Intuit Inc.
Fourth-quarter Fiscal 2015
Conference Call Remarks
August 20, 2015

Introduction

Good afternoon and welcome to Intuit's fourth-quarter fiscal 2015 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 2014 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 2016 guidance exclude Demandforce, QuickBase and Quicken, which have been declared held for sale 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.

Fourth Quarter Fiscal 2015 Overview

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

We have positive results to discuss for the fiscal year we just finished. We also want to share some strategic decisions that position us for accelerated performance longer term. So let's get started.

Let me begin with our results. We closed out our fiscal year 2015 on a strong note, with excellent momentum in each of our businesses. For the full fiscal year, total revenue and earnings per share both came in above the high end of our guidance range, before reclassifying our planned divestitures. QuickBooks Online reached nearly 1.1 million paid subscribers through the end of the quarter, also ahead of our guidance for the fiscal year, which we increased midyear.

Looking beyond the current-period results, we are playing from a position of strength. We're fully committed to winning in the cloud, and we're focusing our attention and investments on assets that accelerate our ability to deliver our two strategic goals: to be the operating system behind small business success, and to do the nations' taxes.

With this focus, we have decided to divest Demandforce, QuickBase and Quicken.

Let me provide some context about why we made these decisions. Demandforce and QuickBase are great businesses, but they do not support the QuickBooks Online ecosystem, and both serve customers that are up-market from our core small business customers. For Demandforce, we are seeking a buyer who will invest in this industry-leading marketing solution with a growing and talented sales force. Divesting QuickBase has a similar effect, freeing both Intuit and QuickBase to focus on better serving the needs of our respective, but distinct, customers.

As you can imagine, Quicken holds a special place in the hearts of all of us at Intuit – it was our first innovation and the cornerstone of the company we've built over the past 32 years. Quicken is a strong, healthy business and remains America's No.1 personal finance software. As you know, Quicken is a desktop-centric business that does not strengthen the small business or tax ecosystems. Our strategy is focused on building ecosystems and platforms in the cloud. We value our loyal Quicken customers, and we're seeking a buyer who will provide the product support and service they deserve.

These decisions impact our longer-term financial trajectory, which Neil will provide more detail on in a moment.

Now, let me click down and share my reflections on the company's performance, starting with our Small Business Group.

QuickBooks Online continues to build momentum:

- We grew total QuickBooks Online subscribers by 57 percent in the fourth quarter, up from 55 percent growth in the previous quarter. This represents the ninth consecutive quarter of accelerating paid subscriber growth. We added 110,000 QuickBooks Online subscribers in the quarter and now have 1,075,000 paid subs worldwide.
- Roughly 25,000 of our QuickBooks Online subscribers are using QuickBooks Self-Employed, up from 15,000 last quarter.
- And outside the U.S., QuickBooks Online grew over 135 percent to 198,000 paying subscribers.

Shifting to our Consumer Tax business, the team delivered an exceptional year:

- As the category champion, we helped drive digital category growth of about 5 percent, compared with assisted tax prep methods being flat.
- Within the software category, we estimate that TurboTax Online gained about a point-and-a-half of share, translating into four points of share gains over the past two seasons.
- In the U.S., TurboTax Online units grew 11 percent, and total TurboTax units grew 7 percent excluding the Free File Alliance.
- Hitting the total key, Consumer Tax revenue grew 8 percent for the fiscal year.

It's a little too early in the game for me to talk about our tax strategy for next season, but as we've demonstrated for two consecutive years, we will continue to focus on driving customer growth and share.

Security will also remain a critical priority for us. We are working closely with the IRS, state governments and the tax preparation industry to create a new set of common security standards and data protocols to accelerate the fight against tax fraud. We will continue to invest in this area to lead the charge toward greater security for all taxpayers. In addition, the proposed Information Sharing and Analysis Center is particularly critical to enable information sharing among federal and state governments and the industry. This will significantly strengthen our efforts to collectively find solutions and fight fraud.

When you sum it all up at the company level, customer growth is accelerating, active use is improving, and global adoption is hitting its stride. We are creating a clear value proposition for our small business and tax customers, and we continue to innovate and to take share in our large addressable markets. We are investing in the areas with the biggest long-term payoff, setting Intuit up for strong customer and revenue growth for years to come.

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

Financial Results and Segment Details

Thanks Brad.

As Matt mentioned up front, the results I'll discuss exclude the assets held for sale that are classified as discontinued operations. We've included a supplemental page on the fact sheet that shows fiscal 2015 and historical results including the assets held for sale.

For fiscal 2015, we delivered:

- Revenue of $4.2 billion.
- Non-GAAP operating income of $1.1 billion.
- GAAP operating income of $738 million.
- Non-GAAP earnings per share of $2.59.
- GAAP earnings per share of $1.28.

For the fourth quarter of fiscal 2015, we delivered:

- Revenue of $696 million.
- Non-GAAP operating loss of $16 million.
- GAAP operating loss of $130 million.
- Non-GAAP loss per share of $0.05.
- GAAP diluted earnings per share of $0.05.

These results factor in our decision from last year to deliver ongoing services and releases for certain desktop offerings to encourage migration to online solutions. As a result, revenue for these desktop software licenses is now recognized as services are delivered, rather than up front.

Business Segment Results

Turning to the business segments:

Small Business

Total Small Business Group revenue declined 5 percent for the quarter and 2 percent for the year, better results than we expected. QuickBooks total paying customers grew 7 percent for the year, accelerating from last year.

- Small business online ecosystem revenue grew approximately 25 percent for the year, excluding Demandforce and QuickBase, and customer acquisition in our online ecosystem continues to drive growth.
    - QuickBooks Online subscribers grew 57 percent, accelerating from last quarter.
    - Online active payments customers grew 5 percent, and online payments charge volume grew 19 percent.
    - Online payroll customers grew 18 percent.

We're very pleased with customer growth and revenue per customer for QuickBooks Online subscribers in fiscal 2015. We're expanding the market, which is great news for the long-term health of the business. We're bringing in newer-to-the-world small businesses with QuickBooks Self-Employed, and we like QuickBooks Online subscriber growth outside the U.S.

More than 40 percent of our QuickBooks Online subscribers have been with us for less than a year. Many of these customers are on introductory promotional pricing, so we expect our revenue per customer to increase over time. Additionally, we have opportunities to grow revenue per customer by improving retention and attach longer term. We'll provide more detail on average revenue per customer at our investor day on September 17.

We are focused on opportunities to improve conversion and retention around the globe, which are our two biggest levers for driving monetization. As we continue to focus on driving customer growth and expanding our total addressable market, we expect customer growth will continue to exceed revenue growth.

Switching to desktop, total desktop ecosystem revenue declined 10 percent for the year, as expected.

- QuickBooks desktop units declined 14 percent in the quarter and 22 percent for the year, as we continue to emphasize QuickBooks Online. The strong acquisition of new customers in QuickBooks Online has more than offset the decline in desktop units.

Consumer and Professional Tax

Moving over to tax: Consumer Tax revenue grew 8 percent for the year. We will continue to invest in the product experience and to prioritize growth in customers above margin expansion.

ProTax revenue declined 33 percent for the year, due to changes in our offerings that resulted in ratable revenue recognition. These changes shifted roughly $150 million in revenue to fiscal 2016. Our ProTax business also had a great season, with customer growth coming in higher than expected, new offerings beginning to have an impact, and revenue exceeding the high end of our guidance range.

Financial Principles and Capital Allocation

We continue to take a disciplined approach to capital management, investing the cash we generate in opportunities that yield a return on investment greater than 15 percent.

- With approximately $1.7 billion in cash and investments on our balance sheet, our first priority is investing for customer growth.
- In fiscal 2015 we completed six acquisitions totaling approximately $120 million. These acquisitions brought talent and technology to help us achieve our strategic goals.
- When it's the best use of cash, we'll return cash to shareholders via share repurchases.
    - In fiscal 2015, we repurchased $1.25 billion of shares.
    - We have $2.6 billion remaining on our authorization.
    - We also reduced our share count 2 percent, net, in fiscal 2015, and we expect to be in the market each quarter in fiscal 2016.
- Our capital plans include a cash dividend of up to $1.20 per share for fiscal 2016, with the first quarter dividend of 30 cents per share payable on October 19. This represents a 20 percent increase versus last year and reflects our confidence in our business strategy and our large and growing cash position, as well as more recurring and predictable revenue streams.

Q1 and Full-year Fiscal 2016 Guidance

You can find our guidance details in our press release and on our fact sheet. One thing to note is that Mint, Mint Bills and OFX were part of the Consumer Ecosystem Group but are not included in the assets held for sale. They will be reported as part of the Small Business segment going forward, given the importance of those assets to the QuickBooks ecosystem.

Selling the non-strategic assets we discussed pulls around $250 million in revenue and $0.10 in earnings per share out of fiscal 2016. We will be reporting these held-for-sale assets as discontinued operations, and our P&L has been recast on this basis for all periods presented.

We guided fiscal 2016 QuickBooks Online subscribers of 1.450 million to 1.500 million, growth of 40 percent at the high end of the range.

Last year at this time we talked about our long-term outlook to help you bridge the transition in our business model. Let me take a minute to share how I'm thinking about our progress versus the outlook we discussed last year.

- QuickBooks Online customer acquisition remains strong, and we're feeling confident in our subscriber target for fiscal 2017. This is a franchise with a bright future. We told you we'd end fiscal 2017 at 2 million subscribers, and we are confident in the long-term monetization potential of these customers and our expanding addressable market.
- Given the planned divestitures and the expected mix of Small Business customers, I don't expect us to book revenue of $5.8 billion in fiscal 2017. This will likely take another year or so.
- The third component of our long-term outlook was an earnings per share target of approximately $5 per share. We still see a path to achieve this, but our first priority is investing for the long-term value of this franchise, as you'd expect. We're selling some things that don't fit strategically, and we'll continue to prioritize customer growth over margin expansion near term. The excellent growth we've seen in 2015 leads us to be more focused than ever on our businesses with the most traction and best growth opportunities.

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

Closing Comments

Thanks, Neil.

Let me spend a moment on the fiscal 2017 outlook Neil just summarized. As a management team, we take our commitments seriously. At the same time, we remain committed to making the necessary decisions to position the company for an even stronger future.

Our transformation from a North American desktop software company to a global cloud-driven company is tracking ahead of our expectations, as illustrated by the QuickBooks Online paid subscriber growth Neil just covered. With that said, as we expand our categories and enter new markets, the customers we're bringing in are earlier in their lifecycle and, when combined with our decision to divest assets that no longer strategically align, the result is a conscious decision to push out our fiscal 2017 revenue target a bit. I've never had greater confidence in our strategy, our execution, and our trajectory as we build this company for the long term.

We've closed out another great year. Our small business momentum continues to build and our QuickBooks Online ecosystem growth is accelerating, driving value for customers and for Intuit. Our tax business had another season-winning year, delivering great products to our customers as well as outstanding financial results. We've made tough decisions to sell non-strategic assets, and we've prioritized our investments on those initiatives that will further accelerate our online ecosystem globally, while ensuring the best product experience for customers who want to remain on desktop.

If history shows us anything, it is that we have a proven formula: When we innovate and delight customers with the best solutions in the market, we expand our categories, grow our share and increase lifetime value over time. Our cloud-based solutions are doing just that, and will accelerate our company's overall performance as a result.

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 17. We look forward to seeing you all there.

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; expectations regarding the planned divestitures of Demandforce, QuickBase and Quicken, and their impact on Intuit's business; Intuit's prospects for the business in fiscal 2016 and beyond; expectations regarding growth opportunities from the shift to the cloud; expectations regarding Intuit's growth outside the US; 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; the impact of acquisitions on Intuit's business; expectations regarding availability of our offerings; expectations regarding our investments in security; expectations regarding our ability to detect and prevent fraudulent activities that impact our offerings; expectations regarding the impact of our strategic decisions on Intuit's business; and all of the statements under the heading "Q1 and Full-Year Fiscal 2016 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; availability of our products and services could be impacted by business interruption or failure of our information technology and communication systems; any 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 loss of confidence in using our software as a result of publicity regarding such fraudulent activity; any significant offering quality problems or delays; any lost revenue opportunities or cannibalization of our traditional paid franchise due to our participation in the Free File Alliance; the global economic environment may impact consumer and small business spending, financial institutions and tax filings; changes in the total number of tax filings that are submitted to government agencies due to economic conditions or otherwise; the seasonal and unpredictable nature of our revenue; our ability to attract, retain and develop highly skilled employees; increased risks associated with international operations; unanticipated changes in our income tax rates; changes in the amounts or frequency of share repurchases or dividends; 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; 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 the risks that may impact our business are included in our Form 10-K for fiscal 2014 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 20, 2015 and we do not undertake any duty to update any forward-looking statement or other information in these materials.