Intuit Inc.
Fourth-quarter Fiscal 2011
Conference Call Remarks
August 18, 2011

Introduction

Good afternoon and welcome to Intuit's fourth-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 start, 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.

Fiscal Year 2011 Overview

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

We just completed another strong quarter, which capped off a really strong fiscal year. Our results continue to demonstrate that our strategy is working, and our execution is on track.

In fiscal year 2011, we delivered 11 percent revenue growth and 19 percent non-GAAP earnings per share growth. We continued to expand operating margins while investing for the long-term growth of our company. And in the fourth quarter, we turned a profit in non-GAAP earnings per share for the first time in recent history.

We're proud of our ability to deliver our best results when year-over-year comparisons, external market conditions and the competition are the toughest. Quite simply, it motivates us. And looking forward to fiscal 2012, we feel confident about our game plan to deliver strong performance once again.

I will tell you that this confidence comes with the acknowledgement that the economic environment remains a challenge, and competitors continue to sharpen their strategies as well. This is nothing new to us. These conditions simply put a premium on execution. If history, or the past several years of this economic slowdown have proven anything, it is that our portfolio of offerings, combined with our focus on execution, have enabled us to remain resilient in the most challenging environments. And through it all, we continue to benefit from customers' ongoing shift to connected services, which provides a tailwind at our backs as we look ahead.

That's why we remain laser focused on continuing to execute against our three-point strategy of growing our core businesses, expanding into adjacent businesses and new geographies, and accelerating our transition to connected services.

Reflecting on our **core businesses**, the two that typically come to mind are our Small Business Group and our Consumer Tax business. They represent the majority of the company's revenue and operating income, so our ability to continue driving strong growth in these two segments is critical.

The good news is, we have managed to do just that. Despite the recession, Small Business revenue has grown at a compounded annual growth rate of 9 percent over the last five years, and we're exiting fiscal 2011 growing at 12 percent year-over-year. In Consumer Tax, we've grown at 13 percent compounded annually over the same five-year period.

The success of our Small Business Group comes from a tried-and-true focus – expanding our categories, converting non-consumption and increasing the revenue per customer over time. Our teams are innovating in exciting ways to attract new customers and increase the lifetime value.

In fiscal 2011, we grew small business revenue double digits and we expect another year of double-digit growth in fiscal 2012. There's a unifying theme across small business that gives us confidence this performance is sustainable – without any help from the economy or across-the-board price increases. That theme is a favorable mix, despite slower-than-expected customer growth. Why? Because our core customers, especially those new to the Intuit franchise, continue to demand and adopt connected services that are more valuable to them, while delivering better, long-term economics to Intuit.

Let me illustrate a few examples to make this point more clear:

- In Financial Management Solutions, we're rapidly growing customers and revenue in QuickBooks Online and QuickBooks Enterprise Solutions. A typical QuickBooks Online customer purchasing only our financial management services pays us $24.95 a month. By comparison an average QuickBooks Pro desktop customer pays us about $200 for the software every two to three years. So the mix shift to QuickBooks Online, as well as QuickBooks Enterprise, which carries an even higher price point, is quite favorable.
- In Employee Management Solutions, the same holds true as our average revenue per customer continues to increase. This is driven by stronger direct deposit attach and the ongoing mix shift to our online payroll services and to more advanced payroll solutions that carry greater lifetime value.
- In Payments, overall customer growth is being driven by the rapid adoption of our popular mobile solution, GoPayment. Overall merchant growth is now being complemented by improving charge volume per merchant.

So while the economic environment for small businesses isn't getting better anytime soon, the reality is, it hasn't really gotten better since 2008. We've simply found ways to serve our customers and grow in this challenging environment.

In our other core business – Consumer Tax – we remain focused on the key levers for revenue growth that you know so well: expanding the tax software category, taking share, and improving revenue per filing. We had another great tax season, growing units 12 percent and revenue 13 percent. This came despite a tough comparison versus fiscal 2010, as well as shifts in our competitors' strategies during tax season.

Looking ahead, some of you have asked about our ability to grow tax customers as the manual tax filer bucket quickly drains. That is a fair question, and one that I am eager to address, so I'll put it out there proactively today.

For years, we have been intensely focused on both creating, and demonstrating a superior value proposition for digital tax solutions versus the tax stores. The net promoter scores for digital tax solutions are higher than tax stores, and the price is about 75 percent less expensive. So in our minds, there are tens of millions of tax filers who spend too much money to be inconvenienced by going to a tax store. Long story short: We seek to earn these customers over time.

In addition, the digital tax category is naturally advantaged by the demographic and technological shifts in the market. This has driven average software category growth of 6 to 8 percent for the past five years, and we don't see it slowing down. This outpaces the growth rate of all other tax prep methods. And each year, millions of new taxpayers come into the system – usually younger filers who have grown up in an online world with technology as their tools of choice.

When it comes time to file their taxes, they are most likely to choose online solutions. And as their technology tools of choice increasingly become mobile devices and tablets, we are committed to maintaining our leadership position through innovative new offerings, such as SnapTax, and other offerings that you'll learn more about at our upcoming Investor Day in September.

While we continue to see double-digit growth potential in our core businesses, we are pleased to say that our newer **adjacencies** are starting to make a contribution. Many of our adjacent businesses are small. But as we've said, we expect them to contribute a few points to growth over the next several years.

- For example, our Small Business offerings in the United Kingdom and Canada are performing very well. And while it's still early, we're excited about the opportunity to expand other small business products, such as QuickBooks Online, into select developed economies like Canada, the United Kingdom, and Singapore, while continuing our longer-term efforts in the emerging markets.
- Intuit Health is also growing very fast in terms of new providers, patient utilization and year-over-year revenue growth. With that said, we've made some investment choices and had some execution misses that have led to a decision to record a non-cash impairment charge this quarter. We still believe there is a big unmet need here, and we are taking the necessary steps to realign our focus and investments to capitalize on this opportunity.

Finally, the third element of our growth strategy is accelerating our transition to **connected services**. These digital services are driving customer acquisition and revenue growth in all our businesses. For example, QuickBooks Online subscribers grew 41 percent year-over-year, TurboTax Online subscribers grew 20 percent, and our Online Payroll subscriber base grew 13 percent.

The adoption of mobile services is accelerating these trends. In our Financial Services business, the number of subscribers using our mobile banking solutions tripled over the past year. And in our Mint business the number of end users accessing Mint through their mobile device now exceeds 50 percent.

Putting it all together, connected services are the jet stream for our company's future potential, while already playing a significant role in our present performance.

- We now have more than 35 million end users on our hosted products and services, and the adoption of mobile devices is accelerating this trajectory.
- Revenue from software-as-a-service offerings now totals nearly $1.5 billion, and has grown at a compounded annual growth rate of more than 35 percent over the past five years.

- When you add in our other recurring revenue services that are advantaged by working with our software, such as payroll and payments, connected services now represent 62 percent of our company's revenue, up from 59 percent in fiscal 2010.

So as you can hear, our strategy is working. But as I like to say, "Strategies don't move mountains, bulldozers do." And that's where solid execution and a set of rigorous financial principles come into play.

I feel good about the guidance for fiscal 2012 that we're announcing today. With growth opportunities on the horizon, a strong cash position and consistent operating results, we are also pleased to announce, that for the first time in our history, Intuit will pay a cash dividend beginning in fiscal 2012. This is <u>in addition to</u> our existing share repurchase program, including an additional $2 billion repurchase authorization just approved by our board.

Neil will share more details in a few minutes, but let me be very clear. This dividend reinforces our confidence in our ability to deliver double-digit revenue growth and expand margins over the long term, while also continuing our commitment to return cash to our shareholders along the way.

With that I will turn the call over to Neil.

<u>Financial and Segment Highlights</u>

Thank you Brad.

Let's start with total company performance for fiscal year 2011. Our financial results were:

- Revenue of $3.85 billion, up 11 percent.
- Non-GAAP operating income of $1.25 billion, up 14 percent.
- GAAP operating income of $1 billion, up 17 percent.
- Non-GAAP diluted EPS of $2.51, up 19 percent.
- And GAAP diluted EPS of $2.00, up 13 percent. As Brad mentioned, our GAAP EPS includes an after-tax, non-cash goodwill and intangible asset impairment charge of $0.09 per share.

Fourth quarter results were:

- Revenue of $593 million, up 10 percent.
- Non-GAAP operating income of $25 million.
- GAAP operating loss of $61 million.
- Non-GAAP diluted EPS of $0.02.
- And GAAP loss per share of $0.19, which includes the after-tax non-cash goodwill and intangible asset impairment charge of $0.09 per share.

Business Segment Results

Turning to business segment highlights:

Total **Small Business Group** revenue grew 10 percent for the quarter and 12 percent for the year, with all three divisions growing revenue double digits for fiscal 2011. We improved our operating margin in Small Business by nearly 200 basis points in fiscal 2011, demonstrating the leverage in our model as we acquire more customers via our connected services businesses and existing customers choose additional services.

Looking ahead, the focus in fiscal 2012 is on customer growth. Adding new customers to our franchise and increasing offerings and revenue per customer over time is our best path to financial success in small business. For fiscal 2012 we expect total Small Business Group revenue growth of 10 to 12 percent.

Within Small Business, **Financial Management Solutions** revenue grew 12 percent for the quarter and 15 percent for the year. QuickBooks Online and Enterprise Solutions contributed to an improved mix, driving revenue growth. We also grew revenue in QuickBooks desktop. This came despite a decline in units as we've offered fewer discounts and raised the price of the Pro product in fiscal 2011.

Employee Management Solutions revenue grew 5 percent for the quarter and finished the year with growth of 10 percent. In the fourth quarter of fiscal 2010, we benefitted from a few nonrecurring items. Excluding the impact of these items, growth in the fourth quarter would have been approximately 10 percent. Customer growth is accelerating and, as Brad stated, the average revenue per customer is growing because of better mix and attach.

Payments Solutions revenue grew 12 percent for the quarter and 11 percent for the year. The number of merchants grew by 11 percent for the quarter and for the year, with 1 percent growth in volume per merchant in the fourth quarter.

Tax

Our **Consumer Tax** business had another great year with revenue growth of 13 percent for the year on unit growth of 12 percent. Software category growth accelerated in tax year 2010, and we took share within the category. We are already deep into planning for next season with the same focus of demonstrating the superior ease and value of TurboTax versus tax stores and manual methods. It's our job to effectively reach customers and demonstrate that our products are drop-dead easy to use and deliver the highest possible refund. We believe the software category will continue to grow faster than any other category, and that we'll take share. For fiscal 2012, we expect consumer tax revenue growth of 10 to 13 percent.

The **Accounting Professionals** segment grew revenue by 7 percent for the year, finishing at the high end of our guidance and producing nearly 100 basis points of margin expansion – a result of excellent execution. We are creating some innovative online and mobile solutions that enable accountants to benefit from connected services. Looking ahead, we expect revenue growth of 5 to 8 percent in fiscal 2012.

Financial Services

The **Financial Services** segment grew revenue by 8 percent in the fourth quarter and 4 percent for the year. Excluding the fiscal 2010 divestiture of the lending business, growth for fiscal 2011 was 6 percent. We expect revenue growth of 7 to 10 percent in fiscal 2012.

Other Businesses

The Other Businesses segment, which includes our Global, Personal Finance and Healthcare businesses, grew at 14 percent for the fourth quarter and 15 percent for the year. Revenue growth benefitted from a positive currency impact of 5 percentage points in the fourth quarter and 3 percentage points for fiscal 2011. We also got a few points of growth in fiscal 2011 from our acquisition of Medfusion.

As stated in our press release, we took a non-cash charge of $0.09 per share on the write-down of our Healthcare goodwill and intangible assets. While the business isn't yet performing to our original expectations, we still believe there is a nice opportunity here. We expect Intuit Health will grow revenue 50 percent off a small base in FY '12, and we see a very large addressable market and customer pain points that we can solve over time.

For fiscal 2012, we expect revenue growth in our Other Businesses segment of 3 to 7 percent. In personal financial management, rapid growth in online isn't enough to offset the decline in desktop. We expect continued strong growth in Global and our Healthcare business.

We'll provide more details for all of our business segments at Investor Day and hope to see you all here on Sept. 21.

Balance Sheet and Resource Allocation

Shifting to the balance sheet:

Sound financial principles and operating discipline underpin our growth trajectory. We continue to generate strong cash flows, in line with our operating income, and maintain a strong balance sheet. Over the long term, we expect double-digit organic revenue growth, and we expect to grow revenue faster than expenses.

Our target is to average $500 million to $750 million 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. When businesses do not perform to our expectations, we also take action, either looking for new ways to improve returns or by exiting the business. As we've shared today regarding Intuit Health, we believe this business still represents an excellent growth opportunity over the longer term.

We evaluate the investment opportunities within our capital allocation framework:

- We first look internally for growth investments, including R&D, marketing, and infrastructure. Each business unit's roadmap also includes M&A opportunities.
- We then consider strategic acquisitions and partnerships.
- Beyond that, we consistently return cash to shareholders, and historically this has been in the form of a share repurchase.

As Brad mentioned, beginning in the first quarter of fiscal 2012, we will pay a cash dividend to shareholders. We'll continue to repurchase shares as well; our board just approved an incremental $2 billion authorization over three years, on top of the remaining $640 million on our current authorization.

We're continuing our rigorous approach to capital discipline. We've gradually reduced our share count over time. In fact, we reduced it by about 2 percent in fiscal 2011 alone. Here are a few additional data points that demonstrate that discipline:

- Since fiscal year 2001, we've repurchased more than 250 million shares, at an average price of $28 per share, returning $7 billion to shareholders.
- We've repurchased nearly double the amount of shares issued under employee stock plans over that time period.
- In addition, our return on invested capital increased by 600 basis points in fiscal 2011.

Here are the balance sheet details:

- Shares repurchased totaled $250 million in the fourth quarter. This brings the total to nearly $1.4 billion for fiscal year 2011. Buybacks remain an important tool in our capital allocation strategy, and we expect to be in the market.
- Our cash balance is $1.4 billion.
- We'll pay our first quarterly cash dividend on Oct. 18 to shareholders of record as of the close of business on Oct. 10. The dividend will be $0.15 a share.
- We currently expect to continue paying comparable cash dividends on a quarterly basis. Of course, future declarations of dividends and the establishment of future

record dates and payment dates are subject to the final determination of our board of directors.

<u>First Quarter and Full-year FY ’12 Guidance</u>

Finally, turning to our guidance:

Our **fiscal year 2012** guidance is:

- Revenue of $4.185 billion to $4.285 billion, growth of 9 to 11 percent.
- Non-GAAP operating income of $1.4 billion to $1.425 billion, growth of 12 to 14 percent.
- GAAP operating income of $1.185 billion to $1.21 billion, growth of 18 to 20 percent.
- Non-GAAP diluted EPS of $2.85 to $2.94, growth of 14 to 17 percent.
- GAAP diluted EPS of $2.38 to $2.47, growth of 19 to 24 percent.
- Capital expenditures of $190 million to $210 million.

You’ll find a summary of our segment guidance for the year in our press release.

For the **first quarter of fiscal 2012**, we expect:

- Revenue of $575 million to $585 million, growth of 8 to 10 percent.
- Non-GAAP operating loss of $40 million to $50 million, compared to a loss of $53 million in the year-ago quarter.
- GAAP operating loss of $95 million to $105 million, compared to a loss of $104 million in the year-ago quarter.
- Non-GAAP net loss per share of $0.11 to $0.13, compared to a loss of $0.12 in the year-ago quarter.
- GAAP net loss per share of $0.24 to $0.26, compared to a loss of $0.22 in the year-ago quarter.
- I want to make a point here about our share count. We may see a non-GAAP net loss per share roughly commensurate with our non-GAAP net loss per share in the first quarter of fiscal 2011 despite a smaller operating loss due to a lower share count in the first quarter of fiscal 2012.

Our guidance reflects confidence in our ability to grow, but also acknowledges a wide array of macroeconomic variables. It does not assume improvement in the macroeconomic environment.

And one last point on guidance. As in the past, we'll provide quarterly guidance for the next quarter as we move through the year. I will point out that the seasonality of our revenue for fiscal 2012 is likely to be different than fiscal 2011 due to the late filing issues with the IRS in fiscal 2011, and our expected continued improvement in fourth quarter revenue and operating income.

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

Closing Comments

Thanks, Neil.

We understand there are questions about the macro-environment, and whether our outlook has factored this uncertainty into our guidance. The short answer is yes. Our plans have assumed no improvement to the economic conditions in the coming year. Like other companies, we are not immune to these macroeconomic conditions, but we have proven to be resilient. That is why we will continue to apply the same decision principles that have served us well as we've navigated this downturn along the way. These include:

- First, to prioritize top-line revenue and customer growth, continuing to grow our categories and take share.
- Second, to adjust our spending as necessary to deliver our bottom line commitments.
- Third, to protect and nurture innovation to ensure a strong pipeline for the future.
- And fourth, to continue to capitalize on a strong and conservative balance sheet in accordance with the financial principles Neil communicated earlier.

So when you hear us discuss our outlook for fiscal 2012, what should resonate is that our core businesses have momentum and are healthier than ever, producing double-digit growth in fiscal 2011, on top of double-digit growth in fiscal 2010. We expect that trajectory to continue in fiscal 2012. The long-term story is the same: There is a secular shift to digital services, and we have a strategy to continue to grow our categories and our share.

We are not getting distracted by quarterly shifts in market dynamics, or volatility in the broader economy. We continue to be an innovative growth company, and we're pleased to be issuing a dividend to return additional value to our shareholders. We do not believe being a growth company and issuing a dividend are mutually exclusive concepts. Our financial principles are unchanged and we remain confident in our operating results and our ability to share profits with our shareholders as we grow.

So in closing, let me thank our employees for another strong year. Their ongoing dedication and hard work continues to make Intuit a great place to work.

With that, let's open it up to hear what's 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 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 August 18, 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 2012 and beyond; expectations regarding growth opportunities in Intuit's core and adjacent businesses and from connected services; expectations regarding revenue growth for each of Intuit's reporting segments and from current or future products and services; Intuit's belief that the tax software category will continue to grow and that it will take share in that category; expectations regarding customer growth; expectations regarding the amount and timing of any future dividends; expectations regarding growth in offerings per customer; and all of the statements under the heading "First Quarter and Full-year FY12 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 August 18, 2011, and we do not undertake any duty to update any forward-looking statement or other information in these materials.