Intuit Inc.
Second-quarter Fiscal 2015
Conference Call Remarks
February 19, 2015

Introduction

Good afternoon and welcome to Intuit's second-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.

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.

Second Quarter Fiscal 2015 Overview

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

It has been an eventful few weeks at Intuit, and I suspect you have lots of questions. Before we get to your questions, I'd like to provide as much context around recent events as possible, while keeping the bigger picture in mind.

The bigger picture is straightforward: Our financial results are strong through the first half of fiscal 2015, and we're reiterating our guidance for the full fiscal year. Furthermore, our small business momentum has taken a step-rate change in a positive direction, with growth in our QuickBooks Online subscribers continuing to accelerate at a very healthy rate.

With that said, I know that tax is on everybody's mind given the time of year, and the recent press coverage, so let me start there first.

At the highest level, our tax strategy is on track. We are in the second year of a multi-year journey to achieve our product vision of "taxes are done."

- This year's TurboTax significantly expanded its data import capability. Nearly 75 percent of customers can now digitally import W-2's directly into the product, up from less than 30 percent last year. This is a huge step toward our vision of "taxes are done," making tax preparation easier and more accurate, and has led to several points of improvement in conversion for customers who choose to import their data.
- The TurboTax experience now uses more advanced data-driven insights to tailor the interview to your unique situation. We refer to this as a "responsive experience," and it is shaving significant time and questions off of the average taxpayer's preparation experience.
- In addition, TurboTax users can now move seamlessly across platforms – working online, on tablets or on smartphones – with the ability to start, stop and continue their taxes on the device of their choice.
- And for the first time ever, Americans with more straightforward tax situations were able to file both their federal 1040A or 1040EZ returns, as well as their state returns, for free. This was a powerful offer for those 60 million Americans, many of whom live paycheck to paycheck and count on their tax refund as being the biggest paycheck they'll get in the year.

The collective impact of these innovations is showing up in the customer experience:

- So far this season, our ability to convert those who visit the TurboTax.com website into those who file a return, is up a couple hundred basis points. This improvement is on top of a big advance in conversion that we drove last year as well.
- Our net promoter scores for TurboTax Online are also up about a half-dozen points, which is encouraging.
- This improved product experience is helping reduce customer care calls, which are down roughly 20 percent year-over-year.
- And when it comes to the Affordable Care Act we worked hard to ensure that all taxpayers could easily and accurately meet the new ACA requirements with TurboTax. Unlike some other tax services, TurboTax includes all necessary health care forms for free.
- We do not see any evidence that ACA is driving TurboTax customers to other tax prep solutions. In fact, the ACA section of our product has been one of our highest-converting tax topics this year, which gives us confidence that our ACA implementation is meeting our customers' needs.

- Translating the sum total of these initiatives, total TurboTax units grew 11 percent through February 14, versus the comparable prior-year period.
    - TurboTax Online units are up 19 percent, while TurboTax Desktop units are down 7 percent.

Which takes me to the recent events of the past few weeks, which have not been our best in terms of consumer confidence. There are no excuses when you make a mistake, and we've owned our mistakes and taken steps to make things right. At the same time, we've been at the forefront of the ongoing battle to fight fraud in the tax system, navigating lots of misinformation along the way. Let me share some important context around both of these events.

First, let me address the change to the TurboTax desktop product lineup, which we subsequently reversed. We didn't live up to our customers' expectations, and our net promoter scores are down for the desktop product as a result. So why did we make the change in the first place, and what have we learned from this experience?

I don't need to tell anyone on this call that we are in the midst of a massive platform shift to the cloud, and every established technology company is dealing with the balance of serving customers on legacy technology, while advancing their efforts and serving new customers on the next-generation platform.

It's no longer a desktop software world. Our computers no longer come equipped with optical drives, and shelf space allocated to software is down 50 percent in retail stores over the last five years. That said, a subset of customers simply do not wish to move to the cloud. Many of these are long-time, loyal customers who have used the same product for 20 years, which is why we've always been steadfast in our position that we won't push a software delivery model on a customer.

With that context, what happened? Last year, we had moved to a "complexity-based lineup" in our TurboTax Online portfolio, steering customers to the best offering for their particular tax situation. This included moving schedules C, D, E and F from Deluxe into our Premier and Home & Business solutions. These schedules enable the filer to report items such as investment gains and losses and small business expenses.

Our goal was simplification, so customers were clear which product was right for their particular tax situation. For over 20 million online customers last year, the implementation went smoothly. So this year, we sought to complete the alignment by making similar changes to our desktop offerings. Our goal was to streamline product development and bring any new innovations from our online product to our desktop customers as well. And for those who might eventually choose to migrate to the cloud, they would enjoy a consistent and familiar product experience.

Good intentions, but misinformed. These loyal, long-time desktop customers simply didn’t want a different product experience. And they certainly did not want to upgrade and pay a higher price for the functionality they’ve always had in Deluxe. In addition, we didn’t make the communication clear enough and didn’t make the transition easy. For the three percent of TurboTax customers who were affected, it was simply unacceptable, and they were right.

So, here’s what we’ve done:

- Following a very public and heartfelt apology, we announced that next year, we will offer the TurboTax Deluxe desktop software our customers know and love, restoring the forms that they've counted on for years.
- Returning Deluxe desktop customers who need to upgrade this tax season will be able to do so seamlessly within the product for free.

More importantly, what lessons did we learn?

- First, know the customer. We’re a customer-back company, and we didn’t effectively apply our own expertise to this situation.
- Second, ease the transition. If you are going to make product changes, make sure you have early dialogue with the customers and make the transition slowly.
- And finally, act quickly and decisively. When you hear noise, assume smoke means fire and jump on the situation fast.

Which takes me to the more recent news surrounding the concerns of increasing fraudulent activity in the U.S. tax system, particularly at the state level:

- As we have shared on many occasions, the privacy and security of our customers’ data is the top priority in our company. We have been working for years to apply the most advanced technologies and techniques to ensure the safety and privacy of our customers’ information, and we’ve been doing this in conjunction with the overall industry and the government as well.
- I was just in Washington three weeks ago giving a keynote to more than 100 policy leaders on this very topic.
- In recent weeks, Intuit and some states saw an increase in suspicious filings.
- As a result, several states communicated their intention to stop accepting TurboTax e-files. So we took the precautionary step on Thursday, February 5, to temporarily pause the transmission of e-filed state tax returns for all states.
- After a preliminary examination of the recent activities with a third-party security expert was concluded, we believed and continue to believe these instances of fraud did not result

from a security breach of our systems, and that the information used to file fraudulent returns was obtained from other sources outside the tax preparation process.

- We implemented targeted security measures to combat the type of fraudulent tax activity that we were seeing. These additional steps included the implementation of more advanced multi-factor authentication, which is a proven technology for protection against identity theft.
- With these measures in place, we resumed e-filing with the states the next day, once we felt comfortable that our customers' privacy and security were not at increased risk.
- We are continuing to work with the states as they build their own antifraud capabilities and will share best practices as we work toward the best interests of the taxpayer.
- To assist any customers who are victims of tax fraud, we are providing a dedicated toll-free number, with direct access to specially trained identity protection agents who will provide comprehensive support and filing assistance.

So to summarize Consumer Tax, the underlying health of the business and the product innovations we are delivering are having a meaningful impact on the customer experience and our results to date. With that said, we've suffered a self-inflicted wound on the desktop lineup situation, and we're leading the battle again an industrywide threat of cyber fraud targeting the U.S. tax system. All within the first few weeks of a hundred-day tax season.

But there is plenty of time left on the clock, and if you look at the scoreboard so far, you'll see that:

- IRS data through February 6 shows that self-prepared e–file growth was up 7 percent, contrasted with assisted e-files down 4 percent. This leads us to believe that the do-it-yourself software category continues to gain share.
- Our e-file growth and other third-party data also indicate that we're gaining a couple points of share so far this season.

So we're keeping the bigger picture in mind, and we'll emerge from both of these situations wiser and even more focused.

Which takes me to the ProTax side of the business, where we've seen positive early trends in customer acquisition. In addition, we're delivering more innovation in ProTax than I've ever seen in my time at Intuit.

- We've provided tools and training for our pro customers to manage the ACA situation and help their clients achieve the best possible outcomes.
- We've refreshed TurboTax Personal Pro, formerly CPA Select, and expect the new interface and accountant engagement tools to drive growth.

- We’ve launched Intuit Link, a data and document collaboration tool for accountants that saves time and simplifies accountant/client communications.
- And we’ve enabled e-signature capabilities that help accountants streamline their processes and securely transmit signatures on certain forms.

I realize I don’t need to remind anyone that it’s early in the season for both of our tax businesses – but I will. We’re staying agile, and I’m very pleased with our products and our pace of innovation. We’re focused on improved execution and delivering for our customers and our shareholders for the remainder of the season.

Now let’s talk small business.

As I foreshadowed earlier, the QuickBooks Online Ecosystem continues to build strong momentum:

- We grew total QuickBooks Online subscribers by 50 percent in the second quarter, up from 43 percent growth last quarter. We added 100,000 QuickBooks Online subscribers quarter over quarter, and we now have 841,000 paying subscribers worldwide.
- Outside the U.S., QuickBooks Online subscribers were up more than 170 percent to 127,000, in line with last quarter’s rapid growth.
- Our QuickBooks Online customers continue to add payroll and payments solutions at a healthy clip:
    - In the U.S., our new-customer online payroll attach rate was 21 percent. This is a step down from roughly 30 percent last quarter, due to a change from an opt-out payroll sign-up to an opt-in. We expect our attach rates to be in the low-20s over the next few quarters, with improvements in retention as a result of this change.
    - Our online payments attach rate was 8 percent, up from 7 percent a year ago.

To help fuel our international growth, we made two acquisitions in the past quarter that will add key features and functionality to the QuickBooks Online ecosystem in targeted geographies.

- In the U.K., we acquired Acrede, a provider of payroll solutions with global compliance and data security. Their easy-to-use cloud technology can be customized to deliver payroll across multiple geographies.
- We also acquired ZeroPaper, a developer of SaaS and mobile financial management tools for entrepreneurs and microbusinesses in Brazil.

In addition to these acquisitions, we launched QuickBooks Self-Employed, designed specifically for the rapidly expanding population of freelancers and independent contractors. As you may recall, there are roughly 12 million of these businesses in the U.S.

Our QuickBooks Self-Employed solution helps these smallest of small businesses manage their finances throughout the year and will provide integration with TurboTax to simplify tax reporting. These sole proprietors generally don't see a need for all the functionality in traditional QuickBooks Online; they simply need to keep their personal and business expenses tracked and separated for tax time.

The product is gaining real momentum, and I'm excited about the partnerships we recently announced with Stripe, Uber, Lyft and others centered around this product. We'll continue to add partners to expand our presence in this rapidly growing, on-demand services market.

In total, it's been an eventful first half of the year, but it has been a strong first half as well:

- I'm inspired by our teams' commitment to overcome obstacles, while continuing to reimagine the tax preparation experience in both our consumer and professional tax businesses. You'll see much more innovation from these teams over the next few years.
- And small business subscriber growth is accelerating, as we remain focused on global customer acquisition, enabled by cloud-based services.

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

Financial Results and Segment Details

Thanks Brad. Let's start with overall company results, which all came in higher than our guidance.

For the second quarter of fiscal 2015, we delivered:

- Revenue of $808 million, up 3 percent.
- A non-GAAP operating loss of $20 million.
- A GAAP operating loss of $98 million.
- A non-GAAP loss per share of $0.06.
- And a GAAP loss per share of $0.23.

These results factor in our strategic decision to deliver ongoing services and releases for future desktop offerings. As a result, revenue for future desktop software licenses will be recognized as services are delivered, rather than up front. As we've discussed, approximately $400 million in revenue will move out of fiscal 2015 into later years. The impact and quarterly seasonality of this shift varies by business unit.

The business where the shift is hardest to understand from an external perspective is probably ProTax. I'll provide some data to help with modeling of the ProTax business in a moment.

Business Segment Results

Turning to the business segments:

Small Business

Total small business group revenue declined 1 percent for the second quarter, again reflecting the impact of changes to the desktop product resulting in ratable, rather than up-front, revenue recognition. QuickBooks total paying customers grew 20 percent.

Small Business Online Ecosystem revenue grew 26 percent, and customer acquisition in our online ecosystem continues to drive growth:

- QuickBooks Online subscribers grew 50 percent, accelerating from last quarter's growth rate.
- Online payroll customers grew 23 percent.
- Online active payments customers grew 3 percent, and online payments charge volume grew 20 percent, driven by an increase in charge volume per customer.
    - Payments customers attached to QuickBooks Online grew over 90 percent. We're focused on growing payments in the QBO ecosystem, while de-emphasizing other services, such as standalone GoPayment customers.
- Rounding out the online ecosystem, Demandforce customers grew 18 percent.

Our primary goal is converting non-consumption to capture a larger share of the 29 million small businesses in the U.S. and millions more around the world. To do this, we're leaning into QuickBooks Self-Employed, which is part of our QuickBooks Online lineup and is included on the QuickBooks Online subscriber line on the Fact Sheet. We had approximately 4,000 QuickBooks Self-Employed paying subscribers at the end of the second quarter. We'll continue to call out the growth of this subscriber base over the next few quarters.

Moving to the desktop ecosystem, QuickBooks desktop units declined 26 percent in the second quarter, as we continue to emphasize QuickBooks Online. More than 80 percent of our new QuickBooks Online customers are new to QuickBooks, rather than migrating from desktop.

Consumer

Within the Consumer Group, Consumer Tax revenue was up 54 percent versus the second quarter last year, as we benefited from an earlier start to the tax season this year. As you may recall, last year IRS opened e-file on January 31, pushing revenue into our third fiscal quarter, so this year we're returning to a more normal seasonal trend.

Our strong unit growth year to date benefitted from our Absolute Zero promotion. Our paid mix was also a bit better than expected. In the back half, we face a tougher compare, but we still expect units to grow faster than revenue for the season.

Professional Tax

ProTax revenue was $11 million, down 69 percent. As we've previously discussed, we expect a revenue shift of $150 million from fiscal 2015 to fiscal 2016 due to changes in our desktop offerings. To help with your modeling, we expect ProTax revenue of about $125 million in the third quarter of 2015 and about $100 million in the fourth quarter.

Financial Principles and Capital Allocation

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.

- With approximately $1.4 billion in cash and investments on our balance sheet, our first priority is investing for customer growth.
- We also look for inorganic opportunities, and in the second quarter we completed two acquisitions, bringing us to a total of four transactions so far this fiscal year, totaling approximately $90 million.
- We also repurchased $555 million of shares in the second quarter; about $1.2 billion remains on our share repurchase authorization. We intend to be in the market consistently during the year.
- Our board approved a $0.25 per share dividend for our fiscal third quarter, payable on April 20. This represents a 32 percent increase versus last year and reflects our large and growing cash position, as well as more recurring and predictable revenue streams.

Third Quarter, Fourth Quarter and Full-year Fiscal 2015 Guidance

Looking ahead, we have reiterated our financial guidance and raised our QuickBooks Online subscriber guidance for fiscal 2015. We also provided guidance for the third and fourth quarters. You can find our guidance details in our press release and on our fact sheet.

As a reminder, we will provide our next tax unit update in April soon after the tax season ends.

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

Closing Comments

Thanks, Neil.

I know we've covered a lot, but I hope it has been helpful context in advance of your questions.

We have lots of opportunity in front of us. At the end of the day, it all comes down to great people, and I like what I see in our company's employees. It is my privilege to be able to serve alongside them each and every day.

With that, let's turn it over to you to answer your questions.

Cautions About Forward-looking Statements

This material 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 2015 and beyond; expectations regarding growth opportunities from connected services; expectations regarding Intuit's growth outside the U.S.; 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 acquisitions and divestitures and their impact on Intuit's business; expectations regarding availability of our offerings; all of the statements under the heading "Forward-looking Guidance"; expectations regarding our ability to detect and prevent fraudulent activities that impact our offerings; expectations regarding the impact of such fraudulent activities on customer confidence and our results for the tax season; and expectations regarding the impact of our strategic decisions 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. 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 Feb.19, 2015 and we do not undertake any duty to update any forward-looking statement or other information in these materials.