Intuit Inc.
Fourth-Quarter Fiscal 2013
Conference Call Remarks
August 20, 2013

Introduction

Good afternoon and welcome to Intuit's fourth-quarter and fiscal 2013 conference call. I'm here with Brad Smith, our president and CEO; and Neil Williams, our CFO.

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.

Also, all reported results and fiscal 2014 guidance exclude Intuit Financial Services and Intuit Health, which have been sold and reclassified to discontinued operations.

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 2013 Overview

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

Fiscal 2013 has been a year of exciting wins, as well as some challenges. We've seized the opportunity to capture lessons learned, make the necessary adjustments, and position the company for a stronger future.

For the fiscal year, we posted strong growth in Small Business, but fell short of our expectations in Consumer Tax. Full-year revenue at the company level grew 10 percent, with non-GAAP earnings per share growing 13 percent when adjusted for the divestitures and restructuring charges that we'll talk more about in a minute.

In anticipation of the next chapter of growth, we updated our connected services strategy last fall. Then in late spring, we reorganized our business units and functional groups to streamline decision-making and position our next generation of talent against the highest-impact opportunities. Just this past month, we sold Intuit Financial Services and the Intuit Health Group, two businesses that no longer aligned with our go-forward strategy.

These organizational changes have transformed Intuit from a portfolio of businesses into an ecosystem that builds durable competitive advantage by working together.

The foundation is now in place for the next chapter of growth, and we're focusing Intuit on two strategic outcomes:

- First, to be the operating system behind small business success,
- And second, to do the nations' taxes in the U.S. and Canada.

Let's take a closer look at each of these goals, starting with Small Business. The Small Business franchise had a great fiscal 2013, with revenue growing 16 percent overall, and each segment of the group growing double digits as well.

As we strive to be the operating system behind small business success:

- We're launching an exciting new user experience for QuickBooks Online in the coming weeks. It has been completely redesigned to delight new customers and increase conversion from trial to subscription.
- From this foundation, we're accelerating our growth outside the US by narrowing our focus on winning in Canada, the U.K., Australia and India, while validating new geographies we may choose to enter.
- We've also resourced a highly talented team to begin targeting smaller businesses that don't feel they're ready for QuickBooks. This team is charged with identifying ways to win these prospects by solving important pre-accounting needs with lightweight mobile and online solutions.
- And finally, with our customers' permission, we are advancing our capabilities to use customer data to deliver more tailored product experiences and offer them breakthrough benefits as well.

It is important to note that we are not coming at this goal from a standing start. For example:

- In Q4, QuickBooks Online subscribers grew 28 percent to 487,000, with subscribers outside the U.S. growing 80 percent, and now totaling more than 32,000 paying customers in over 100 countries.
- Our online payroll customers grew 18 percent, with our total payroll new users growing 8 percent in fiscal 2013. This is the highest new payroll user growth we've seen in 10 years.

- And Demandforce subscribers grew 40 percent. The team's been leveraging QuickBooks data to cross-sell into our customer base, with promising early results.

As we head into fiscal 2014, this momentum is reinforced by significant product launches that I alluded to a few moments ago, a more focused global strategy, and one of the most exciting marketing campaigns we have ever launched in our Small Business segment.

We'll share more about these small business initiatives, as well as provide an overview of our long-term tax strategy at our upcoming Investor Day in September.

Switching to tax, we have tremendous assets and the leading market position in both the do-it-yourself and the CPA-prepared segment, the two largest segments in the tax market. And we have nearly 60 percent share in the do-it-yourself software category, which is the only tax preparation method that grew this tax season.

Our teams are thinking big and looking for ways to redefine the franchise, and reimagine the tax prep industry overall. You'll hear more about these ideas as we get closer to tax season.

While it will be a multiyear effort, we have some exciting things slated for the upcoming tax season. We'll focus squarely on product improvements. Our team is energized to further simplify the new-user experience and deliver a more personalized experience for all users.

Amid last year's challenges, we had some real wins that set the foundation for this coming tax season. For example, this past year we saw tremendous growth in our mobile usage, which represents the next generation of do-it-yourself tax preparation.

- SnapTax tax filings were up nearly 3x this season, and 5 million TurboTax customers logged in through a mobile device at some point throughout the year.
- Nearly one-fifth of SnapTax returns are completed in fewer than 15 minutes. That shows us what is possible in TurboTax, leveraging technology and data so our customers' taxes are done for them, in just minutes.

Looking ahead, we also feel confident that we can help our customers effectively navigate the Affordable Care Act. As a reference point, we took a close look at what transpired when similar legislation was implemented in Massachusetts several years ago. In a headline, software did not lose share in that market due to healthcare legislation.

We like our opportunity to make the future healthcare aspects of our customers' tax returns simple to understand – just like we do with all the other complexities of the tax code.

That is what we do at Intuit. We simplify the business of life, so our customers can go about doing the things that fuel their passion. It is why we have 28 million global TurboTax customers, more than any other tax prep provider, in addition to over 100,000 accountants who prepare more than 25 million returns.

To quickly sum up, we've embraced the lessons we learned in fiscal 2013. We've made proactive adjustments, and we're excited about our potential as we go after a global opportunity to transform the financial lives of small businesses and consumers, and the trusted accountants who serve them.

You've seen our guidance for fiscal 2014. I don't consider this the new normal. By executing against the strategic goals I've just described, we expect to deliver results consistent with our financial principles of double-digit revenue growth and margin expansion. Neil will provide more details on our longer-term financial outlook, which aligns with these principles.

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

Financial Results and Segment Details

Thanks, Brad.

First, some context. We completed the sale of Intuit Financial Services on August 1, as well as the sale of Intuit Health yesterday. As a result, both have been moved into discontinued operations for all periods presented. In fiscal 2013, the two businesses contributed revenue of approximately $340 million and non-GAAP operating income of approximately $45 million.

Now let's move to our results. For the fourth quarter of fiscal 2013, we delivered:

- Revenue of $634 million, up 12 percent, 10 percent organically.
- Non-GAAP operating income of $9 million.
- GAAP operating loss of $60 million.
- After interest expense, non-GAAP diluted earnings per share was breakeven.
- GAAP loss per share of $0.05.

For fiscal 2013, we delivered:

- Revenue of $4.2 billion, up 10 percent, 8 percent organically.
- Non-GAAP operating income of $1.5 billion, up 8 percent.
- GAAP operating income of $1.2 billion, up 6 percent.
- Non-GAAP diluted earnings per share of $3.20, up 11 percent.
- GAAP diluted earnings per share of $2.83, up 9 percent.

In the fourth quarter, we incurred a charge of approximately $20 million as a result of a headcount reduction and other nonrecurring costs, which impacted our GAAP and non-GAAP operating income and earnings per share.

Adjusting for these charges and the classification of Intuit Financial Services and Intuit Health as discontinued operations, our results would have been in line with the guidance we provided in May.

<u>Business Segment Results</u>

Turning to the business segments:

<u>Small Business</u>

Total Small Business Group revenue grew 13 percent for the quarter and 16 percent for the year.

Within Small Business, Financial Management Solutions revenue grew 18 percent for the quarter and 20 percent for the year, including the acquisition of Demandforce. Excluding Demandforce, revenue was up 13 percent for the quarter and 10 percent for the year.

Customer acquisition in our connected services businesses continues to drive our growth. In addition to the stats that Brad mentioned:

- Payments customers grew 13 percent.
- QuickBooks Enterprise Solutions subscribers grew 26 percent.

For the year, total QuickBooks customers grew 4 percent, with QuickBooks subscribers growing 27 percent and QuickBooks desktop units declining 6 percent. With almost half a million subscribers, the QuickBooks Online customer base is still growing fast and contributing an increasing number of new users. In fact, we anticipate nearly as many new users will sign up for QuickBooks Online as QuickBooks desktop in fiscal 2014, marking an important tipping point in the businesses' shift to connected services.

Employee Management Solutions revenue grew 12 percent for the quarter and the year, driven by customer growth, price and growth in beyond-payroll offerings.

Payments Solutions revenue grew 7 percent for the quarter and 14 percent for the year. As we discussed last quarter, we faced a tough comparison versus the fourth quarter of 2012, where revenue benefitted from the Durbin amendment and other fee structure changes. Adjusting for this, payments revenue would have grown about 17 percent in the fourth quarter. Card transaction volume grew 9 percent.

<u>Tax</u>

Consumer Tax revenue was $30 million for the seasonally light fourth quarter, and revenue grew 4 percent for the year. Despite single-digit revenue growth, margins in this business expanded by over 100 basis points over last year.

Accounting Professionals revenue grew 29 percent for the quarter and 6 percent for the year.

<u>Other Businesses</u>

Other Businesses revenue grew 8 percent for the quarter and 6 percent for the year.

Now, some housekeeping as we head into fiscal 2014.

Page 2 of our Fact Sheet shows how we intend to report results next year. There we've provided our guidance in the new format, as well as historical results in the same format to help you with your financial modeling. We'll provide revenue and segment contribution margin for three reportable segments: Small Business, Consumer, and ProTax.

We will continue to share similar business and customer metrics to those we provide now, and we'll provide revenue for Small Business Financial Solutions, which includes QuickBooks for small businesses and accountants, and payments; and Small Business Management Solutions, which includes payroll and Demandforce. We also plan to report our Consumer Tax and Consumer Ecosystem revenue separately. All reporting segments will include global, and there will no longer be an "Other Businesses" category.

Financial Principles and Capital Allocation

Turning to the balance sheet:

We continue to take a disciplined approach to capital management, investing the cash we generate in opportunities that yield 15-plus percent ROI.

Our board approved a $0.19 dividend for fiscal Q1, an increase of 12 percent, payable on October 18. And when it's the best use of cash, we'll return cash to shareholders via share repurchases:

- We repurchased $292 million in shares in fiscal 2013.
- We could not repurchase shares in Q4, due to the restructuring activities that took place during the quarter; about $1.4 billion remains on our current authorization, and we received an additional $2 billion authorization from our board in August.
- We intend to use existing cash and the proceeds of the IFS transaction to accelerate the repurchase of shares. When our window opens following our earnings report, we intend to put an accelerated share repurchase of more than $1 billion in place.
- As a result, we expect a net reduction in our share count of 4 to 6 percent in fiscal 2014.

Q1 and Full-year FY '14 Guidance

We provided our guidance for the first quarter, and for fiscal 2014, in our press release. Our full-year outlook includes revenue growth of 6 to 8 percent, with margin expansion and double-digit earnings per share growth.

We expect Small Business to have a strong fiscal 2014, and we've guided to another year of double-digit revenue growth. On the tax side, we've made conservative assumptions about total filer growth following the decline in total filers this past tax year. We're excited about our vision for the digital tax prep category, but anticipate a multiyear effort to drive significant change in consumer behavior. As a result, we're guiding to mid-single-digit growth in Consumer Tax. We expect to make progress in fiscal 2014 and to build on that progress over the next few seasons.

I'd like to ladder on to Brad's comments about our strategic outcomes with a longer-term financial outlook. Looking beyond fiscal 2014, we're planning for our non-GAAP results to reflect:

- Revenue growth of 8 to 12 percent each year.
- Double-digit operating income growth, growing faster than revenue.
- And mid-teens earnings per share growth.

A number of variables will affect our growth in any given fiscal year, but we believe our strategy will enable us to deliver results in these ranges. We'll provide more details about the drivers of this growth at Investor Day in September.

I'll turn it back to Brad to close.

Closing Comments

Thanks, Neil.

You have probably seen some of our new marketing efforts, which highlight our commitment to helping small businesses grow. We are energized by the opportunity to enable small businesses to reach their full potential, and we're investing to give them voice and to help them succeed.

This marketing effort supports one of the biggest product redesigns we've undertaken in my decade at Intuit, which reimagines and harmonizes the small business user experience across our products.

In tax, we are energized by the opportunity to accelerate growth in the do-it-yourself category, capitalize on the shift to the cloud in the CPA-prepared segment, and look for unique ways to leverage these collective assets as we strive to do the nations' taxes.

And to advance toward accomplishing both our small business and tax goals, we've rallied behind accountants, offering new solutions and improved products that enable them to grow their practices and improve their clients' financial lives.

We'll talk more about these themes and our strategy to execute against them at our Investor Day, which we'll hold on our Mountain View campus on September 24. We'll showcase some exciting new products and partnerships, so this is an event you won't want to miss. We look forward to seeing you there.

As always, I want to thank our employees for their hard work and their ongoing focus. Now, your questions.

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 2014 and beyond; expectations regarding growth opportunities from connected services; expectations regarding Intuit's growth outside the US; expectations around Intuit's ability to help customers deal with the Affordable Care Act; 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 regarding changes to our products and marketing campaigns and their impact on Intuit's business; 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; all of the statements under the heading "Q1 and Full-year FY '14 Guidance", and expectations regarding the impact of our refreshed company strategy, strategic outcomes and organization changes on Intuit's business.

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; the competitive environment; governmental encroachment in our tax businesses or other governmental activities or public policy affecting the preparation and filing of tax returns; our ability to innovate and adapt to technological change,; business interruption or failure of our information technology and communication systems; problems with implementing upgrades to our customer facing applications and supporting information technology infrastructure; any failure to properly use and protect personal customer information and data; our ability to develop, manage and maintain critical third-party business relationships; increased government regulation of our businesses; any failure to process transactions effectively or to adequately protect against potential fraudulent activities; any significant offering quality problems or delays; our participation in the Free File Alliance; the global economic environment; changes in the total number of tax filings that are submitted to government agencies due to economic conditions or otherwise; the highly seasonal and unpredictable nature of our revenue; our inability to attract, retain and develop highly skilled employees; increased risks associated with international operations; our ability to repurchase shares; 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; disruptions, expenses and risks associated with our acquisitions and divestitures; amortization of acquired intangible assets and impairment charges; our use of significant amounts of debt to finance acquisitions or other activities; and the cost of, and potential adverse results in, litigation involving intellectual property, antitrust, shareholder and other matters. 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 Aug. 20, 2013 and we do not undertake any duty to update any forward-looking statement or other information in these materials.