Intuit Inc.
Third-Quarter Fiscal 2010
Conference Call Remarks
May 20, 2010

Introduction

Good afternoon and welcome to Intuit's third-quarter 2010 conference call. I'm here with Brad Smith, our president and CEO and Neil Williams, our CFO.

Before we get started, 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 2009 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. Note also that the sale of our Real Estate Solutions business, completed in January, is accounted for as a discontinued operation. That means the Real Estate Solutions net operating results appear on the discontinued operations line. These results are excluded from the operational results, operational guidance figures, and non-GAAP EPS for all periods presented. GAAP EPS includes the gain on the sale of our Real Estate Solutions business.

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 2010 Overview

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

We just announced another quarter of strong results, with both revenue and non-GAAP earnings per share growing 13 percent. Both measures exceeded the top end of our guidance. We drove strength across the board, highlighted by a great tax season, a return to double-digit revenue growth in small business, and continued strong performance in financial institutions.

These results lead us to once again raise our revenue and earnings guidance for the year. We now expect full-year revenue to grow 10 percent, compared with our prior guidance of 6 to 9 percent. We expect full-year non-GAAP EPS to grow 12 to 13 percent, compared with our prior guidance of 8 to 12 percent.

We're pleased with this performance.

While a lot of things in the macro-environment have changed over the past couple of years, our company mission has not. We remain laser focused on improving our customers' financial lives so profoundly they can't imagine going back to the old way of doing things. This sense of purpose and the value proposition we deliver resonates in any economic environment, and it generates the kind of results we're sharing with you today.

We've also worked hard to position Intuit to take advantage of the secular market trends that will serve as catalysts for long-term growth. These secular trends include the demographic shift to the digital generation, the increasing relevance of social networks within large user bases, the emergence of Web and mobile technology as a primary means to manage key tasks, and the potential of new market opportunities in the rapidly developing economies. The end result is a global market that is shifting from traditional services that are paper-based, human-produced, and brick-and-mortar bound, to one where people understand, demand and embrace the benefits of connected services.

The shift from traditional to connected services provides a tailwind for our business and positions us well to execute our three-point growth strategy, which includes:

- Driving growth in our core businesses.
- Building adjacent businesses and entering new geographies.
- And accelerating our transition to connected services.

Here's a look at how we're performing in each area, beginning with driving growth in our core businesses:

- We had an excellent tax season across the board. Consumer tax revenue was up 12 percent in the third quarter. The software and online category grew nicely, and we increased share in both the desktop *and* Web-based units this year. Our Accounting Professionals business had a strong season, as well. And our successful introduction of TurboTax Online Banking added about 12 points of growth to our Financial Institutions segment.

- In small business, Financial Management Solutions revenue increased 16 percent. We saw strong growth in QuickBooks for the desktop, QuickBooks Online, and QuickBooks Enterprise. The improved mix and fewer promotional discounts have continued to strengthen our average revenue per user.

  Employee Management Solutions grew revenue 13 percent, as we continued building momentum in adding online payroll subscribers.

Overall, I'm really pleased with how each of our core businesses is performing.

The second part of the strategy is building adjacent businesses and entering into new geographies. In the third quarter, we made good progress here as well:

- Intuit Websites grew the number of small businesses using these services by 80 percent. We now have more than 300,000 website customers and most of them are new to our small business franchise. This gives us a new front door to cross-sell other products and services, like electronic payments, online payroll and, eventually, QuickBooks.

- In Healthcare, we recently announced that we've signed an agreement to acquire Medfusion and their patient-to-provider communications solution. Think of it as a small business portal that doctors and other healthcare providers use to make it easier for their customers to schedule appointments, look up information, exchange secure messages and pay their bills. This transaction expands our portfolio of software-as-a-service offerings with a solution that is currently used by more than 30,000 healthcare providers, the vast majority of whom are small businesses.

  Medfusion gives us a new recurring revenue stream that capitalizes on the shift from traditional services to connected services in medical offices. The acquisition also strengthens our Intuit Payments capabilities, which are offered inside the portal to enable online bill payment. In addition, it opens the door to sell Medfusion's services into the 75,000 medical practices that currently use QuickBooks. Combined, this presents a range of exciting, new opportunities in the healthcare space.

- With respect to new geographies, our Global business remains on track. We're gaining traction with our Intuit Money Manager product in India and now have more than 35,000 users, and we're in test market with our second offering as we speak. Though our efforts in emerging markets don't generate significant revenue today, we're excited about the longer-term opportunities and believe global could add a couple of points of growth at the company level in the next few years.

The third part of our strategy is accelerating our transition to connected services.

As you recall, we define connected services as three types. The first is software-advantaged services where offerings like payroll or payments gain competitive advantage by working seamlessly with our software, reducing the cost of acquisition and improving the customer experience through ease-of-use.

The second type of connected services is software-as-a-service, where Intuit currently holds the No. 1 share position in each of our core businesses.

And the third is the emerging platform-as-a-service, where we see increasing opportunity to open our technologies for end user and third-party contributions, such as our Intuit Partner Platform.

These connected services have been fueling our company's growth and it's where we feel we can drive even faster growth.

- Software-as-a-service offerings by themselves generate roughly one-third of our revenue. This includes TurboTax Online, our online banking, small business accounting, online payroll and Intuit Websites offerings. There are only a handful of companies that earn more than $1 billion in software-as-a-service revenue annually, and even fewer who do it profitably. We're one of them.

- Combined, the three types of connected services generate almost 60 percent of our revenue. That's up from 56 percent just 12 months ago.

- It's grown 18 percent year-to-date, and it's profitable revenue.

- Our operating margin has expanded by over 200 basis points in the past two years.

With that context to explain what's driving our performance, let me turn it over to Neil to share the financial results.

Financial and Segment Highlights

Thanks Brad. Let's start with companywide results for the third quarter:

- Revenue of $1.6 billion, up 13 percent and above the top end of our guidance range.

- Non-GAAP operating income of $938 million, up 12 percent, and non-GAAP EPS of $1.89, up 13 percent.

- On a GAAP basis, operating income was $888 million, 16 percent above last year. GAAP diluted EPS was $1.78, up 21 percent. Growth in our GAAP earnings is higher than non-GAAP because acquisition-related charges and non-cash stock compensation, which are classified as GAAP only, are growing slower than revenue.

Year-to-date, the non-GAAP operating margin is up 90 basis points. The margin for the third quarter of 2010 reflects an increase in incentive compensation directly related to our financial results and an increase in our bad debt expense. The change in both these accounts from the same period last year totals about $30 million, but you'll notice an increase primarily in our G&A expense as a result. We expect to deliver more than 100 basis points of year-over-year margin expansion for the full fiscal year.

Turning to the business segments:

Tax

Our **Consumer Tax** group generated revenue of $871 million in the third quarter, up 12 percent from last year. Total units were up 11 percent for the season, with Web units up 18 percent. We grew revenue per customer by driving improved conversion from free to paid and improved product mix, as well as by increasing attach rates. We're pleased with our performance in a tax season when it appears that the total number of individual returns declined for the second consecutive year. By our estimates, we gained a couple of share points in both desktop and online.

The Accounting Professionals segment capped off a solid tax season with revenue of $205 million, up 15 percent from last year. We previously told you about a revenue shift of $9 million that was deferred from the second quarter to the third quarter; the segment would have grown roughly 10 percent in the third quarter if not for that change.

Small Business Group

In our **Small Business Group**, total revenue grew 13 percent. The growth was driven by Financial Management Solutions, up 16 percent, and Employee Management Solutions, up 13 percent.

Financial Management Solutions revenue grew for the first time since the first quarter of fiscal 2009. Revenue per customer exceeded last year's level, driven by fewer promotional discounts on QuickBooks and a better product experience as indicated by improved net promoter scores. QuickBooks Online and Enterprise also had strong quarters, and Intuit Websites continues to grow exceptionally well. As we've noted previously, we believe the most cost-effective way to bring small businesses into the franchise is through these online channels. We have de-emphasized free QuickBooks Simple Start, and those unit numbers have declined accordingly.

Intuit Online Payroll continues to power growth in our Employee Management Solutions business.

Payments grew 8 percent year over year, driven by a 16 percent increase in merchants. Charge volume per merchant was up 1 percent in Q3. That compares to a 3 percent decline in Q2, and a 9 percent drop a year ago. We're clearly seeing improvement in consumer spending, and we expect growth to accelerate as the economy continues to recover.

Financial Institutions

The Financial Institutions segment continues to perform very well with another strong quarter of double-digit growth. Revenue grew 21 percent and bill pay users grew 16 percent. Over 1,100 financial institutions actively offered TurboTax for Online Banking this tax season, which added roughly 12 percentage points to the segment revenue growth in Q3. We report revenue for TurboTax for Online Banking in the Financial Institutions segment, though the units are included with the TurboTax Web totals.

Looking ahead to the fourth quarter, Financial Institutions won't have the benefit of tax season revenue so revenue growth will return to single digits.

Other Businesses

Our Other Businesses segment posted revenue growth of 20 percent in the third quarter, driven primarily by strength in Personal Finance and a favorable foreign currency impact in our Canada and UK business. The Personal Finance business continues to benefit from a strong new Quicken desktop release and the Mint.com acquisition.

Balance Sheet and Capital Allocation

We continue to generate strong cash flows, in line with our operating income. Free cash flow increased more than 40 percent through the third quarter and we exited the quarter with $1.9 billion of cash and investments.

We first look to invest our cash in the business to generate growth. We weigh both internal and external investments carefully and expect all of our investments to generate a risk-adjusted return of 15-20 percent over a five-year horizon. We expect to maintain approximately $1 billion of cash and investments to ensure we have the liquidity we need to run the business and to take advantage of strategic opportunities as they arise.

This amount may fluctuate by $500 million based on the seasonality of our business and on other changes in business conditions. Resources that are not invested as I described earlier or maintained for general liquidity will be returned to shareholders. In the past, share repurchases have proved to be the most effective way for us to do this.

We purchased $200 million of Intuit stock in the third quarter and have $150 million remaining on our current authorization.

Guidance

As Brad mentioned, we are updating our outlook to reflect the stronger-than-expected tax season. For fiscal year 2010 we expect:

- Revenue of $3.41 billion to $3.425 billion, growth of 10 percent.
- Non-GAAP operating income of $1.065 billion to $1.075 billion, growth of 15 to 16 percent.
- GAAP operating income of $840 million to $850 million, growth of 23 to 24 percent.
- Non-GAAP diluted EPS of $2.03 to $2.06, growth of 12 to 13 percent.
- GAAP diluted EPS of $1.69 to $1.72, growth of 25 to 27 percent.

For the fourth quarter we expect:

- Revenue of $492 million to $507 million.
- Non-GAAP operating loss of $29 million to $39 million.
- GAAP operating loss of $77 million to $87 million.
- Non-GAAP loss per share of 10 cents to 11 cents.
- GAAP loss per share of 20 cents to 21 cents.

As mentioned earlier, we now expect Consumer Tax full-year revenue of $1.12 billion to $1.125 billion, which is growth of 12 to 13 percent. All guidance figures include the impact of the purchase of Medfusion, which is 1 cent dilutive in fiscal year 2010. We’re also assuming the R&D tax credit will not be renewed during this fiscal year, which is a change from our prior outlook. In addition, our share count will be slightly higher than we originally expected. Excluding the impact of these three items, we would expect EPS to be about 3 cents higher for 2010.

With that I'll turn the call back to Brad.

Closing Remarks

Thanks Neil.

Let me share a few closing thoughts before we go to Q&A.

When the economy turned south, we said we would deliver against our current period expectations while strategically investing to ensure we would exit the downturn even stronger. Over the past two years, we've done both, and made the necessary investments in skills, products and capabilities that will benefit us for years. These include:

- The leaders and technical talent we've hired:
    - We've strengthened our engineering talent over the past two years through a mix of internal promotions and external hires, in the U.S. and globally.
    - We've brought in talented new engineers with software-as-a-service, data analytics and mobile platform experience—some through recruiting and some through acquisitions such as Mint, PayCycle and, when it closes, Medfusion.
- We've become more effective and efficient with our R&D investments. We've internally developed technology that improves the usability of our products, adds mobile capabilities, and readies them for global deployment. As a result, we've improved our net promoter scores across our major product lines, increased our revenue per user through the additional value we've created, and gained market share in our core businesses. And we've continued to do this while improving our R&D efficiency as a percent of overall revenue year-over-year.

When you put it all together, we are stronger now than when the recession began.

- Our customer base is larger.
- Our new product pipeline is deeper.
- Our operating margin is healthier.

I'm proud of the performance we've turned in this quarter, and I know we can do even better as we take full advantage of the shift from traditional services to connected services and continue to deliver revenue growth and margin expansion for our shareholders.

I'd like to thank our employees for another great quarter and for all they're doing to position the company for continued success in the future.

Now, we'll take 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, acquisition-related charges, 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 May 20, 2010 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 web site 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 2010 and beyond; growth opportunities in our adjacent businesses; expectations regarding revenue growth from current or future products and services; expected share count; and all of the statements under the heading "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: 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 introduce new products and services to meet our growth and profitability objectives, and current and future products and services 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 financial results; if economic and market conditions in the U.S. and worldwide continue to decline, our customers may delay or reduce technology purchases which may harm our business, results of operations and financial condition; any significant product quality problems or delays in our products could harm our revenue, earnings and reputation; any failure to properly use and protect personal customer information could harm our revenue, earnings and reputation; 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; predicting tax-related revenues is challenging due to the heavy concentration of activity in a short time period; we have implemented, and are continuing to upgrade, new information systems and any problems with these new systems could interfere with our ability to deliver products and services and gather information to effectively manage our business; 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 acquisition activities may be disruptive to Intuit and may not result in expected benefits; 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 2009 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, 2010, and we do not undertake any duty to update any forward-looking statement or other information in these materials.