Intuit Inc.
Fourth-Quarter and Fiscal 2010
Conference Call Remarks
August 19, 2010

Introduction

Good afternoon and welcome to Intuit's fourth-quarter and fiscal year 2010 conference call. I'm here with Brad Smith, our president and CEO; Neil Williams, our CFO; Scott Cook, our founder; and Jerry Natoli, our VP of Finance.

Before we get started, I'd like to remind everyone that our remarks will include forward-looking statements. There are a number of factors that could cause Intuit's results to differ materially from our expectations. You can learn more about these risks in the press release we issued earlier this afternoon, our Form 10-K for fiscal 2009 and our other SEC filings. All of those documents are available on the Investor Relations page of Intuit's website at intuit.com. We assume no obligation to update any forward-looking statement.

Some of the numbers in this report are presented on a non-GAAP basis. We've reconciled the comparable GAAP and non-GAAP numbers in today's press release. Note also that our Real Estate Solutions business, which we sold in January 2010, is accounted for as a discontinued operation. The net operating results of this business appear on the discontinued operations line. These results are excluded from the operational results, operational guidance figures, and non-GAAP EPS for all periods presented. GAAP EPS includes the gain on the sale of our Real Estate Solutions business.

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

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

Fiscal Year 2010 Overview

Thanks, Matt, and thanks to all of you for joining us.

We just completed another strong quarter, which capped off a great fiscal year. Our results continue to demonstrate that our strategy is working, and our execution is on track. In fiscal year 2010, we delivered 11 percent revenue growth and 16 percent non-GAAP EPS growth, in what remains a challenging macro-environment. We expanded non-GAAP operating margin by 190 basis points and, for the first time, generated more than $1 billion in annual non-GAAP operating income. We are pleased with our financial performance, and have built positive momentum as we head into fiscal year 2011.

Let me first share my perspective on the fourth quarter and the fiscal year.

Over the past several years, we've been on a journey to become a world-class SaaS [Software-as-a-Service] company. We've made significant progress in many areas, but there've been some bumps along the way. Some of our customers were affected by data center outages over the past two months. These outages are simply not acceptable for a company of our caliber and ambition. They inconvenienced our customers and, frankly, embarrassed Intuit and my leadership team. We take this very seriously, and we have taken great strides to support our customers, regain their trust and make them whole for the downtime. While the financial impact to Intuit is immaterial, the potential impact on customer confidence is not. We've learned from these outages, and the work to restore customer confidence continues.

However, I don't want us to lose sight of an important fact. Intuit has been delivering connected services for many years, and we know what it takes to deliver highly available and robust online solutions. Our online banking business and tax e-file capabilities are already highly available, and we are working to get all of our applications up to the standards our customers expect and deserve. We're accelerating investments in product development and infrastructure to provide the highest-quality experience for our customers. And we are consolidating our data centers to move all our connected services into state-of-the-art facilities. We know what to do, and how to do it. We simply need to get it done, and we will.

Let's turn to our financial performance. As I said earlier, the results we're sharing today demonstrate excellent execution against our three-point strategy of:

- Driving growth in our core businesses.
- Building adjacent businesses and entering new geographies.
- And accelerating our transition to connected services.

Here are some highlights in each area. First, in our core businesses:

- We had an excellent year in Consumer Tax. We continued to grow the software and online category, and improved our share within that category for both desktop and online. We're winning by delivering superior ease of use, at a better value than other alternatives. Our leadership position in the digital "do-it-yourself" category is in the sweet spot for future tax preparation growth. With that said, we have plenty of things we can do to take our game to the next level. We'll provide more insight into what we learned this past tax season, and about the specific actions we're putting in place for upcoming tax year at our investor day in September. I will tell you this now: We expect another strong year in FY11.

- In Small Business we delivered double-digit revenue growth in the back half of fiscal 2010, and revenue growth of 9 percent for the full year. New QuickBooks customers grew double-digits year over year in fiscal 2010, and we continue to acquire customers through new front doors like online payroll, payments and websites. We're also growing revenue per customer in QuickBooks.
- In our Financial Services business, we grew our user base and have continued to build momentum. In the fourth quarter, we completed the conversion of one of the largest institutions we've ever signed, and we're pleased with the continued growth of the core business.

The second focus area of our strategy, building adjacent businesses and entering new geographies, is also building up steam:

- The Intuit Websites customer base grew 80 percent in the fourth quarter. We now have more than 320,000 paying subscribers. We are also acquiring new customers at a lower cost than expected – reflecting improved yield from our marketing efforts – while producing great results for the small businesses we're serving by helping them develop a professional and productive online presence.
- The integration of Medfusion, the healthcare communications portal company we acquired in May, is in full swing, and we are adding new providers at a healthy clip. The Medfusion leadership team is now responsible for our newly formed Intuit Health business unit headquartered in the Research Triangle in Cary, North Carolina.

  This is a great business that has already been growing fast due to the increasing adoption of electronic health records. We believe this business will only accelerate as a result of the recently finalized federal guidelines around the qualifications for meaningful use of electronic health records, and the importance of providers offering a patient portal in order to qualify for these funds. We're really excited about the potential this business has for expansion and cross-sell opportunities going forward, but still have work to do to make it a reality.
- Our global efforts remain on track, and we are seeing good growth in our Canada and U.K. businesses. We are also continuing to see positive progress with our products and tests in emerging markets.

The third point of our strategy, accelerating the transition to connected services, continues to benefit from the secular market shift toward the adoption of digital services. Today we're providing connected services to millions of customers, including:

- 1 million Small Business customers on recurring revenue products.

- More than 13 million TurboTax Online customers.
- And close to 10 million online banking customers.

In fiscal year 2010, roughly 60 percent of our revenue came from connected services, and that revenue grew 18 percent versus the prior year. The growth is being driven by outstanding customer acceptance across the board, including:

- QuickBooks Online, where we now have over 200,000 subscribers, up 37 percent from last year.
- TurboTax Online, where units increased 19 percent this year and now represents 70 percent of our total consumer tax units.
- Mint.com more than doubled its user base in fiscal 2010, to over 3 million users, and recently introduced an exciting new feature to help users achieve their personal savings goals.

As you can tell, I'm encouraged by how well we're executing our connected services strategy. I'm proud of the way our leaders and teams have come together to ensure that we're delivering great solutions and value to our connected services customers.

Now, let me turn it over to Neil to walk through our business results and fiscal 2011 guidance in more detail.

Financial and Segment Highlights

Thanks Brad. Let's start with total company performance for fiscal year 2010. Our financial results were:

- Revenue of $3.5 billion, up 11 percent on a year-over-year basis. On an organic basis, our growth was 10 percent.
- Non-GAAP operating income of $1.1 billion, up 18 percent, and non-GAAP diluted EPS of $2.11, up 16 percent.
- GAAP operating income of $863 million, 26 percent above last year. GAAP diluted EPS was $1.77, up 31 percent.
  Growth in our GAAP earnings is higher than non-GAAP because amortization of acquired intangible assets and non-cash stock compensation, which are classified as GAAP only, are growing slower than revenue. GAAP net income and EPS also benefited from the $35 million gain on the sale of our Real Estate Solutions business in January 2010.

Fourth-quarter results were:

- Revenue of $537 million, up 18 percent year over year.

- Non-GAAP operating expenses grew only 7 percent, so we generated significant operating leverage in the quarter.
- Non-GAAP operating loss of $9 million, versus a loss of $53 million in the prior year.
- Non-GAAP net loss of 5 cents per share, versus a loss of 10 cents per share in the prior year.

<u>Business Segment Results</u>
Turning to the business segments:

<u>Small Business Group</u>

Total **Small Business Group** revenue grew 9 percent for the year and 16 percent for the quarter.

Within Small Business, **Financial Management Solutions** revenue grew 6 percent for the year and 18 percent for the quarter, finishing strong on solid growth in QuickBooks and Websites. We continue to see strong demand for QuickBooks Online, and we grew QuickBooks desktop revenue despite units being down slightly.

Employee Management Solutions revenue grew 15 percent for the year and 25 percent for the quarter. Without PayCycle, Employee Management revenue would have grown 6 percent for the year and 15 percent for the quarter. Our customer base grew 1 percent for the year, to more than 1.1 million. We're pleased with the continued strong performance of this business, particularly the online portion. We are implementing initiatives to grow the total customer base faster in fiscal 2011, and we'll talk more about these plans at Investor Day in September.

Payments Solutions revenue grew 8 percent for the year and 5 percent for the quarter. Charge volume per merchant was down 3 percent this quarter and down 4 points sequentially, which explains why growth slowed a bit from the third quarter. We find that charge volume per merchant is highly correlated with GDP growth, which has slowed recently, as you know. We continue to add new merchants at a double-digit rate and grew merchant account customers by 17 percent in fiscal 2010. We will be well positioned when charge volume picks up.

<u>Tax</u>

Our **Consumer Tax** business had an excellent year. We executed well and took share online and from tax stores in a season where filers were down for the second consecutive year. I'd like to point out a change we made that affects our reported results beginning this quarter. In the first three quarters of fiscal 2010, we reported the revenue for TurboTax for Online Banking in our Financial Services segment. We have decided it's clearer to include that revenue with the rest of Consumer Tax, even though it's enabled by the Financial Services channel.

The fact sheet we published today reflects this change. It shows that we have reclassified approximately $2 million of revenue from Financial Services to Consumer Tax in the second quarter of fiscal 2010 and $9 million of revenue in the third quarter. As a result, the second and third quarters of FY10 are different than what we originally reported. Including this reclassification, Consumer Tax revenue grew 15 percent for the year. Unit growth is not affected by this change and was 11 percent.

Accounting Professionals segment revenue grew 6 percent for the year. The tax season was in line with expectations, and we are focused on improving accountants' productivity and growth with our tax and accounting flagship products and new SaaS-based offerings.

Financial Services

Prior to the reclassification mentioned above, **Financial Services** revenue grew 10 percent for the year. With the reclassification of TurboTax for Online Banking, Financial Services grew 7 percent for the year and 4 percent for the quarter. The core financial services business is healthy: We grew internet banking users 9 percent for the year, and bill pay users grew 18 percent, partially offsetting some of the pricing pressure we've seen.

We continue to deliver for our financial services customers and are focused on helping those who use our solutions improve their profit per customer. We're seeing good adoption of FinanceWorks, with more than 550 institutions offering our personal and small business financial management offerings.

One final note on this segment: We sold our consumer lending business this quarter, which will take approximately 2 points of growth out of Financial Services revenue growth in fiscal 2011.

Other

Other Businesses revenue grew 22 percent for the year, and 46 percent for the quarter. Quicken had an excellent year, with double-digit revenue growth. Mint also continued to grow its customer base rapidly and added innovative new features. We had a good year in Canada and the U.K. Our Other Businesses revenue growth benefited from favorable currency impacts of nearly 7 points of growth for the year, and approximately 4 points for the quarter.

Balance Sheet and Resource Allocation

Turning to the balance sheet:

Sound financial principles support our strategy and objectives, enabling disciplined and thoughtful investment for growth. Over the long term, we expect double-digit organic revenue growth and revenue growth that exceeds expense growth at the company level.

We generated free cash flow of $868 million in fiscal 2010, up 38 percent year over year. We expect to carry about $500 million of cash on our balance sheet, net of total debt. This cash balance could vary up or down during the year depending on seasonality and expected cash flow needs.

We always seek to deploy the cash we generate to the highest-yield opportunities, and we target risk-adjusted returns of 15-20 percent. We evaluate the investment opportunities within our capital allocation framework:

- We first look internally for growth investments, which would include R&D, marketing, and infrastructure.
- We then consider strategic acquisitions and partnerships.
- Beyond that, we'll return cash to shareholders, typically in the form of a share repurchase.

We repurchased $150 million in shares in the fourth quarter, bringing total repurchases to $900 million for fiscal 2010. Our board approved a new $2 billion stock repurchase program that's valid for three years. As you can see from our share count guidance on our fact sheet, we're planning to use about half of the authorization in fiscal 2011.

Fiscal 2011 and Q1 FY11 Guidance

Moving on to our guidance:

Our projections reflect confidence in our current business trajectory, but our ranges acknowledge the ongoing uncertainty in the economy. Our businesses are resilient and finished a mixed economic year on a very high note, but we, like many other companies in the current environment, aren't seeing all indicators flashing green just yet.

Our fiscal 2011 guidance is:

- Revenue of $3.74 billion to $3.84 billion, which is annual growth of 8 to 11 percent.
- GAAP operating income of $980 million to $1.015 billion, which is annual growth of 14 to 18 percent.
- GAAP diluted EPS of $1.88 to $1.95, or growth of 6 to 10 percent. Note that the GAAP EPS growth rates are 7 points higher when the gain from the sale of discontinued operations is excluded from the FY10 GAAP results.

- Non-GAAP operating income of $1.215 billion to $1.25 billion, which is annual growth of 11 to 14 percent.
- Non-GAAP diluted EPS of $2.36 to $2.43, which is annual growth of 12 to 15 percent.
- Capital expenditures of $160 million.
- GAAP tax rate of 36 percent, versus 34 percent in fiscal 2010.

We expect the following revenue growth by segment:

- Small Business Group: 8 to 12 percent.
- Consumer Tax: 10 to 13 percent.
- Accounting Professionals: 4 to 7 percent.
- Financial Services: 4 to 7 percent.
- Other Businesses: 11 to 16 percent.

For the first quarter of fiscal 2011, we expect:

- Revenue of $515 million to $525 million, or growth of 9 to 11 percent versus the year-ago quarter.
- A non-GAAP operating loss of $50 million to $60 million, versus a loss of $40 million in the year-ago quarter. That translates to a net loss per share of 11 cents to 13 cents versus a loss of 10 cents per share a year ago.
- A GAAP operating loss of $100 million to $110 million. That translates to a net loss per share of 23 cents to 25 cents, versus a loss of 21 cents per share in the year-ago quarter.

  Note that the increased loss is primarily driven by the inclusion of Medfusion and Mint in the expected Q1 2011 results.

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

<u>Closing Remarks</u>

Thanks, Neil.

We're clearly pleased with our financial performance in FY '10, and remain very confident in our strategy and the momentum we've built as we head into fiscal year 2011.

As we showed in this past year, we're growing our categories, increasing our share, accelerating our customer growth and improving our revenue per customer, while delivering good top-line and bottom-line performance. We believe that we have a clear strategy, strong market positions and the right talent to continue to accelerate these results as we look ahead.

While doing this, we are redoubling our focus on our connected services strategy, and addressing any process and technology issues with decisive action and support for our customers.

The next phase of growth for Intuit is being driven by the clear market shift to digital, or connected services. Intuit is perfectly positioned for this shift, and as you can see, we are making strong progress in building the next phase of this company's growth on our market-leading Software-as-a-Service offerings.

The outlook we've provided today represents year one of our three-year plan. While we're not giving specific guidance beyond fiscal 2011 today, I will tell you that our three-year plan calls for steady acceleration of revenue growth and ongoing margin expansion. I don't make that statement lightly—my management team and I believe in our three-year plan. In fact, our executive compensation is set so a significant portion of our long-term compensation is dependent on us achieving our three-year plan. We believe the goals of Intuit's management and shareholders have never been better aligned, and we look forward to executing against our plan and continuing to create long-term value.

I'm looking forward to seeing everyone at our Investor Day on September 22 here at our Mountain View headquarters, where we'll share a more detailed business update.

But for now, let's turn it over to you for your questions.

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 compute non-GAAP financial measures using the same consistent method from quarter to quarter and year to year. We may consider whether other significant items that arise in the future should be excluded from our non-GAAP financial measures. 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 planning and forecasting and when assessing the performance of the organization, our individual operating segments or our senior management. Segment managers are not held accountable for share-based compensation expenses, acquisition-related charges, or the other excluded items and, accordingly, we exclude these amounts from our measures of segment performance. We believe that our non-GAAP financial measures also facilitate the comparison by management and investors of results for current periods and guidance for future periods with results for past periods.

The tables that accompany the press release issued by Intuit on August 19, 2010 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 website at http://investors.intuit.com.

Cautions About Forward-Looking Statements

These materials contains forward-looking statements, including forecasts of expected growth and future financial results of Intuit and its reporting segments; Intuit's prospects for the business in fiscal 2011 and beyond; growth opportunities in our core, adjacent, and connected services businesses; expectations regarding revenue growth from current or future products and services; and all of the statements under the heading "Fiscal 2011 and Q1 FY11 Guidance."

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; 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; business interruption or failure of our information technology and communication systems may impair the availability of our products and services, which may damage our reputation and harm our financial results; with continuing uncertainty with the economic and market conditions in the U.S. and worldwide, our customers may delay or reduce technology purchases which may harm our business, results of operations and financial condition; any significant product quality problems or delays in our products could harm our revenue, earnings and reputation; any failure to properly use and protect personal customer information could harm our revenue, earnings and reputation; 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; as we upgrade and consolidate our technology, systems and platforms, any problems with these implementations could interfere with our ability to deliver products and services; 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; our acquisition activities may be disruptive to Intuit and may not result in expected benefits; 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 2009 and in our other SEC filings. You can locate these reports through our website at http://investors.intuit.com. Forward-looking statements are based on information as of August 19, 2010, and we do not undertake any duty to update any forward-looking statement or other information in these materials.