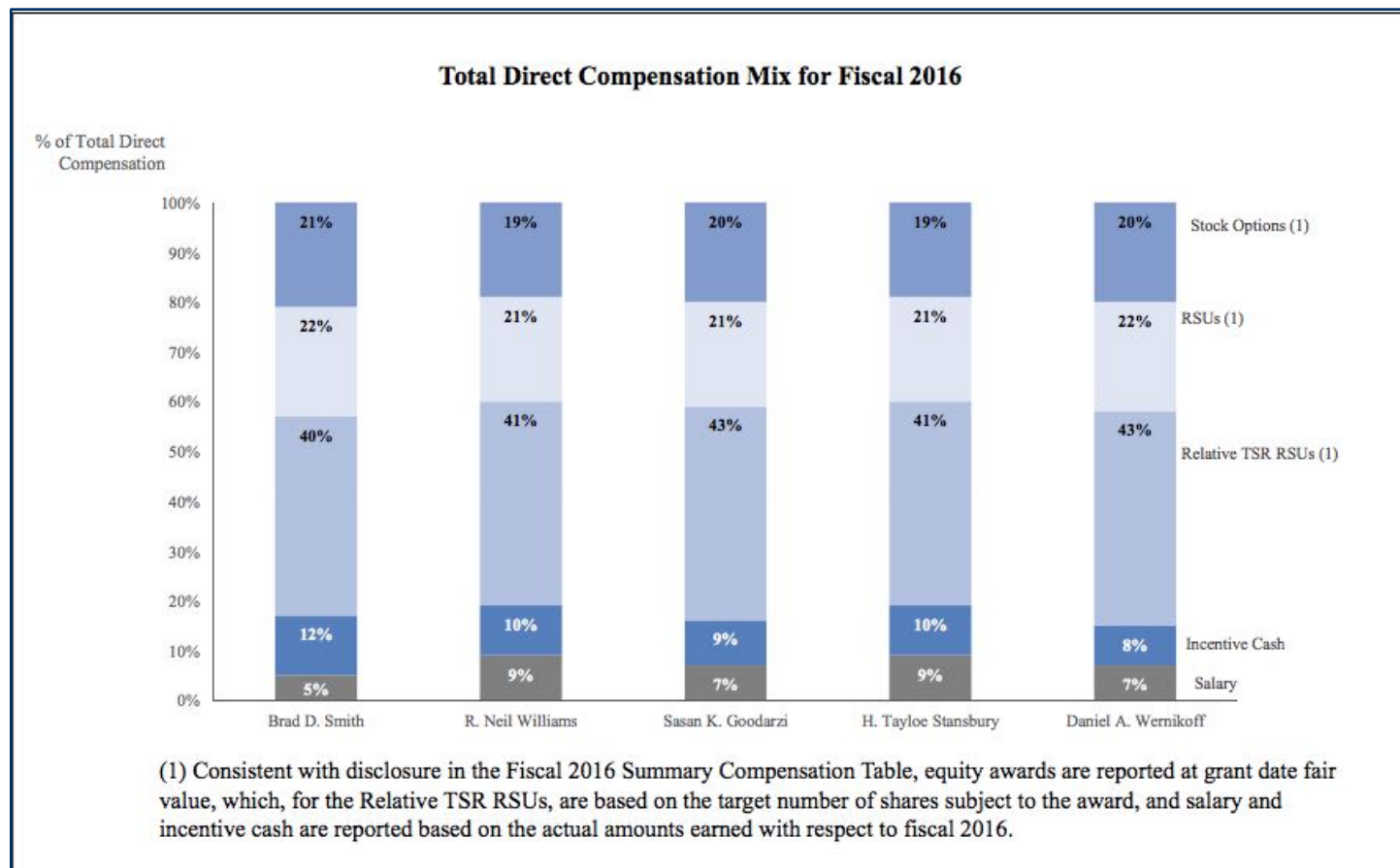


- ~90% of the total direct compensation for Executive Officers is delivered through programs that link pay with results and TSR. (total shareholder return)
- Short-term performance-based compensation: annual cash bonuses
 - Based upon achievement of annual corporate operating goals: revenue, non-GAAP operating income and deferred revenue growth.
 - Fiscal 2016 long-term compensation consisted of 50% performance-based RSUs based on relative total stockholder return ("Relative TSR RSUs"), 25% service-based RSUs and 25% non-qualified stock options.
- **Payouts capped at 100% if absolute TSR is negative over any of the three performance periods.**
 - Peer Group for calculating TSR: Fair representation of technology stocks, including Google, FB, PYPL, EA, ATVI, V, MA, ORCL, MSFT...

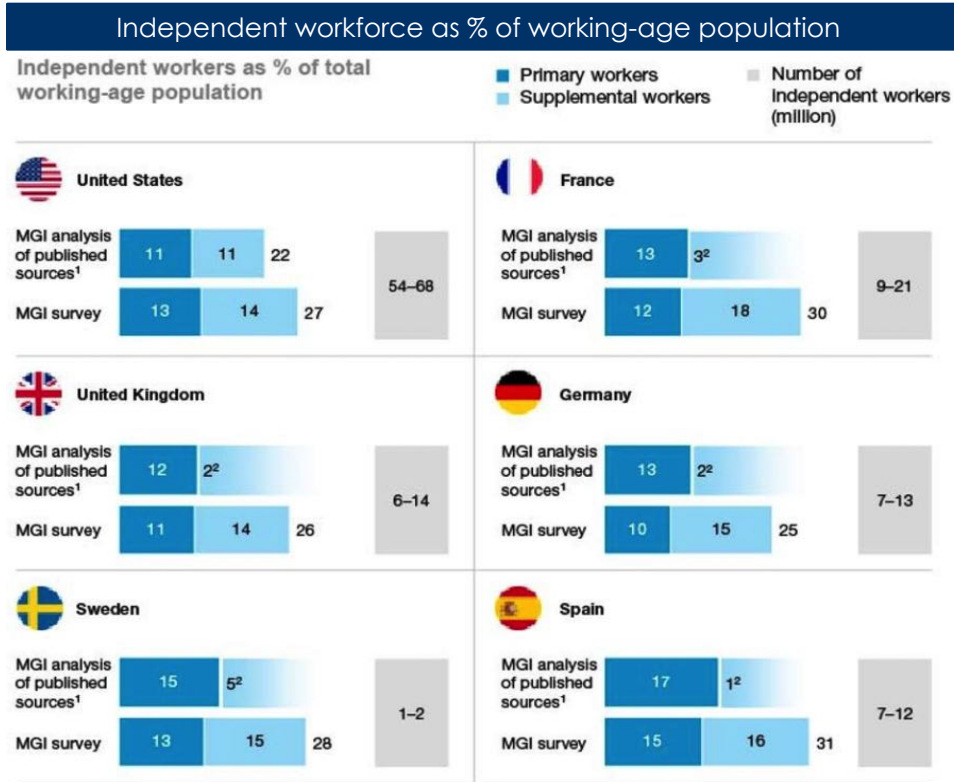
SBC has increased in the last three years

	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
Revenue	3,109	3,455	3,772	3,808	4,171	4,243	4,192	4,694	5,177
Stock-Based Compensation	142	153	163	170	195	204	257	340	326
SBC as % of Revenues	4.6%	4.4%	4.3%	4.5%	4.7%	4.8%	6.1%	7.2%	6.3%
SBC as % of EBITDA	14.8%	13.7%	12.8%	12.1%	13.3%	13.6%	26.5%	23.0%	20.0%

	TSR Percentile Rank(1)	Shares Earned as a Percent of Target(2)	
Maximum	100	200.0%	
	95	187.5%	
	90	175.0%	
	85	162.5%	
	80	150.0%	
	75	137.5%	
	70	125.0%	
	65	112.5%	
	Target	60	100.0%
		55	95.0%
	50	90.0%	
	45	80.0%	
	40	70.0%	
	35	60.0%	
	30	50.0%	
	25	40.0%	
Threshold	< 25.0	—%	



| Appendix



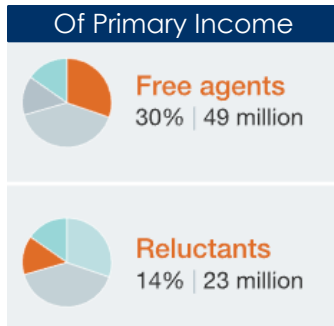
SOURCE: US Bureau of Labor Statistics; Freelancers Union; Katz and Krueger, The rise and nature of alternative work arrangements in the United States, 1995-2015; Kelly Services; Burson-Marsteller; MBO Partners; Eurostat; UK Labour Force Survey; McKinsey Global Institute analysis



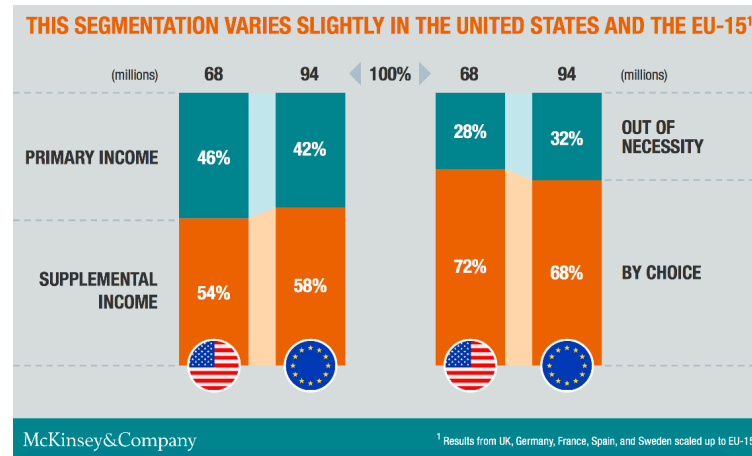
- What is an independent worker?
- The IRS applies a 20-part test in order to determine whether a certain worker should be classified as an employee or an independent contractor.
 - The main issue underpinning the test is who sets the work rules: employees must follow rules set by their bosses, while independent contractors set their own rules.
 - Other criteria is who provides the tools and materials needed to complete the work. For example, an individual who works at an employer's facility and uses the employer's equipment would be considered an employee, while one who works at a separate location and provides her own equipment would be classified as an independent contractor.

HOW MANY WORKERS ARE RELEVANT FOR QBO?

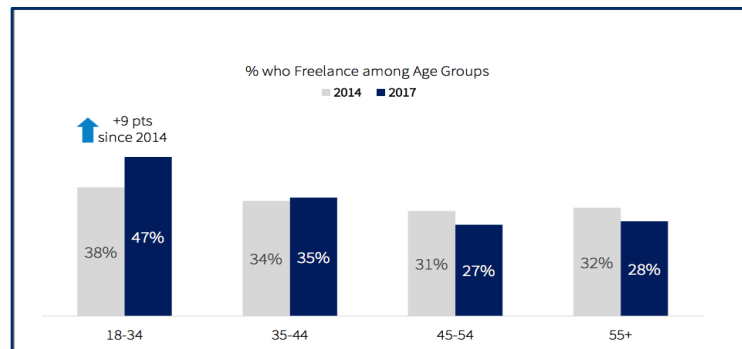
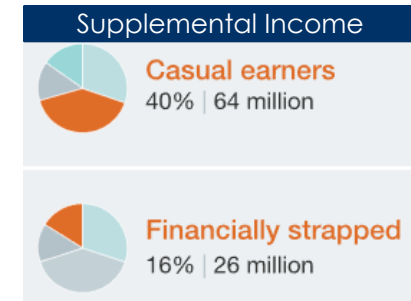
- There are small geographic differences, but we will ignore them for now as motivating factors are surprisingly similar.
 - **Primary Income: You are independent because you have to be or want to be.**
 - **Supplemental income: Primary source of income is not enough.**



Free Agents: 68%
Reluctants: 32%



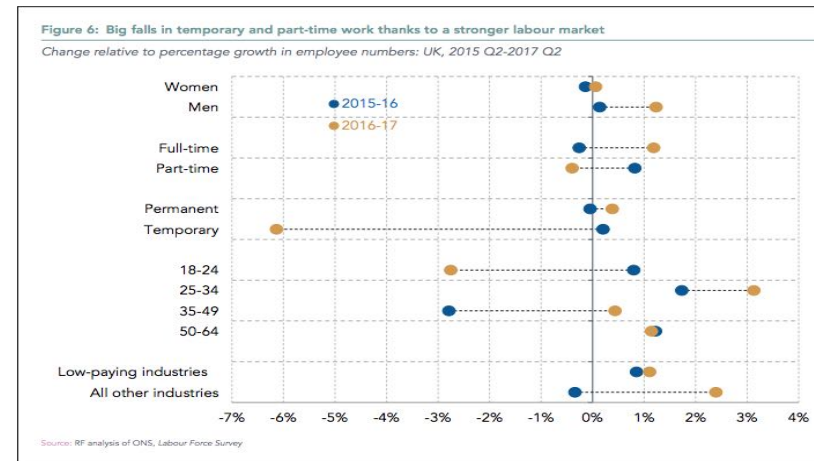
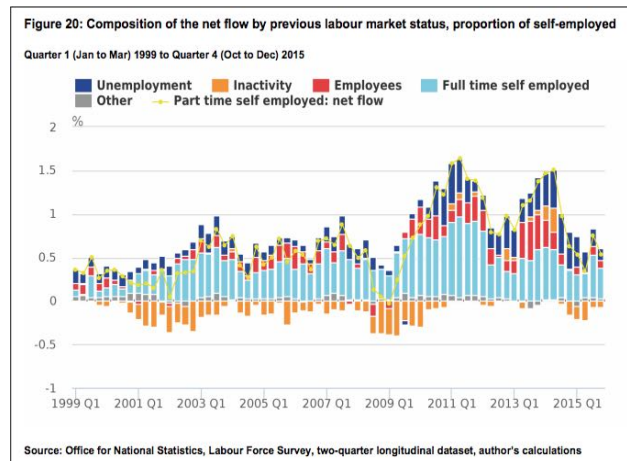
Source: McKinsey Survey



<https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/articles/trendsinselfemploymentintheuk/2001to2015>

CYCLICALITY VS SECULAR GROWTH?

- Do Self employed have the same cycle as everyone else?
 - **Reluctant self-employed fall as the employment market tightens:**
 - “In 2017, given the strong jobs market, the proportion of Reluctant Independents fell to 24 percent. That’s down from 26 percent in 2016 and from 34 percent in 2012.” (MBO Partners survey)
 - **Supplemental income Independents:**
 - “soared 23% to 12.9 million, up from 10.5 million in 2016. This sector largely accounted for 2017’s independent workforce growth.” (MBO Partners survey)



- Supplemental workers are the fastest growing segment.
 - However that growth is not very fast. It is difficult to outgrow employment growth.
- Airbnb reports that seniors represent its fastest-growing host demographic (10 percent of its hosts already being over age 60), and a quarter of Uber’s drivers are over age 50.
 - UK: The average age of workers increased from 39 years to 41 years between 2001 and 2015, while the number of workers aged over 60 has grown from 1.5 million to 3.0 million over this period. If older workers are more likely to be self-employed, this gradual demographic drift will lead to movements in the headline number of self-employed workers

CHURN: WHY DO SMALL BUSINESSES FAIL?

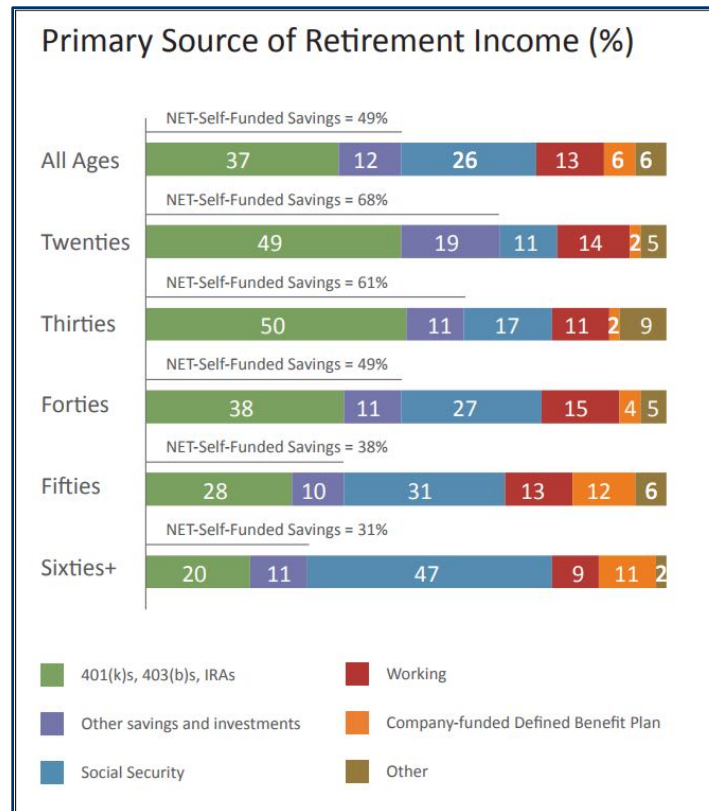


- <https://isbdc.org/small-business-failure-rates-causes/>
- researchers at the University of Tennessee studied failures of thousands of small businesses and attempted to identify the primary culprit leading to demise. They grouped their findings into broad categories but “drilled down” within each to identify root causes of failure.
- The leading cause of business failure was determined to be “Incompetence”. Fully 46% of failures could be explained by this broad-brush term. The specific behaviors that underlie this headline, however, are fairly specific and revealing. These include:
 - Taking an emotional approach to pricing
 - Non-payment of taxes
 - No knowledge of industry pricing conventions
 - No knowledge of financing requirements and conventions
 - No experience in record-keeping
 - Living beyond the means of the business
 - Lack of planning
- Next in line as a primary contributor to business failure was “Unbalanced experience or lack of managerial experience”. This condition explained 30% of small business failures and was manifested primarily by poor credit-granting decisions.

PENSIONS



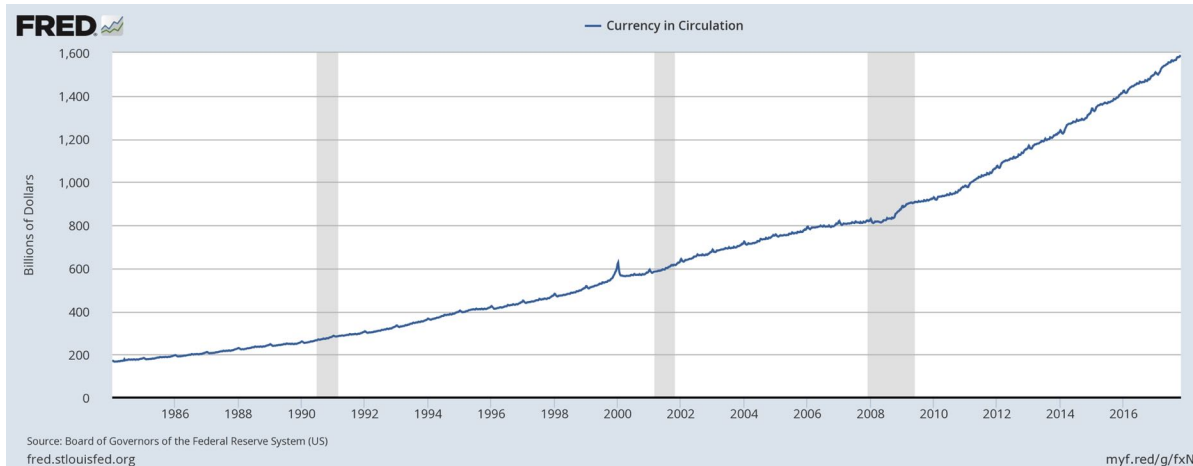
- One motivator for those looking to earn more through freelancing is the decline of pension programs.
- Interesting:
 - [Survey](#) found that half of workers plan to continue working, at least part-time, in retirement.
 - Thirty-seven percent of workers expect working to be a source of income in retirement. When asked about their expected primary source of income, the survey found a wide disparity of responses across the age ranges:



BLACK ECONOMY IMPACTS TAM?



- Underreporting of taxes owed was responsible for about 84 percent of the tax gap
- According to Mike Lee, the tax branch chief overseeing compliance efforts for California's Employment Development Department, no particular industry stands out. "Low wages seem to be what they have in common," he says. "If you have low wage earners, that's more conducive to the underground economy. They're less sophisticated and it's easier to take advantage of them."



- **The Direct Feed**

- Larger software companies pay the biggest banks to receive bank feeds for shared customers' accounts. The bank's IT department prepares its systems to export a daily feed of transactions from its banking system to the software company's databases that run the online accounting program.
- The software company can pay millions of dollars a year to a single bank for these feeds. These costs are usually absorbed by the software company and not passed directly to the customer.

- **The Indirect Feed**

- An online accounting program can also use a data aggregation service which collects bank feeds from thousands of banks.
- The data aggregator used by most software companies is a US headquartered company called Yodlee. Yodlee sidesteps the cost of paying for fees by copying the list of transactions on the screen of users' online banking portals.
- Yodlee cleans up the list, removes duplicates and sends it to the user's online accounting software as a bank feed.
- This process is called "screen scraping" and initially created some controversy for two reasons.
 - The technology is not perfect and the occasional transaction is duplicated or omitted. Online accounting programs that use Yodlee recommend checking reconciled accounts against the balances in your online banking portal.
- Intuit operates a similar service to Yodlee for the US market.
- MYOB in Au and NZ claims to have an accuracy rate many times higher than Yodlee – the likelihood of an error is 0.0001% compared to 0.1%.

DATA SHARING RULES



- European rule kicks in next year
- In the US bilateral deals are being signed.
 - JPMorgan announced an agreement with Mint, and for access to JPMorgan accounts for its applications like QuickBooks and TurboTax.
 - Wells Fargo announced a similar deal with Xero.
 - Ultimately industrywide standards will emerge
- The negotiations with Yodlee are particularly important because it is the largest so-called data aggregator.
 - Yodlee and a few other data aggregators serve as the middlemen between the banks and the start-ups, pulling the data from the banks and putting it into a form that start-ups like Betterment and Digit can use.
- [Yodlee has said](#) that it scrubs the data of any personal information before it sells it to third parties.

KEY FEATURES OF ONLINE ACCOUNTING SOFTWARE E.G. XERO/QBO



- **Invoicing.** You can send electronic invoices, and your customers can pay them online. You can also schedule the system to send recurring invoices and overdue reminders so you don't spend time chasing payments.
- **Bill payments.** The system allows you to schedule payments or set up batch payments, saving you the time it takes to manually pay bills, and helping you avoid past-due bills.
- **Bank reconciliations.** When you connect your bank accounts to the system, it automatically imports bank and credit card transactions. The software's smart reconciliation tool matches transactions and learns how to predict matches as you use this feature.
- **Expense claims.** Xero helps you to quickly record, manage, claim and reimburse expenses. It also allows you to add expenses to invoices and attach receipt images, making it easy to rebill customers.
- **Inventory.** The software includes inventory management tools and can track items, showing you how many items you have in stock.
- **Purchase orders.** You can create and email purchase orders right from the software, and then copy the data to generate bills for payment or invoices for customers.
- **Manage contacts.** you can see a customer's sales history, with an overview of how much they've spent with you, if any invoices are open and their average remittance time. You can connect to Gmail to add email correspondence to the activity stream.
- **Payroll.** You can track hours, pay employees, approve leave requests and more with Xero's self-managed payroll services. Additional payroll features include automatic tax calculations, filings and payments.
- **Reporting.** Xero takes the headaches out of financial reports with a comprehensive range of reporting options, custom formulas and budgeting tools.
- **Mobile access.** Using Xero's app, you can create and send invoices, add receipts and attach billable expenses to customer invoices or submit expense reports, reconcile transactions, access your dashboard and see a real-time view of your cash flow. Xero's app is available for iOS and Android. Xero also has an app for your employees that they can use to submit time sheets, request time off and view paystubs.

- As part of what's called XeroHQ, the company has selected a set of what it believes are best in class partner applications such as ReceiptBank for expense tracking and Spotlight Reporting and integrated those directly into XeroHQ,
 - Along with alerts so that practitioners can follow up with clients to solve queries and provide report support. In addition, and acknowledging the accountant's reticence for marketing,
 - XeroHQ includes BOMA, a set of prepackaged marketing content that professionals can use in their broader marketing efforts.
- Xero had several cracks at reporting but failed. Spotlight and Futurli are now leading that effort with good success. Spotlight for instance has an API of its own that allow for the ingestion of third party data such as Google Analytics.

QUICKBOOKS VERSUS SAGE

- Quickbooks is designed for business owners, where as Sage is designed by accountants for accountants and you need an accounting background and has a learning curve.
- .QBO is designed for ease of use for decision making

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