Intuit Inc.
Third-quarter Fiscal 2016
Conference Call Remarks
May 24, 2016

Introduction

Good afternoon and welcome to Intuit's third-quarter fiscal 2016 conference call. I'm here with Brad Smith, our chairman 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 2015 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 guidance except GAAP net income and EPS exclude Demandforce, QuickBase and Quicken, 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 2016 Overview

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

As you already know, we had an outstanding tax season. We're also pleased with our performance in small business. At the company level in our fiscal third quarter, we came in ahead of our guidance across the board, and as a result, we're raising our revenue, operating income and EPS guidance for the year.

Since tax is on everyone's mind, let's start there.

We feel great about the product innovation we delivered in TurboTax this year, as well as the results enabled by that innovation. As you know, there are four key drivers to our consumer tax business:

- The first driver is the number of returns filed with the IRS: the latest IRS data indicates that total returns were up about 1.5 percent. That was a bit stronger than we expected, so it was a modest tailwind.

- The second driver is the percentage of those returns filed using do-it-yourself software: This season, the category grew nearly 6 percent, versus the assisted category, which was up slightly. This suggests the do-it-yourself software category gained more than a point of share again this year, driving more than 3 points of revenue growth for TurboTax.

- The third driver is TurboTax's share within the DIY software category: For the third consecutive year, we gained share within the software category. In fact, this season we gained more than 3 points of share, bringing our total software category share to roughly 65 percent.

- And the fourth driver is revenue per return: As you know, our goal is to grow customers faster than revenue, which yields a positive lifetime value payoff as their tax situations grow more complex over time. Our strategy to gain share of less-complex returns continues to bear fruit, enabling unit growth of 12 percent overall, which was faster than revenue growth of over 9 percent. With that said, our revenue growth for the segment far outpaced our original outlook of 5 to 7 percent at the beginning of the fiscal year.

Bottom line, it was a very successful tax season for TurboTax. So what drove this performance?

The answer is simple: an awesome, innovative product experience. But what's behind that awesome experience is not so simple. It's driven by deep data science and rigorous execution from a very talented TurboTax team.

We began a multiyear journey three years ago to reimagine the tax preparation experience, in support of a grand vision of "taxes are done." And this season, we began to really see it pay off. We remain committed to continuing to invest and build on our competitive advantage, driving share gains for the category and TurboTax.

This season, our team more than tripled its pace of innovation, introducing over 20 new product improvements. We coupled this product innovation with a great demand-generation campaign that really resonated: "It doesn't take a genius to do your taxes." We've made the complex simple, which when you get down to it, is what we do at Intuit:

- Our seamless cloud-based experience drove increased mobile discovery and usage. Mobile app downloads were up 85 percent versus last season, and completed returns through the mobile app and mobile browsers doubled.

- This year, customers snapped 5 million photos of tax documents with mobile devices, up 4 times versus last year. This represented 25 percent of all documents imported into TurboTax, saving time and reducing errors while delighting customers.

- We've also continued to reimagine the entire product experience, using data to help customers finish their taxes faster, with confidence. For example, we've broken down the Affordable Care Act into simple questions and provided new confidence-building features like ExplainWhy and SmartLook. This innovation helped reduce tax prep time by 40 percent on average for our customers.

We also delivered an excellent customer care experience, and continued to invest in security, working with industry and government to protect our customers and reduce fraud.

On top of all that product improvement, we continued to focus on serving an important segment that we feel is underserved and over-charged: the simple returns segment. Absolute Zero gives these taxpayers the most affordable option – a great product that costs them nothing. But Absolute Zero is just one of the reasons we won this year. In fact, TurboTax gained share versus software competitors who matched the Absolute Zero offer, and we even gained share at the end of the season, at full price.

All in all, TurboTax grew units double digits and expanded share. We also grew revenue more than 9 percent, and improved margin in an already very profitable business. This was simply a great season for TurboTax.

Now let me shift to the professional tax business, which we've recently rebranded as the ProConnect Group given the strategic role this business plays in the Intuit ecosystem.

The ProConnect Group supports both of our strategic goals: Do the Nations' Taxes, and Be the Operating System Behind Small Business Success. In support of Do the Nations' Taxes, we're doing just that:

- We grew individual returns about 1 percent, which is faster than the overall assisted category.
- New customers were a bit soft this season, but we did a nice job with retention, leading to modest customer and return growth.
- Looking ahead, we're focused on growing the professional tax business in ways that are less reliant on price. We're leaning into the cloud with Intuit Tax Online, and we're innovating with new attach solutions, like refund transfer and e-signature, but we've got some work to do to drive more adoption, faster.

The new name reflects the ProConnect Group's expanded efforts to support small business success. The more we connect our accountant customers with our small business customers, the more successful they all are and the healthier our ecosystem becomes.

As an example, we know QuickBooks Online retention is 11 points better when a small business works with an accountant, so we're tapping into our accountant network to make these connections. Nearly 600,000 QBO subscribers are now linked to accountants, up 70 percent versus last year.

This all nets out to a strategically important, highly profitable business, albeit with a slower growth rate than TurboTax or the Small Business Group. Neil will talk more about our expectations here in a minute.

With that overview on the tax side of the house, let's transition to Small Business.

We continue to generate strong new user growth in our online ecosystem. Again this quarter, more than 80 percent of QuickBooks Online customers were new to the Intuit franchise, and total QuickBooks paying customer growth remains healthy. Year to date, across desktop and online, new customers are up 16 percent, an acceleration from last year.

QuickBooks Online continues to build momentum:

- We grew total QuickBooks Online subscribers 45 percent in the third quarter.
- This resulted in the addition of 140,000 QuickBooks Online subscribers in the quarter, bringing us to 1,397,000 paid subs worldwide at the end of April, ahead of our guidance.
- Roughly 75,000 of our QuickBooks Online subscribers are using QuickBooks Self-Employed, up from 50,000 last quarter.
- Outside the U.S., QuickBooks Online grew roughly 60 percent, to 255,000 paying subscribers.

We're executing well, and we're on track to meet our subscriber targets for fiscal 2016 and 2017, and revenue per customer is coming in a bit stronger than expected thus far this year. As we said at Investor Day, we're expecting to land at 2 million to 2.2 million QBO subs at the end of fiscal 2017.

We're improving customer retention, and fully expect retention to continue to improve next year, as more of our QBO customers are acquired through and work with accountants. Attach of payroll, payments and third-party apps also drives higher retention. For example:

- We now have over 100,000 QuickBooks Online Accountant customers with at least three QBO clients, more than double a year ago.
- We also have nearly 2,500 active apps in our ecosystem, up from 1,100 a year ago. Approximately 15 percent of QBO customers connect to at least one third-party app, up from 9 percent last year.
- Payroll and payments are key drivers of retention and revenue per customer, and attach rates remain healthy, at 19 percent for payroll and about 8 percent for payments.

That's the story at a high level. Our teams have driven significant innovation across all of our offerings, and it has resulted in strong financial results for the quarter and the year. With that, let me turn it over to Neil to walk you through the financial details.

Financial Results and Segment Details

Thanks Brad, and good afternoon, everyone.

For the third quarter of fiscal 2016, we delivered:

- Revenue of $2.3 billion, up 8 percent. This growth reflects a shift of approximately $30 million of consumer tax revenue from Q3 into Q2 relative to last season.

- Non-GAAP operating income of $1.4 billion, up 11 percent.
- GAAP operating income of $1.3 billion, up 21 percent.
- Non-GAAP earnings per share of $3.43, up 20 percent.
- GAAP earnings per share of $3.94, which reflects an after-tax gain of $0.67 per share on the divestiture of Quicken, QuickBase and Demandforce.

Business Segment Results

Turning to the business segments:

Small Business

Total Small Business segment revenue increased 12 percent for the quarter.

Small business online ecosystem revenue grew approximately 24 percent for the quarter, as customer acquisition in our online ecosystem continues to drive growth.

- QuickBooks Online subscribers grew 45 percent.
- Online active payments customers grew 6 percent, and online payments charge volume grew 18 percent.
- Online payroll customers grew 17 percent.

Switching to the desktop side, total desktop ecosystem revenue increased 8 percent. QuickBooks desktop units were up 3 percent in the third quarter. For the full year, we expect desktop units and revenue will be up slightly.

I know it has been difficult to correlate the growth rate in QBO subscriptions to our online ecosystem revenue growth rate. Here's some detail on online revenue that should help with your modeling.

In the third quarter, online payroll revenue grew 21 percent, and online payments revenue grew 13 percent.

- About 40 percent of our online payroll customers are attached to QBO, while 60 percent are not. We sell standalone online payroll through partners and accountants, and this is a good, profitable business, but one that grows much slower than payroll attached to QuickBooks Online. The revenue mix is closer to 50/50.
- We expect payroll customers attached to QuickBooks Online to grow around 25 percent this year and revenue from those customers to grow nearly 40 percent.

Now, let's look at payments through the same lens:

- The customer and revenue mix for attached and non-attached solutions is about 50/50, but the story's a little different. We are not currently focused on standalone payments channels like GoPayment and online processing that are not attached to QBO.
- The QBO-attached business is growing very fast, and the non-attached business is shrinking.
- We expect payments customers and revenue attached to QuickBooks Online to grow more than 50 percent this year.

<u>Consumer and Professional Tax</u>

Consumer Tax revenue was up 7 percent versus the third quarter last year. For the year, we expect Consumer Tax revenue growth of approximately 9 percent.

As a reminder, third quarter Consumer Tax revenue reflects a shift from the third quarter to the second quarter, primarily driven by an extra weekend day in January this year.

One thing I'd like to call out as we start thinking about next season and next year's guidance. We're investing to improve the great TurboTax product experience that's delivering the results you saw this season. This remains a high-margin business at over 60 percent. We remain focused on growing customers, taking share and increasing profit dollars, rather than margin expansion.

Our ProConnect Group professional tax revenue was $126 million in the third quarter. For the fourth quarter, we expect ProConnect revenue to be approximately the same as in the fourth quarter of fiscal 2015.

As Brad said, we're focused less on price on the pro tax side, and investing in our accountant offerings to enhance growth in the QuickBooks Online ecosystem. We expect revenue to be roughly flat in fiscal 2017, with margins remaining above 60 percent.

<u>Financial Principles and Capital Allocation</u>

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

- We repurchased $465 million of shares in the third quarter; $435 million remains on our authorization.
- Our cash and investments balance was $1.6 billion at the end of the third quarter.
- Our board approved a $0.30 dividend per share for our fiscal fourth quarter, payable on July 18. This represents a 20 percent increase versus last year.
- Year to date, we've returned nearly $2.5 billion in cash via share repurchases and dividends.

Q4 and Full-year Fiscal 2016 Guidance

We provided guidance for the fourth quarter in our press release. We also raised our full-year revenue, operating income and earnings per share guidance, and now expect revenue growth of 11 to 12 percent for the year. We reiterated our full-year fiscal 2016 guidance for QuickBooks Online subscribers.

As we look forward to fiscal 2017, we're pleased that our trajectory is in line with the long-term customer and financial plans we shared last year. Small business and consumer tax remain quite healthy. We'll continue to invest in awesome products, security and customer care. The investments we're making outside the U.S. will pay off over a longer time horizon. Taking all this into consideration, I still believe that $4.30 is the best estimate of where non-GAAP EPS will come in next year. We'll share more when we provide fiscal 2017 guidance in August.

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

Closing Comments

Thanks, Neil.

In a headline, we're having a great year. Customer growth is as strong as it's ever been in small business and TurboTax, and our accountant-facing teams are driving adoption and health across the ecosystem.

We're further penetrating large addressable markets, and we remain deeply committed to accelerating customer and revenue growth.

Now, I would like to close by sharing a few words about our dear friend and mentor, Bill Campbell.

Personally and professionally, Bill's larger-than-life persona, colorful language, brilliance and leadership stretched from coast to coast. Respected by all as "Coach," his influence shaped men and women from the football field, to corporate boardrooms, to his table at the Old Pro Sports Bar in Palo Alto.

He was, indeed, one of a kind. While Bill can never be replaced, he will always be remembered.

So with that, let's turn it over to you to hear what's on your mind.

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 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; 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 "Q4 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 2015 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 24, 2016 and we do not undertake any duty to update any forward-looking statement or other information in these materials.