Intuit Inc.
Third-quarter Fiscal 2014
Conference Call Remarks
May 20, 2014

Introduction

Good afternoon and welcome to Intuit's third-quarter fiscal 2014 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 2013 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.

As a reminder, all reported results 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.

Third-quarter Fiscal 2014 Overview

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

Today we reported third-quarter revenue of $2.4 billion, up 14 percent. Overall, I feel very good about our performance. Let me begin by sharing my reflections on the quarter, starting with our Consumer Tax business:

- In the U.S., TurboTax Online units grew 14 percent and total TurboTax units grew 10 percent for the season.
- Both results were double last year's growth rates.

Our investment in product improvements paid off across the board, and we now expect Consumer Tax revenue to grow about 7 percent for the fiscal year, handily beating the original guidance of 4 to 5 percent.

Our goals this year were to accelerate growth in the do-it-yourself digital category, acquire and retain more customers and take share. And we succeeded on all fronts.

As we regularly discuss, there are four main drivers of growth for TurboTax. I'll walk through each of these drivers, and highlight how we performed versus our expectations.

- Total returns received by the IRS grew slightly faster than our expectation of half a point.
- The DIY software category gained about 1.5 points of share from alternative methods, compared to the 1 percent we had expected. In fact, IRS data shows that DIY e-file growth was up more than 6 percent, contrasted with assisted e-files being up less than 1 percent for the season.
- Within the DIY software category, improvements in our TurboTax product and go-to-market execution drove a gain of about 2 points of share. Our plan was to win share, within the context of a multi-year journey toward our ultimate product vision. We made great strides this season, focusing on improved experiences for new filers with simple returns, and for returning users.
- While we delivered revenue growth above our guidance range, and achieved our goal of growing our customer base several points faster than revenue, the end result was a decrease in revenue per customer of about 3 points for the season. This was expected as we sought to build a strong foundation for the future through category and unit growth.

While these are compelling metrics, I'm most proud of the results we generated on our product investments and end-to-end experience improvements. We spent 10 percent less on TurboTax marketing versus last year, yet traffic increased and both conversion and retention improved. In addition, support calls declined more than 20 percent, and Net Promoter scores improved. While our primary goal was to take share this season, these product investments and an effective marketing strategy drove Consumer Group margin expansion as well.

On the ProTax side of the business, we had strong new customer growth in our higher-value offerings. And while we're still in the early days of delivering on our ultimate online product vision tailored for the professional accountant, our Intuit Tax Online units grew double digits as well.

As you can see in our updated guidance, we expect the ProTax business to come in at the high end of the range.

Shifting to small business, our cloud solutions continue to build momentum and our subscriber growth is accelerating:

- QuickBooks Online subscribers grew 36 percent in the third quarter to 624,000, adding more than 60,000 net customers in the past quarter.
    - QuickBooks Online subscribers outside the U.S. were up more than 130 percent to 64,000, further accelerating from 90 percent growth last quarter.
- Total QuickBooks subscriber growth, which includes QuickBooks desktop and Enterprise plans, grew 30 percent, and we're quickly approaching the 1 million subscriber milestone.
- And Intuit Online Payroll subscribers grew 23 percent.

Each of these growth rates represents an acceleration from the prior quarter, and we are quite pleased with the ongoing success of our online ecosystem.

As we look ahead, our goal is to win every new small business customer, and to win every cloud decision with QuickBooks Online. In service to this goal, we expect our desktop units to decline, a trend that continued once again this quarter.

On the Payments front, as we mentioned last quarter, we have shifted our strategic focus to QuickBooks merchants, which supports our ecosystem approach. We improved our payments integration within QuickBooks and simplified our pricing. More than 80 percent of new customers are now selecting our pay-as-you-go pricing model instead of paying a fixed monthly fee.

Our current-period growth rates are being impacted by these decisions, as we have realigned our pricing to be more competitive, and consciously shifted our emphasis away from our non-core payments businesses.

Even with the strategic repositioning of our payments business and the business model shift in QuickBooks, we continue to expect small business revenue growth of 10 percent this year.

So to put a bow around our progress so far:

The secular shift to the cloud is powering our strategy to deliver awesome product experiences, leverage the contributions of others and capitalize on data to deliver customer delight. Executing against this strategy, we won this tax season, and on the small business side, our subscriber growth and online ecosystem continue to accelerate both domestically and globally.

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

<u>Financial Results and Segment Details</u>

Thanks Brad. Let's start with overall company results.

For the third quarter of fiscal 2014, we delivered:

- Revenue of $2.4 billion, up 14 percent.

- Non-GAAP operating income of $1.56 billion, up 16 percent.
- GAAP operating income of $1.49 billion, up 17 percent.
- Non-GAAP diluted earnings per share of $3.53, up 20 percent.
- GAAP diluted earnings per share of $3.39, up 25 percent.

As you know, these growth rates reflect revenue shifting from the second quarter to the third quarter. Turning to the business segments:

Small Business

Total small business group revenue grew 8 percent in the third quarter.

Within small business, **Small Business Financial Solutions** revenue grew 4 percent. QuickBooks revenue grew 7 percent, while payments revenue was flat. Our financial performance reflects our ongoing strategic shift toward our online ecosystem and core payments offerings.

Customer acquisition in our online ecosystem continues to drive growth:

- QuickBooks Online subscribers grew 36 percent.
- QuickBooks Desktop subscribers grew 22 percent.
- QuickBooks Enterprise subscribers grew 18 percent.

QuickBooks desktop units declined 12 percent versus last year as we continue to lead with our online ecosystem. The shift in the business model and the acceleration of QuickBooks Online growth combine to lower small business revenue growth by about a point this fiscal year.

Payments Solutions revenue was flat.

One click down in payments, we continue to see diverging trends in our core and non-core businesses:

- QuickBooks payments revenue grew 5 percent, driven by increased adoption of our cloud solutions.
- Revenue from our non-core payments businesses declined about 20 percent. These non-core businesses represent about 10 percent of payments revenue.

Small Business Management Solutions revenue grew 16 percent.

Employee Management Solutions revenue grew 13 percent, driven by strong growth in online customers across DIY and assisted offerings.

Demandforce subscribers grew 44 percent, including the recent acquisition of CustomerLink. Subscribers grew 28 percent organically.

Consumer and Professional Tax

Within the Consumer Group, Consumer Tax revenue grew 14 percent versus the third quarter last year, driven by strong customer growth.

As Brad mentioned, our margins improved nicely this season. While I'm pleased with the performance, we expect to continue to invest in the product experience and to prioritize growth in share and customers above margin expansion over the long term.

Our ProTax business also had a great season, with much of our customer growth coming in our higher-value solutions. ProTax revenue was $334 million, up 32 percent, reflecting the shift from the second quarter to the third quarter. Year to date, revenue growth in ProTax is 3 percent. As a reminder, we've made changes to our ProTax offerings that will shift revenue into the fourth quarter and fiscal 2015.

Financial Principles and Capital Allocation

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

- With over $2 billion in cash on our balance sheet, our first priority is investing for customer growth in the business.
- We also look for M&A opportunities, and through the third quarter we've made six acquisitions totaling approximately $155 million.
- When it's the best use, we'll return cash to shareholders via share repurchases.
    - We repurchased $23.4 million of shares in the third quarter; about $2.0 billion remains on our authorization.
    - We expect to reduce our share count by about 4 percent, net, this year.
- Our board approved a $0.19 dividend for the fiscal fourth quarter, payable on July 18.

Fiscal Q4 and Full-Year 2014 Guidance

We provided our updated guidance for the fourth quarter, and for fiscal 2014, in our press release.

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

Closing Comments

Thanks, Neil.

We're pleased with our strong finish to the tax season. We grew the digital category, took share, and plan to come in above the high end of our original revenue guidance range in Consumer Tax.

However, as we shared before, we're just getting started. It will be a multi-year effort to reimagine the tax preparation experience, and we are already working on the product for next season.

Our Small Business momentum continues to build and our transition to the cloud continues to accelerate, driving value for customers and for Intuit.

We have lots of opportunity in front of us, and we remain deeply committed to accelerating customer and revenue growth.

With that, let me turn it over to you for your questions.

Cautions About Forward-Looking Statements

These materials contain 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 our strategic outcomes and our ability to achieve them; 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 regarding changes to our products and their impact on Intuit's business; expectations regarding the amount and timing of any future dividends or share repurchases; and all of the statements under the heading "Fiscal Q4 and Full Year 2014 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; 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 2013 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 20, 2014 and we do not undertake any duty to update any forward-looking statement or other information in these materials.