Intuit Inc.
Third-quarter Fiscal 2015
Conference Call Remarks
May 21, 2015

Introduction

Good afternoon and welcome to Intuit's third-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.

Third-quarter Fiscal 2015 Overview

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

First, the headlines. Today we reported third-quarter revenue of $2.2 billion. This was above our guidance range, and as a result we increased our full-year revenue guidance. Non-GAAP operating income and EPS were also above guidance. QuickBooks Online subscribers also came in ahead of our guidance, and we've raised our outlook there for the fiscal year as well. Our GAAP results include the impact of a strategic refocus in the Consumer Ecosystem Group, which Neil will discuss in a moment.

I know tax season is on everyone's mind, so let me start there. I feel very good about our performance in our tax businesses:

- In the U.S. season to date, TurboTax Online units grew 13 percent, and total TurboTax units grew 9 percent excluding the Free File Alliance.
- As a result, we now expect Consumer Tax revenue to grow about 9 percent for the fiscal year, above our previous guidance range of 5 to 7 percent.

We are in the second year of a multiyear journey to deliver our strategic goal of "Taxes Are Done." Our objectives this year were to drive growth in the do-it-yourself software category, increase our customer base, and expand our market share. We succeeded on all fronts.

As we have shared in previous discussions, there are four main drivers of growth for TurboTax. Let me walk through each of these, and highlight how we performed versus our expectations.

- The first is the total number of returns filed with the IRS each year. Total returns received by the IRS were up about 1 percent, in line with our expectations.
- The second is the growth of the do-it-yourself software category, and the category's share of the total IRS returns filed. This season, the do-it-yourself software category gained more than a point of share from alternative methods, a little better than we had expected. As the category champion, it is our responsibility to help fuel the secular shift toward software that has been occurring for the past decade, and we succeeded. IRS data shows that do-it-yourself e-files were up 6 percent, contrasted with assisted e-files, which were roughly flat. Over the past two years, do-it-yourself software has gained three points of share from assisted tax prep methods.
- The third driver is expanding our share within the do-it-yourself software category. This season, driven by the improvements in our TurboTax product and more efficient and effective marketing, 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. While our Absolute Zero program helped drive share gains early in the season, the payoff on our multiyear product innovation had the greatest impact, as demonstrated by big improvements in Net Promoter Score, conversion and retention.
- And, finally, the fourth driver is the monetization of those returns. Our share gains were not simply the result of aggressive promotions; the reality is that we delivered revenue above our guidance range even as we achieved our goal of growing our customer base faster than revenue. This was driven by stronger product mix, improved attach rates and a new bundle.

Our efforts to reinvent the tax prep category are paying off:

- TurboTax's mobile innovation enabled customers to start and finish their return on any device for the first time. Total mobile app downloads were up almost 70 percent year over year, and the ability to finish on any device more than doubled conversion for those that started on a mobile device.

- Our investment in the offering led to a 30 percent decrease in overall customer support contacts throughout the season. During the heaviest call days at the very end of the season, we decreased our support abandonment rate by 80 percent.
- These durable innovations, developed over several years, are not easily matched by competition, and have:
    - Improved TurboTax Online conversion by nearly three points.
    - Improved TurboTax Online's Net Promoter Score by five points.

We learned a lot this tax season and demonstrated an ability to adapt quickly to the constantly evolving fraud threat. We have emerged a wiser organization, with a game plan to win next season and beyond. We're committed to leading the industry's fraud protection efforts and to earning the trust of our customers every single day.

On the ProTax side of the business, total customers grew, while the overall pro category was roughly flat. This segment is on track to come in at the high end of our revenue guidance range.

Now let's shift to small business.

The QuickBooks Online Ecosystem continues to build momentum:

- We grew total QuickBooks Online subscribers by 55 percent in the third quarter, up from 50 percent growth in the previous quarter. This represents the eighth consecutive quarter of accelerating paid subscriber growth. We added more than 120,000 QuickBooks Online subscribers in the quarter and now have 965,000 paying subscribers worldwide.
- In the U.S., QuickBooks Online subscriber growth accelerated, growing 45 percent in the third quarter, up from 39 percent in the previous quarter.
    - Our new-customer payroll attach rate in the U.S. improved versus last quarter, to 23 percent.
    - Our QuickBooks Online payments attach rate of 9 percent was up from 8 percent a year ago.
- Roughly 15,000 of our QuickBooks Online subscribers are using QuickBooks Self-Employed, up from 5,000 just 90 days ago. About one-third of these customers chose the bundle that includes TurboTax Home & Business.
- And outside the U.S., QuickBooks Online subscribers were up about 140 percent to just over 150,000.

To put a bow around our progress this year:

- In tax, we successfully navigated a challenging season, growing the category, gaining market share, and improving monetization efforts – all resulting from a multiyear effort in pursuit of our strategic goal of "Taxes Are Done."
- And our small business online ecosystem continues to build momentum, with QuickBooks Online subscriber growth accelerating.

With that, 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.

For the third quarter of fiscal 2015, we delivered:

- Revenue of $2.2 billion.
- Non-GAAP operating income of $1.2 billion.
- GAAP operating income of $906 million.
- Non-GAAP earnings per share of $2.85.
- GAAP earnings per share of $1.78.

These results factor in our strategic decision to deliver ongoing services and releases for future desktop offerings to encourage migration to online solutions. As a result, revenue for future desktop software licenses will be recognized as services are delivered, rather than up front.

Our GAAP results include a goodwill impairment charge for our Consumer Ecosystem Group. Our revenue and operating income for this group have trailed our expectations for the year. As a result, we initiated a strategic shift in the third quarter to increase our focus on integrating our bill pay solution into Mint and Quicken. Accelerating this capability was the primary reason for the Check acquisition last year. With this strategic shift, we are reducing our focus on Check's biller and direct pay channels.

As a result, we are writing off approximately $263 million in goodwill, primarily associated with these channels. This charge reduced third-quarter GAAP earnings per share by $0.93.

Business Segment Results

Turning to the business segments:

Small Business

Total Small Business Group revenue declined 5 percent for the third quarter, primarily due to the impact of changes to the QuickBooks desktop product resulting in ratable revenue recognition. QuickBooks total paying customers grew 20 percent in the third quarter and are up about 8 percent year to date.

- Small business online ecosystem revenue grew 20 percent, and customer acquisition in our online ecosystem continues to drive growth.
  - QuickBooks Online subscribers grew 55 percent, accelerating from last quarter.
  - Online active payments customers grew 6 percent, and online payments charge volume grew 19 percent, driven by an increase in charge volume per customer.

    - Online payroll customers grew 20 percent.

Switching to desktop, total desktop ecosystem revenue declined 15 percent, as expected.

- QuickBooks desktop units declined 23 percent in the third quarter, 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.
- Desktop active payments customers declined 11 percent, and desktop payments charge volume declined 1 percent.
    - In the third quarter, we sold non-core payments assets, which had generated roughly $20 million in annual revenue. The goal of this transaction was to further focus on our core opportunities in the payments space—attach to QuickBooks Online and e-invoicing across our ecosystem of more than 4 million small businesses.
    - We recorded a gain on the sale of these assets of $30 million in the third quarter.

Consumer

Within the Consumer Group, Consumer Tax revenue was up 4 percent versus the third quarter last year and up 9 percent year to date, as we benefited from a higher-than-expected mix of paid units and revenue from attach services. Free upgrades, rebates and higher attrition for customers affected by our desktop product changes reduced revenue by approximately $20 million.

We also incurred an additional $15 million in expenses related to servicing customers impacted by the TurboTax desktop lineup change and to increased investment in data and security features. We'll continue to invest in this area to ensure our customers' privacy and security.

Professional Tax

ProTax revenue was $130 million, down 61 percent. As we've previously discussed, we expect a revenue shift of $150 million from fiscal 2015 to 2016 due to changes in our desktop offerings. The fundamentals of this business remain strong; we expect full-year revenue to be near 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 $2.1 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 third quarter we made two acquisitions totaling approximately $30 million.
- When it's the best use of cash, we'll return cash to shareholders via share repurchases.

- Year to date, we have repurchased $1.25 billion of shares at an average price of about $90, including $568 million of shares in the third quarter.
- The board approved an additional $2 billion in share buyback authorization. We now have about $2.6 billion remaining on our authorization. We intend to be in the market each quarter.

- Our board also approved a $0.25 dividend per share for our fiscal fourth quarter, payable on July 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.

Q4 and Full-year Fiscal 2015 Guidance

We raised our revenue guidance for the full year, and we maintained our operating income guidance, despite increased investment, primarily in Consumer Tax. We also raised our QuickBooks Online subscriber guidance for the full year. You can find our guidance details in our press release and on our fact sheet.

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

Closing Comments

Thanks, Neil.

We're pleased with our strong finish to the tax season. We grew the digital category, increased share, and plan to come in above the high end of our revenue guidance range in Consumer Tax. As we continue to reimagine the tax preparation experience, we are already working on the product for next season. And we will remain at the forefront in the ongoing fight against fraud, working with our peers and government agencies to help protect taxpayers.

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

With that, let's turn it over to you for 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 2015 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 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 2015 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; 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 innovate and introduce new offerings and business models to meet our growth and profitability objectives, and current and future offerings 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 future financial results; as we upgrade and consolidate our customer facing applications and supporting information technology infrastructure, any problems with these implementations could interfere with our ability to deliver our offerings; any failure to properly use and protect personal customer information and data could harm our revenue, earnings and reputation; if we are unable to develop, manage and maintain critical third party business relationships, our business may be adversely affected; increased government regulation of our businesses may harm our operating results; if we fail to process transactions effectively or fail to adequately protect against potential fraudulent activities, our revenue and earnings may be harmed; related publicity regarding such fraudulent activity could cause customers to lose confidence in using our software and adversely impact our results; any significant offering quality problems or delays in our offerings could harm our revenue, earnings and reputation; our participation in the Free File Alliance may result in lost revenue opportunities and cannibalization of our traditional paid franchise; the continuing global economic downturn may continue to impact consumer and small business spending, financial institutions and tax filings, which could negatively affect our revenue and profitability; year-over-year changes in the total number of tax filings that are submitted to government agencies due to economic conditions or otherwise may result in lost revenue opportunities; 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; 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 inability to adequately protect our intellectual property rights may weaken our competitive position and reduce our revenue and earnings; our acquisition and divestiture activities may disrupt our ongoing business, may involve increased expenses and may present risks not contemplated at the time of the transactions; our use of significant amounts of debt to finance acquisitions or other activities could harm our financial condition and results of operation; and litigation involving intellectual property, antitrust, shareholder and other matters may increase our costs. 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 May 21, 2015 and we do not undertake any duty to update any forward-looking statement or other information in these materials.