Intuit Inc.
Second-quarter Fiscal 2013
Conference Call Remarks
February 21, 2013

Introduction

Good afternoon and welcome to Intuit's second-quarter 2013 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 2012 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, and the business metrics and associated growth rates refer to worldwide business metrics.

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 Second-quarter 2013 Overview

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

Today we reported second-quarter revenue of $968 million, down 3 percent from last year and in line with the release we issued on February 7. As you know, this year's late tax legislation causes an apples-to-oranges comparison. Adjusting for the estimated shift in tax revenue, we believe second-quarter revenue growth would have been approximately 10 percent. As we foreshadowed back in September, we expected a shift in tax revenue this season between our second- and third-quarter results. The impact in January was greater than we anticipated, but the early season results we've seen in February give us confidence we're on track for the season and the fiscal year.

Quarterly shifts aside, we know more than 140 million people will have to file taxes by April 15. We've got a strong game plan to help tax filers keep more of their hard-earned money and receive expert advice when they need it. I'll talk more about our plan to win this tax season in a minute, but first let me step back and talk more broadly about a secular theme that continues to drive growth across all of our businesses – the adoption of cloud-based services.

Our connected services strategy is picking up steam. Forty-five million of our 60 million customers are now using at least one of our hosted solutions, and the adoption of these connected services continued in the second quarter, with:

- QuickBooks Online subscribers growing 28 percent.
- Demandforce subscribers growing 57 percent.
- Intuit Online Payroll subscribers growing 19 percent.
- And our payments customers growing 14 percent.

Our mobile offerings are the new catalyst that is starting to fuel this growth:

- Intuit Financial Services nearly doubled the number of mobile banking customers versus last year.
- GoPayment customers have also nearly doubled year-over-year.
- And our newest SnapPayroll product is already enabling thousands of small businesses to calculate their payroll completely on their mobile phones, for free.

These are just a few examples of the more than 50 applications that work across various mobile platforms and devices. Collectively, this shift to digital solutions continues to enrich our financial results with recurring revenue streams and favorable lifetime-value economics.

This shift to digital is the driving force behind our tax business as well. The five-year compounded annual growth rate for the software category is 7 percent, while tax stores and pros have experienced compounded growth of negative 1 percent and 1 percent, respectively, over the same time period. The software category is taking share, and TurboTax is the definitive category leader. We expect this shift in consumer preference toward digital, do-it-yourself tax software to continue for years to come, and we're in the sweet spot to capitalize on this shift.

But what about this tax season? Well, let me take a few minutes to sort through the noise and put what we're seeing so far this tax season into perspective.

The late changes to the tax code signed into law on January 2 created a situation where the vast majority of tax filers were not able to have their returns accepted by the IRS until January 30, which is two weeks later than last year and about a week later than we anticipated. The remaining returns will start being accepted in late February or early March. Our original guidance had assumed that select forms would be delayed, a situation similar to what we saw two years ago, but this additional delay has pushed the early season filing peak even further into our third fiscal quarter.

With that context, our units declined 7 percent through February 16, versus the comparable prior-year period. Units grew 29 percent during the period from January 30 through February 16, indicating filing activity has picked up since the late IRS open.

And I suspect the question on everyone's mind is "who's winning?"

To answer this question, let me point you to some third-party data we are monitoring early in the season, which tells us that we are out of the gates on solid footing, despite the industrywide late start.

- At retail, NPD shows the category down about 12 points versus last year, with TurboTax gaining 200 basis points of share. While desktop only represents about 25 percent of our units, it's important that we continue to take share in this segment of the business.
- In the online tax category, early data from third parties like comScore, Hitwise, and Google, show that the season got off to a slow start across the industry, but we are maintaining our strong leadership position.

There is a lot of game yet to be played, but we took our lessons learned from last year, and sharpened our game plan heading into this season. Our marketing is more clear and targeted to hard-working Americans who need the best solution to keep more of their hard-earned money.

Our research shows that at least 40 million tax filers are paying too much for assisted tax prep for their relatively simple returns, and they are willing to try software. We see these tax filers as our future customers. TurboTax offers the best technology and expert advice at a fraction of the cost of a tax store.

Our strategy to win these 40 million filers includes delivering a more personalized and faster experience. For instance, this year we've built unique experiences for military customers and digital natives.

As I mentioned earlier, mobile is playing a bigger role, with 80 percent of simple filers now able to complete their returns with SnapTax – on their smartphone – more than double last season's reach. And for those with more complicated tax situations, we have made it easy to transfer their information from SnapTax to the cloud, so they can finish their return using TurboTax Online.

And all TurboTax customers have access to free tax advice from highly qualified and certified tax professionals. We're making it clear to customers that we're in their corner, helping them maximize their refunds and easily navigate their tax experience end-to-end, until their refund is in the bank.

So is our plan working? Once again, let's look to the marketplace to answer that question:

- In the Apple App Store, SnapTax has over 8,000 ratings and 5 stars, while the competition's mobile app has just over 200 ratings and 3.5 stars.
- In Google Play for Android, SnapTax has more than 17,500 ratings and 4.7 stars, versus the competition at just over 300 ratings and 3 stars.
- And PC Magazine made TurboTax its Editors' Choice yet again, a distinction we've held for more than 10 years running.

So it's going to be a back-end loaded tax season full of intrigue and drama, but the long-term trends that are driving customer acquisition and financial growth across Intuit persist.

We'll continue to give you updates along the way during the tax season, including our next update in mid-March and one at the end of April.

On that note, I'll turn it over to Neil to walk you through the financial details.

<u>Financial and Segment Highlights</u>

Thanks, Brad.

Let's start with overall company results.

For the second quarter of fiscal 2013, we delivered:

- Revenue of $968 million, down 3 percent.
    - As we said in our release earlier this month, we saw a larger-than-expected tax revenue and operating income shift from the second quarter to the third quarter due to IRS delays.
    - We estimate revenue growth in the second quarter, adjusted for tax delays, would have been approximately 10 percent, reflecting a shift of approximately $140 million.
- Non-GAAP operating income of $153 million, compared to non-GAAP operating income of $251 million in the second quarter of fiscal 2012. Excluding the estimated shift in tax revenue, non-GAAP operating income growth would have been approximately 11 percent.
- GAAP operating income of $93 million. Excluding the estimated shift, GAAP operating income growth would have been approximately 12 percent.
- Non-GAAP earnings per share of $0.33, compared to non-GAAP earnings per share of $0.52 in the second quarter of fiscal 2012. The R&D tax credit added about 1 cent to non-GAAP EPS in the second quarter.
- And GAAP earnings per share of $0.23. The R&D tax credit added about 4 cents to GAAP EPS in the second quarter, as we are required to recognize the entire 2012 catch-up benefit this quarter according to GAAP.

<u>Business Segment Results</u>

Turning to the business segments:

Small Business

Total **Small Business Group** revenue grew 16 percent in the second quarter, 11 percent excluding Demandforce. Total unique small business customers grew 1 percent. We continue to see double-digit growth in connected services customers and declines in desktop customers.

Within Small Business, **Financial Management Solutions** revenue grew 17 percent for the quarter, 6 percent excluding Demandforce. Customer acquisition in our connected services businesses continues to drive our growth in this segment, as Brad covered earlier.

As you know, QuickBooks new user growth is shifting from a single desktop purchase toward a recurring connected subscription. We've made changes to our discounting practices, which we expect will shift more QuickBooks desktop unit sales into the second half of this fiscal year.

Desktop QuickBooks units were down about 18 percent in the U.S. in the second quarter, and desktop revenue declined 8 percent. For the full year, we expect desktop units to decline roughly 5 percent, with desktop revenue down 1 percent. Combining our active QuickBooks subscriber base with QuickBooks desktop units sold, we expect customers to grow mid-single-digits for the year, with QuickBooks revenue up about 10 percent.

Employee Management Solutions revenue grew 13 percent for the quarter, driven by improved mix. Total customers grew 2 percent, with online payroll customers growing 19 percent.

Payments Solutions revenue grew 18 percent in the second quarter. Merchants grew 14 percent versus last year, driven by customer acquisition in our mobile solution GoPayment. Card transaction volume grew 10 percent, and adjustments in rates and fees made up the balance of the revenue growth.

Tax

Consumer Tax revenue totaled $215 million, down 27 percent versus last year, reflecting the estimated shift of around $140 million in revenue to our third fiscal quarter. As Brad mentioned, acquiring more of the assisted filers who are willing to try software is the key to our future growth, and our investment plans reflect this multi-year initiative to increase the number of customers we serve.

Accounting Professionals revenue of $123 million declined 7 percent. The year-over-year decline in the second quarter was expected and is included in our guidance of 5 to 8 percent for the full fiscal year.

Financial Services

Financial Services revenue of $93 million was up 1 percent. Adjusting for the sale of our corporate banking business and the addition of Mint, Financial Services revenue grew approximately 6 percent.

As a reminder, the corporate banking business generated about $30 million in revenue on an annual basis. In the second quarter of fiscal 2012, it generated $9 million.

Other Businesses

Other Businesses revenue totaled $67 million, declining 10 percent. Other Businesses revenue declined 3 percent adjusted for the transfer of Mint from this category to Financial Services.

Within Other Businesses, Global small business revenue increased 16 percent.

Balance Sheet and Resource Allocation

Turning to the balance sheet:

Our financial principles and capital allocation strategy have not changed. We target double-digit organic revenue growth while growing revenue faster than expenses. We also take a disciplined approach to capital management, and when it's the best use of cash, we'll return cash to shareholders via share repurchases. We repurchased $100 million of shares in the second quarter, with $1.5 billion remaining on our authorization.

In addition, our board approved a $0.17 dividend for the fiscal third quarter, up 13 percent from last year, payable on April 18, 2013.

Q3 and Full-year FY13 Guidance

Turning to our guidance:

We are reiterating our fiscal year 2013 guidance for revenue and operating income, and increasing our EPS guidance.

For fiscal year 2013, we expect:

- Revenue of $4.55 billion to $4.65 billion.
- Non-GAAP operating income of $1.57 billion to $1.60 billion.
- GAAP operating income of $1.315 billion to $1.345 billion.
- Non-GAAP diluted EPS of $3.40 to $3.46.
- GAAP diluted EPS of $2.96 to $3.02.

The fiscal cliff bill included a retroactive extension of the R&D tax credit through December 31, 2013. We now expect our fiscal 2013 non-GAAP tax rate to be about 33 percent. We increased our EPS guidance to reflect the benefit to non-GAAP and GAAP EPS. We've also increased our GAAP EPS guidance to reflect the gain on the sale of Intuit Websites.

For the third quarter of fiscal 2013, we expect:

- Revenue of $2.215 billion to $2.275 billion, growth of 15 to 18 percent.
- Non-GAAP operating income of $1.35 billion to $1.375 billion, growth of 17 to 19 percent.
- GAAP operating income of $1.29 billion to $1.315 billion, growth of 16 to 18 percent.
- Non-GAAP diluted EPS of $2.99 to $3.04, growth of 19 to 21 percent.
- GAAP diluted EPS of $2.83 to $2.88, growth 17 to 19 percent.

As we've said, we expect Demandforce will add 1 to 2 points to growth in fiscal 2013. The divestiture of our corporate banking and websites businesses in fiscal 2012 will also impact revenue by $30 million and $75 million, respectively, for the full year.

With that, I'll turn it back to Brad.

Closing Comments

Thanks, Neil.

We've put a lot of energy into explaining this tax season given all of the moving parts this year. At the risk of being redundant, I'll reinforce that we like our position and our game plan, and early indications suggest we are performing well.

Our small business results remain strong, especially considering the macro environment. We have momentum in our core businesses, and across the company we're benefiting from the secular tailwinds toward more digital, connected services. We have market-leading SaaS, and increasingly, mobile solutions to capitalize on these tailwinds, and they are generating predictable, recurring revenue streams.

So we're not getting distracted by quarterly shifts. We have a proven strategy that is delivering in the short-term, while building the foundation for long-term growth and increasing shareholder value.

I want to close by congratulating our employees for once again having Intuit named as one of Fortune magazine's Top 100 Best Places to Work for the 12th year in a row, and being listed in the top 25 for the second year in a row. It is their dedication to creating an environment of customer-driven innovation that generates the financial results you've come to expect from us.

And with that, 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 February 21, 2013 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 2013 and beyond; expectations regarding growth opportunities from connected services; expectations regarding timing and growth of revenue for each of Intuit's reporting segments and from current or future products and services; expectations regarding customer growth; expectations on the timing of tax legislation; expectations regarding the amount and timing of any future dividends or share repurchases; the impact of acquisitions and divestitures on Intuit's business; expectations regarding availability of our offerings; and all of the statements under the heading "Q3 and Full Year FY13 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 expected 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; year-over-year changes in the total number of tax filings that are submitted to government agencies due to economic conditions or otherwise may result in lost revenue opportunities; 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 2012 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 February 21, 2013, and we do not undertake any duty to update any forward-looking statement or other information in these materials.