Intuit Inc.
Second-Quarter Fiscal 2009
Conference Call Remarks

February 19, 2009

Introduction

Good afternoon and welcome to Intuit's second-quarter 2009 earnings conference call. I'm here with Brad Smith, our president and CEO, Neil Williams, our CFO, and Scott Cook, our founder.

Before we start, I'll remind you that our remarks include forward-looking statements. A number of factors could cause our results to differ materially from our expectations. You can learn more about these risks in the press release we issued earlier this afternoon. They're also in our Form 10-K for fiscal 2008 and our other SEC filings. All of these documents are available on the Investor Relations page of Intuit's Web site at intuit.com. We assume no obligation to update any forward-looking statement.

Some of the numbers in this report are presented on a non-GAAP basis. We've reconciled the comparable GAAP and non-GAAP numbers in today's press release.

A copy of our prepared remarks and supplemental financial information will be available on our Web site after this call ends.

With that, I'll turn the call over to Brad Smith.

General Comments

Thanks Jerry.

Good afternoon, and thanks for joining us.

Earlier today we announced our second-quarter results and updated our guidance for the fiscal year. We delivered a strong second-quarter, with revenue within our expected range, and operating income and EPS significantly above our expected range. For the full year, we now expect revenue to come in a bit below our prior expectations, but still expect to deliver positive revenue growth. And we expect earnings growth for FY 09 to be very strong. I am pleased with our team's performance and with the company's results relative to the environment in which we are operating. Results like these are certainly not typical as you look out across industry. And while it's clear we are not recession-proof, we are proving to be resilient.

Our performance is holding up because our products and services are needed most in times like these. Our offerings help people save and make money. We do this by helping them be more productive so they can accomplish more with less. We help them with tax compliance so they avoid paying penalties. And we make our products and services so easy to use that customers have the confidence to do things themselves, rather than paying expensive fees to someone to do it for them. When it's all said and done, we put more money in our customers' pockets, and that is exactly what every consumer and small business needs these days.

When you look across our businesses, we earn the majority of our revenue and profit from products and services that have not been materially impacted by today's economic environment.

- Taxes still need to be filed regardless of the economy, and while it's still early in the season, we expect another solid year in tax.
- Our Financial Institutions revenue is driven by long-term contracts, and we have good visibility into the revenue stream.
- And our Payroll business continues to show positive customer growth and good retention. Remember, our Payroll business benefits from being the low-cost provider relative to outsourcers. And the flat fee pricing in our do-it-yourself payroll business makes our revenue less susceptible to reductions in our customers' employee levels.

However, as I mentioned last quarter, some of our businesses are more exposed to the economic downturn. These businesses include QuickBooks, Real Estate Solutions and Quicken. Each of them has come under increasing pressure as the economic environment deteriorated. As a result, we've reduced our full-year revenue expectations for these businesses and adjusted the outlook for the company as a whole to reflect these changes.

Despite this increased pressure, we are adapting, and we're managing the business for success. We have a clear, five-point plan to deliver positive top-line growth and strong earnings growth for the year. And we have tangible proof points to demonstrate that it is working. I'll say more about that later in the call. But first, let me turn it over to Neil to walk us through the results of the business segments and the financial details.

Financial Highlights and Segments

Thanks Brad. Let's start with companywide results.

- Second-quarter revenue was $791 million, down 5 percent year-over-year. Growth would have been 2 percent without the year-over-year changes in deferred revenue in our tax businesses. As a reminder, the deferred revenue will be recognized in the third quarter.

- Our non-GAAP operating income was $172 million, well above our expected range. Note that this is in spite of about $58 million in operating income that shifted from Q2 to Q3 because of the change in revenue deferrals.
- Our non-GAAP EPS of $0.34 was also well above our expected range.

Earnings remain strong, even in this economy. That's a direct result of the operational rigor we use to run the company. We've also taken a number of specific actions to meet the challenges we face in this environment:

- First, we are slowing our hiring. We're continuing to hire key talent for long-term success, but we're evaluating all open requisitions and making sure they make sense in both the long and the short term.
- Second, we're evaluating our performance-based compensation program and adjusting our expected payment levels to take the current environment into account.
- Third, we're monitoring our marketing costs and adjusting our programs to make sure we are getting the lift in customer acquisition we expect from our investments.
- And finally, we're being disciplined about our discretionary spending and are taking a hard look at what is truly necessary.

While we are managing expenses carefully, we're also continuing to invest for the long term by aggressively pursuing new customers and protecting our R&D innovation pipeline. We believe we have the right balance of short-term rigor and long-term vision. You'll hear more specifics from Brad later in the call.

Business Segment Results

Now let's review the segment results. First, the **Tax segments.**

Consumer Tax second-quarter revenue was $187 million, down 25 percent from a year ago. This includes a shift of about $70 million of revenue from Q2 to Q3. As a reminder, bundling our federal e-file service with our consumer tax desktop product caused us to postpone recognition of revenue until later in the year. Without that revenue shift, we would have seen growth of 4 percent.

It's still early, but so far the tax season is playing out about as we expected. We continue to see people filing later in the season and customer growth is coming from the online version of the product.

Our Accounting Professionals second-quarter revenue was $133 million, which amounts to 14 percent growth. This includes about $12 million of revenue shifted in from the third quarter. Fewer services are bundled into our professional tax solutions this year, which means more of our revenue is recognized up front.

We've included a table in the posted version of the script to help track these changes to revenue timing.

Effect of tax Revenue Deferrals for FY08 and FY09

	Q2			YTD		
($ millions)	**FY09**	**FY08**	**Growth**	**FY09**	**FY08**	**Growth**
Reported Revenue	**$791**	**$835**	**-5%**	**$1,272**	**$1,280**	**-1%**
TurboTax e-file services	**$70**			**$70**		
Accounting Professionals product changes	**-$12**			**-$12**		
Adjusted Revenue	**$849**	**$835**	**2%**	**$1,330**	**$1,280**	**4%**

In the total Small Business segment, second-quarter revenue was $322 million, up 5 percent from a year ago. Adjusting for the acquisitions of Homestead and Echo made in FY08, revenue would have been flat for Q2.

In the QuickBooks segment, second-quarter revenue was $164 million, 2 percent less than the same quarter last year. The growth rate would have been about 4 points lower without the acquisition of Homestead. The decrease in revenue is primarily due to fewer-than-expected paid new QuickBooks users. On the plus side, our upgrades remain on target and our Online Edition and Enterprise products continue to add to their customer bases. Online Edition customers increased by 9 percent, and Enterprise customers grew by 21 percent. Revenue for those businesses was also quite strong.

While the number of paid new customers is lower than we originally planned, our focus on customer acquisition is paying off and we are pleased with the total number of new customers acquired this quarter.

In the Payroll and Payments segment, second-quarter revenue totaled $158 million, which is up 14 percent from a year ago. The growth rate would have been 8 percent without the Echo acquisition. Merchant acquisition growth remains strong at 14 percent. However, sales volume per merchant declined 8 percent, a rate we believe is in line with what other processors are seeing. Our Payroll customer base was up 2 percent and our retention is holding steady. And we are particularly pleased with the rapid growth of our online payroll service.

In the Financial Institutions segment, revenue was $76 million, in line with expectations, and up 5 percent year-over-year. Personal FinanceWorks launched in the first quarter and we're pleased with the reception from customers and the banking press. So far, more than 160 banks and credit unions are live or implementing the solution, and our pipeline for new sales remains strong. This quarter we launched Small Business FinanceWorks and, though it's early, we've had good customer response.

Our Internet banking user base is up year-over-year, but down sequentially, as conversions of newly signed institutions are taking longer than we'd like. But we're seeing record growth in bill pay users as we continue to make significant improvements in the end-user experience.

In our Other Businesses segment, second-quarter revenue was $73 million, down 21 percent year-over-year. This is due to weakness in our Real Estate Solutions business and Quicken, and includes the foreign exchange impact from a strengthening dollar.

Balance Sheet and Stock Repurchase Program

On the balance sheet, Intuit ended the second-quarter with $802 million in cash and investments. Our cash flow remains strong, and we expect to generate about $900 million in operating cash for the fiscal year.

Our deferred revenue was $472 million, up $135 million from second-quarter 2008. This is due primarily to the deferral of revenue from Q2 to Q3 for the e-file bundling and growth in our subscription-based businesses.

Capital expenditures were $50 million, in line with expectations. We are on track to hit our $200 million capital spending estimate. Our stock repurchase program returned about $35 million of cash to shareholders, and we have $400 million left in the current authorization.

Fiscal 2009 Guidance

Turning to guidance: While we remain committed to accelerating our top-line growth rates in the long term, there is clearly short-term pressure on revenue in today's environment. We still expect a strong tax season and are reiterating our prior guidance for the Consumer Tax and the Accounting Professionals segments. We are also reiterating our prior Financial Institutions and Payroll and Payments guidance.

We have lowered our full-year revenue outlook for QuickBooks and our Other Businesses segments.

- As I mentioned earlier, upgrade units of QuickBooks are coming in as anticipated, but new users are under pressure. Our paid new users comprise about one-third of our total paid users in any given year. We now expect QuickBooks revenue of $580 million to $620 million, or a 7 percent decline to flat with last year.
- In our Other Businesses segment, Real Estate Solutions customers slowed their spending significantly, and we are not anticipating a recovery in the near term. We are also seeing declines in our consumer-driven Quicken business. Because

of this, we are bringing down our full-year guidance to $270 million to $290 million, or a 19 to 13 percent decline. As mentioned last quarter, foreign exchange has impacted this segment, accounting for approximately 7 points of the year-over-year decline.

With these changes, our fiscal 2009 revenue guidance for the company is now: $3.13 billion to $3.25 billion, which is annual growth of 2 to 6 percent.

As mentioned earlier, we are aggressively managing expenses and expect to deliver strong operating income and earnings per share for the year. We now expect non-GAAP operating income of $917 million to $970 million and non-GAAP EPS of $1.78 to $1.89.

The ranges are a bit wider than we'd normally set. That reflects the uncertainty in the economic environment. Despite that uncertainty, we believe it's important to provide transparency into the results we expect to deliver across the range of revenue outcomes we believe are most likely.

With that I'll turn the call back over to Brad.

Business Perspective

Thanks Neil.

Good companies find ways to capitalize on difficult times to strengthen their position. We strive to be one of those companies, and I'm convinced that we have the right strategy to win – in this or any environment.

Our goal remains unchanged: to be an innovative growth company that empowers consumers and small businesses to achieve their dreams. And we contribute to their success by helping them put more money in their pockets. We do this by offering easy-to-use connected services. And increasingly, these services will capitalize on emerging social, mobile and global trends to accelerate our growth.

Clearly, we've seen fundamental changes in the economy in recent months. These changes have only bolstered my confidence that we are on the right path. We don't view this as a short-term downturn. We think of it as the new normal. A new normal that plays well to who we are, and what we deliver, as a company.

We're adapting to this new normal with a five-point plan – a plan to play offense, not defense. It's already producing tangible results. Let me share some specifics with you.

- Our first principle is to stay laser focused on customers, customers, customers. They need our products now like never before, and we need to acquire them, serve them, delight them and retain them like never before. Growing our customer base is our number one goal. As we've proven in each of our businesses, we have the means to monetize customer relationships over time and generate profits, even if we originally acquire the customers with a free product.

  - We're being aggressive in our demand generation, promotional offers, and the use of free products to bring new users into the franchise. These are proof points of this first principle in action. You'll see more in the coming months.

  - The results of the steps we've taken are already evident. QuickBooks units are just one example.
    - As we reported on our last call, total QuickBooks units were down 3 percent through Q1.
    - But thanks to our aggressive demand generation, the retail small business accounting software category grew 13 percent in the month of January, and QuickBooks gained about 4 points of share over the same period last year.
    - Total QuickBooks units in Q2 were up 5 percent and we're now up year-to-date in the worst small business spending environment anyone can remember. We are getting smarter every day, and we will remain focused on growing our customer bases.

- Our second principle is to deliver improved operating leverage with strong operating income growth. We know that revenue will be less than we expected. So to balance the equation, we're adjusting our spending. It's that simple. We'll continue to make good resource allocation decisions throughout the year. And you heard Neil talk about the levers we're using to adjust our spending, and we'll continue to adjust if conditions erode in the second half of the year.

- Our third principle is our unwavering commitment to growth. We can't diet our way to long-term success. We're investing to grow our business in smart ways that will help us come out ahead when this turbulent chapter ends.

  - An example here is the investment in the Small Business United stimulus program we launched in late January. The program helps small businesses get started with free and discounted offers. We continue to see many of these users immediately upgrade to a paid product, or begin using one of our attach products, such as Payroll or Payments. These free offers target new businesses, rather than more-established small businesses, so the customers are incremental. Our free Simple Start offering has generated about $30 of revenue per activation for the first 12 months, and we're not seeing significant cannibalization of our paid products.

- Our fourth principle is to protect and nurture innovation. Even as we adjust our short-term spending, we need to plan for long-term success by keeping our innovation pipeline flowing.
    - For instance, over the next several months we expect to come out with an online payroll service for Mac users, online payroll functionality that will appeal to accountants, and the inclusion of our online payroll offering in the Small Business FinanceWorks banking platform, just to name a few.
- And our fifth principle is to take advantage of inorganic growth opportunities as they materialize. We have a strong balance sheet with lots of cash, which lets us invest for the long term and capitalize on opportunities that make strategic sense.

As you know, we began making proactive changes last summer – before the economic storm truly hit – and it's paying off. We believe we were better prepared for the downturn than many companies and we continue to be proactive to ensure we stay that way.

Our formula still works – having talented and engaged employees focused on delivering great things for customers so we can grow revenue and profits.

On the employee front, we were named one of Fortune Magazine's "100 Best Companies to Work For" for the eighth consecutive year, and our employee engagement scores remain at best-in-class levels. Our priority is to ensure our employees remain focused on delivering for customers and understand that we remain committed to their continued engagement.

One action we are taking to reinforce our commitment to our employees is to change the timing of this year's restricted stock unit grants. Typically, we grant RSUs just after the end of the fiscal year. This year we'll grant them in our third fiscal quarter. The competition for top talent in the technology industry remains strong, and we have great talent. Our goal is to keep it that way. To be clear, these grants exclude senior executives. The stock compensation expense associated with this grant will reduce second-half GAAP EPS by 2 cents per share.

When it comes to delivering for customers, our employees are unmatched. And they are energized by our company's commitment to help our customers save and make money in these tough times. Our customers recognize and value the role we play in their success.

For example, 70 percent of QuickBooks users we surveyed told us they believe using QuickBooks helps make their business more profitable. And most of those users say the improvement in profitability is at least 20 percent. At the same time, you can get up and running in the QuickBooks franchise with Simple Start for free.

This ability to help people save and make money – at a low cost, during tough economic times – is why we expect to grow our customer base, strengthen our position and enable faster growth in the future. That's just part of how we are doing right by our customers. And it makes me proud to be a part of this company.

The final part of our formula is growing revenue and profits. Even though the year is playing out differently than we had originally planned, we will deliver positive revenue growth and very strong earnings growth, while continuing to invest for the long term.

So to close, by continuing to execute against our long-term strategy, while managing through the current environment with the five principles that I've outlined, we remain confident that we will grow even stronger for our employees, our customers and our shareholders.

And with that, I'll turn it over to you to answer any questions that are on your mind.

About Non-GAAP Financial Measures

This presentation contains non-GAAP financial measures. These measures should not be considered as a substitute for, or superior to, measures of financial performance prepared in accordance with Generally Accepted Accounting Principles (GAAP). These non-GAAP financial measures do not reflect a comprehensive system of accounting, differ from GAAP measures with the same names and may differ from non-GAAP financial measures with the same or similar names that are used by other companies.

We believe that these non-GAAP financial measures provide meaningful supplemental information regarding Intuit's operating results primarily because they exclude amounts that we do not consider part of ongoing operating results when assessing the performance of the organization, our operating segments or our senior management. Segment managers are not held accountable for share-based compensation expenses, acquisition-related costs, or the other excluded items that may impact their business units' operating income (loss) and, accordingly, we exclude these amounts from our measures of segment performance. We also exclude these amounts from our budget and planning process. We believe that our non-GAAP financial measures also facilitate the comparison of results for current periods and guidance for future periods with results for past periods.

We refer to these non-GAAP financial measures in assessing the performance of Intuit's ongoing operations and for planning and forecasting in future periods. These non-GAAP financial measures also facilitate our internal comparisons to Intuit's historical operating results. We have historically reported similar non-GAAP financial measures and believe that the inclusion of comparative numbers provides consistency in our financial reporting. We compute non-GAAP financial measures using the same consistent method from quarter to quarter and year to year.

The tables that accompany the press release issued by Intuit on February 19, 2009 provide more details on Intuit's historical performance and financial projections, a description of our non-GAAP financial measures, including the reasons management uses each measure, and reconciliations of these non-GAAP financial measures to the most directly comparable GAAP financial measures. A copy of the press release can be found on the investor relations page of Intuit's web site at www.intuit.com/about_intuit/investors.

Cautions about Forward-Looking Statements

These remarks contain forward-looking statements, including forecasts of Intuit's expected financial results; our prospects for the business in fiscal 2009 and beyond; our guidance for fiscal 2009, including all of the statements under the headings "Fiscal 2009 Guidance," our assessment of our growth potential and opportunities for our businesses; expected growth in our connected services and the future performance of our large growth engines and longer term initiatives. Because these forward-looking statements involve risks and uncertainties, there are important factors that could cause our actual results to differ materially from the expectations expressed in the forward-looking statements. These factors include, without limitation, the following: product introductions and price competition from our competitors can have unpredictable negative effects on our revenue, profitability and market position; governmental encroachment in our tax businesses or other governmental activities or public policy affecting the preparation and filing of tax returns could negatively affect our operating results and market position; if economic and market conditions in the U.S. and worldwide continue to decline, our customers may delay or reduce technology purchases which may harm our business, results of operations and financial condition; we may not be able to successfully introduce new products and services to meet our growth and profitability objectives, and current and future products and services may not adequately address customer needs and may not achieve broad market acceptance, which could harm our operating results and financial condition; any failure to maintain reliable and responsive service levels for our offerings could cause us to lose customers and negatively impact our revenues and profitability; any significant product quality problems or delays in our products could harm our revenue, earnings and reputation; our participation in the Free File Alliance may result in lost revenue opportunities and cannibalization of our traditional paid franchise; any failure to properly use and protect personal customer information could harm our revenue, earnings and reputation; our acquisition activities may be disruptive to Intuit and may not result in expected benefits; our use of significant amounts of debt to finance acquisitions or other activities could harm our financial condition and results of operations; our revenue and earnings are highly seasonal and the timing of our revenue between quarters is difficult to predict, which may cause significant quarterly fluctuations in our financial results; predicting tax-related revenues is challenging due to the heavy concentration of activity in a short time period; we have implemented, and are continuing to upgrade, new information systems and any problems with these new systems could interfere with our ability to ship and deliver products and gather information to effectively manage our business; our financial position may not make repurchasing shares advisable or we may issue additional shares in an acquisition causing our number of outstanding shares to grow; and litigation involving intellectual property, antitrust, shareholder and other matters may increase our costs. More details about these and other risks that may impact our business are included in our Form 10-K for fiscal 2008 and in our other SEC filings. You can locate these reports through our website at http://www.intuit.com/about_intuit/investors. Forward-looking statements are based on information as of February 19, 2009, and we do not undertake any duty to update any forward-looking statement or other information in these remarks.