Intuit Inc.
Third-Quarter Fiscal 2011
Conference Call Remarks
May 19, 2011

Introduction

Good afternoon and welcome to Intuit's third-quarter 2011 conference call. I'm here with Brad Smith, our president and CEO; Neil Williams, our CFO; and Scott Cook, our founder.

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 2010 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.

Unless otherwise noted, all growth rates refer to the current period versus the comparable prior-year period.

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.

Third Quarter 2011 Overview

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

We are pleased with our financial performance in the third quarter. Intuit continues to benefit from the ongoing secular shift to digital solutions, which is driving customer growth and share gains across the company and is generating the financial results we are sharing with you today.

Revenue grew 15 percent, with non-GAAP earnings per share up 23 percent. We closed out another great tax season, growing total TurboTax units slightly faster than we did last season and growing Consumer Tax revenue 13 percent year-to-date versus fiscal 2010. We also continued to build momentum in small business, where a balanced attack across financial management solutions, employee management solutions and payments drove revenue growth of 13 percent. Small business remains a key driver of overall growth.

In light of our third-quarter performance and expectations for the fourth quarter, we're raising our revenue and EPS guidance ranges for the full year. Neil will cover the details in a few minutes.

Based on these results, we're pleased with the quarter, we're confident in the year, and we're optimistic about the progress we're seeing across the company. We are in the jet stream of a shift to digital connected services, a trend that is powering growth for both our core and adjacent businesses. To capitalize on this trend, we continue to execute on our three-point growth strategy to:

- First, drive growth in our core businesses.
- Second, build adjacent businesses and enter new geographies.
- And third, accelerate our transition to connected services.

Our strategy is working. Let me share a few examples, starting with progress behind driving **growth in our core businesses**.

- Customer acquisition remains the key lever for growing our high-margin core businesses. In the third quarter, we grew our customer base in consumer tax, and in small business we grew connected services customers by double-digits.
- In a particularly competitive tax season, we grew tax units 11 percent for the season, and that comes on top of 11 percent unit growth in fiscal 2010. We had strong growth on top of strong growth, so there was no easy comparison versus the prior season.
- The IRS delays were a challenge early in the season, but we finished strong and expect to come in near the high end of our tax revenue guidance.
- For the season, the tax software category, which includes both desktop and online software, grew as manual filers continued to shift to digital solutions. Our data indicates that we took share in desktop at retail and gained a bit in online share, capping off our fourth straight year of share gains.
- However, we did not take share from tax stores this season as planned. While we respect our competitors, we will not cede anything to them. So we are taking our lessons learned and we're already applying them to our plans for next season. We see opportunities for better execution, and our goal remains the same: To continue to effectively compete with tax stores by clearly demonstrating the ease of use and better value of digital, do-it-yourself tax preparation.
- Long term, we have the demographic and technological tailwinds at our back to continue to grow the tax business double digits.

In Small Business, we now serve nearly 5 million unique customers. In the third quarter, we delivered double digit revenue growth by growing customers of our connected services offerings and by improving revenue mix.

- Customer growth was driven by 42 percent growth in QuickBooks Online subscribers and double-digit growth in Online Payroll subscribers.
- Customer growth in payments also continues to remain robust, with merchants growing 12 percent in the third quarter. We finally saw the rebound we've been anticipating in our Payments revenue growth, which Neil will discuss in a moment.
- We're also accelerating the acquisition of new customers using our GoPayment offering, which you may recall is our mobile credit card processing application. In fact, in April we acquired eight times as many new customers as we did in December.

Overall, our Small Business Group is on track for a great year, and we believe that the accelerating adoption of connected services by our customers creates a sustainable growth opportunity in this business for years to come.

Moving to our second strategy, we're pleased with our continued progress to **build adjacent businesses and enter new geographies**.

- As we've said before, many of our adjacencies are in the early stages today, but we like what we're seeing.
- For example, in our Global business:
    - In the third quarter, we began to take QuickBooks Online global, with launches in the U.K. and Singapore. In addition, we've made great progress at retail with QuickBooks desktop. We're now the best-selling financial software at retail in both the U.K. and Canada.
    - We've also seen strong early customer adoption of Mint in Canada.
- Over the next few years, we expect our adjacencies to contribute a few points of growth.

Finally, our **transition to connected services** is picking up steam. The shift to connected services is truly the growth engine for Intuit. It enables us to grow and retain customers and maximize revenue per customer over time. As individuals and small businesses increasingly say "no" to manual, paper-based solutions, they are saying "yes" to digital connected services, and Intuit benefits from this shift.

- We are growing connected services customers at a rapid pace. Because these customers are connected to our online solutions, over time we're able to more effectively cross-sell relevant solutions and maximize revenue per customer.

- One of our biggest longer-term opportunities in small business is increasing the number of offerings per customer. This is a key lever for revenue growth; we plan to move from about 1.5 offerings per customer today to 2 offerings per customer over the next several years.
- And as we've shared before, we generate about 60 percent of our revenue from connected services. Our goal is to increase this to 75 percent of our revenue by 2015.

Looking ahead to the next chapter of connected services, mobile computing is emerging quickly – whether it is smart phones or tablets. We've been actively establishing our leadership position in this next frontier as well.

- I've already mentioned the recent acceleration in GoPayment signups. We are aggressively marketing a free card reader and a no monthly fee service, and we're rapidly growing the customer base and transaction volume.
- SnapTax and the TurboTax iPad app generated very positive feedback this season, earning five- and four-out-of-five stars, respectively, in the Apple app store.
- In Financial Services, active mobile banking users have doubled over the past 12 months, to over 700,000.
- Across the company, we are continuing to innovate in mobile. You'll be seeing interesting new apps from us for consumers and small businesses over the next several quarters.
- In fact, last week at Google I/O, we unveiled a concept demo of our GoPayment app that utilizes near-field communications, or NFC, to process credit card payments with just a tap of two smartphones.

So to put a bow around my perspective, I'm proud of the quarter we delivered and the effort and execution of our employees, and I'm confident in our strategy and opportunities for our long-term growth.

With that overview, let me turn it over to Neil for financial highlights and more detail about the quarter.

<u>Financial and Segment Highlights</u>

Thanks Brad. Our financial results for the quarter included:

- Revenue of $1.8 billion, up 15 percent.
- Non-GAAP and GAAP operating income of $1.1 billion, both growing at 19 percent.
- Non-GAAP diluted net income of $2.33 per share, up 23 percent, and GAAP diluted net income of $2.20 per share, up 24 percent.

<u>Business Segment Results</u>

Turning to the business segments:

Our **Consumer Tax group** generated revenue of $1 billion in the third quarter, up 18 percent. For the season, total TurboTax units were up 11 percent, with TurboTax Online units up 18 percent. As Brad mentioned, we estimate we gained a bit of share this season. We also grew revenue per customer by improving conversion from free to paid, improving product mix, and increasing the price of TurboTax Basic. In consumer tax we served more than 23 million customers this season.

The **Accounting Professionals** segment generated revenue of $225 million, up 10 percent from last year. We had a good season in the Accounting Professionals business, with year-to-date revenue up 6 percent. In addition to our strong base of Web-enabled desktop products, we expect to grow this business by expanding our professional accounting and tax online offerings, including our Online Tax and Tax Import services.

Total **Small Business Group** revenue grew 13 percent for the quarter.

In **Financial Management Solutions**, revenue grew 11 percent, driven by strong growth in QuickBooks Online and QuickBooks Enterprise revenue. These offerings continue to grow customers at a fast pace, which benefits our revenue mix.

The fact sheet shows that our overall QuickBooks unit growth has been affected by a decline in QuickBooks desktop units sold. This reflects a positive evolution in this business, from dependence on desktop units to a range of offerings that work together. Almost 85 percent of our Small Business revenue now comes from offerings other than QuickBooks desktop.

As we move to connected services and bring more customers into the franchise via new front doors such as Intuit Websites and GoPayment, the more relevant indicator of small business health is overall customer growth. Increasingly, our customers are using subscription services that generate recurring revenue for Intuit. This helps us to better understand their usage patterns and more effectively cross-sell other products and services.

We believe connected services will drive growth in small business by delivering incremental value and helping us increase offerings per customer over time, and we continue to shift our investment toward these solutions. Approximately one-fifth of our small business customers are using connected services that generate recurring revenue, and that remains the fastest-growing segment of our customer base.

Employee Management Solutions revenue grew 12 percent in the third quarter, led by growth in Online and Enhanced Payroll subscribers and increased customer adoption of payroll direct deposit services. Total payroll customers were up 1 percent. As a reminder, growth in this segment next quarter faces a tough comparison versus the fourth quarter of fiscal 2010. At that time, we were still within the first 12 months of the PayCycle acquisition, and we realized some nonrecurring revenue benefits.

Payments Solutions revenue grew 17 percent, or 11 percent excluding the security and compliance fees we passed through to our customers in the quarter, roughly in line with merchant growth of 12 percent. Volume per merchant was flat.

Financial Services

Financial Services revenue grew 5 percent in the third quarter. Adjusted for the sale of the lending business in the fourth quarter of FY10 and a nonrecurring revenue item that impacted FY10, core revenue growth would have been approximately 9 percent. We're adding end users at a fast pace, with Internet banking users increasing by 9 percent, and bill pay users by 23 percent. As Brad mentioned, our innovation in mobile banking is also getting traction. We're delivering for our bank customers, enabling them to compete effectively for the most profitable customers.

Other Businesses

Our **Other Businesses** segment posted 17 percent revenue growth in the third quarter. Adjusted for the acquisition of Medfusion and a favorable currency impact, "other" revenue grew 9 percent. Small business in Canada and the U.K. performed well, and we launched QuickBooks Online in the U.K. and Singapore in the third quarter, with good early results.

Balance Sheet and Capital Allocation

Turning to the balance sheet:

We continue to generate strong cash flows, in line with our operating income, and maintain a strong balance sheet. Our performance to date is consistent with our long-term financial principles of double-digit organic revenue growth with revenue growing faster than expenses.

Our target is to carry $500 million to $1 billion of cash on our balance sheet, net of total debt. This cash balance will 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 greater than 15 percent. We evaluate investment opportunities within our capital allocation framework:

- We first look internally for growth investments, which 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 $250 million worth of our common stock in the third quarter, bringing repurchases to a total of $1.1 billion fiscal year-to-date. As of the end of the third quarter, we had $890 million remaining on our current share repurchase authorization. Generally, we expect to repurchase shares each quarter in adherence with our capital allocation framework.

<u>Guidance</u>

As you saw in the press release, we're raising our revenue and EPS guidance and narrowing the guidance range for operating income for the full year. We now expect fiscal year 2011:

- Revenue of $3.825 billion to $3.845 billion, growth of 11 percent.
- Non-GAAP operating income growth of 13 to 14 percent.
- And non-GAAP diluted EPS of $2.45 to $2.50, growth of 16 to 18 percent.
- GAAP operating income growth of 17 to 18 percent.
- GAAP diluted EPS of $2.00 to $2.05, growth of 13 to 16 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.

We are on track to come in near the high end of our previous revenue guidance ranges for consumer tax and small business segments. As a result, we've also narrowed our revenue growth guidance to 13 percent for consumer tax, and 10 to 12 percent for small business. Guidance for all other revenue segments is unchanged.

For the fourth quarter we expect:

- Revenue of $567 million to $587 million.
- GAAP operating loss of $48 million to $58 million.
- GAAP loss per share of $0.12 to $0.16.
- Non-GAAP operating income of $15 million to $25 million.
- Non-GAAP diluted EPS of roughly breakeven, ranging from a loss of $0.02 to income of $0.02.

With that I'll pass it back to Brad for some final thoughts.

<u>Closing Remarks</u>

Thanks Neil.

We know you're focused on a tax season where Intuit and the competition both performed well. We finished strong, taking share and coming in near the high end of our revenue guidance range.

Long term, our story in tax remains the same. There is a secular shift to connected services, and we are helping to grow the digital category faster than all other tax prep methods. In fact, this year category growth accelerated versus last year, which is very good news for us.

We're also riding the favorable trends in small business, powered by our market-leading connected services, which are generating and growing reliable, recurring revenue streams. As you know, we have more than a million small business customers on monthly subscriptions today, including our leading SaaS solutions like QuickBooks Online and Intuit Websites.

We are building momentum as we head into the next phase of growth with our mobile products. Consumers and small businesses are increasingly demanding smart solutions that fit in their pockets or are optimized for their tablet devices. Intuit is laser focused on meeting this demand by delivering industry-leading mobile computing solutions that serve the needs of our customers.

It was a busy and exciting quarter, and I am proud of our employees for their performance. The numbers we shared today demonstrate that our core businesses are healthier than ever. I am confident in our outlook for the remainder of the year.

Now let me 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, amortization of acquired intangible assets, 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 May 19, 2011 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; expectations regarding growth in offerings per customer; and all of the statements under the heading "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: inherent difficulty in predicting consumer behavior; difficulties in receiving, processing, or filing customer tax submissions; consumers may not respond as we expect to our advertising and promotional activities; 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 innovate and introduce new offerings and business models to meet our growth and profitability objectives, and current and future offerings 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 future financial results; as we upgrade and consolidate our customer facing applications and supporting information technology infrastructure, any problems with these implementations could interfere with our ability to deliver our offerings; any failure to properly use and protect personal customer information and data could harm our revenue, earnings and reputation; if we are unable to develop, manage and maintain critical third party business relationships, our business may be adversely affected; increased government regulation of our businesses may harm our operating results; if we fail to process transactions effectively or fail to adequately protect against potential fraudulent activities, our revenue and earnings may be harmed; any significant offering quality problems or delays in our offerings 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; the continuing global economic downturn may continue to impact consumer and small business spending, financial institutions, and tax filings, which could negatively affect our revenue and profitability; 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; 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 inability to adequately protect our intellectual property rights may weaken our competitive position and reduce our revenue and earnings; our acquisition and divestiture activities may disrupt our ongoing business, may involve increased expenses and may present risks not contemplated at the time of the transactions; our use of significant amounts of debt to finance acquisitions or other activities could harm our financial condition and results of operation; 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 2010 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 May 19, 2011, and we do not undertake any duty to update any forward-looking statement or other information in these materials.