Intuit Inc.
Fourth-quarter Fiscal 2014
Conference Call Remarks
August 21, 2014

Introduction

Good afternoon and welcome to Intuit's fourth-quarter fiscal 2014 conference call. I'm here with Brad Smith, our president and CEO; Neil Williams, our CFO; and Scott Cook, our founder.

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 2013 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. Our fact sheet and press release include new disclosures and materials to help you understand and model the financial impact of the strategic decisions we'll discuss today.

With that, I'll turn the call over to Brad Smith.

Fiscal 2014 Overview

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

I've been looking forward to today's earnings call for two reasons. First, because we have some positive results to discuss, and second, because we want to share some exciting strategic decisions that position us for accelerated performance as we look ahead.

Let me begin with the positive results. We closed out our fiscal year 2014 on a strong note, with excellent momentum in each of our businesses. For the full fiscal year, total revenue grew 8 percent and earnings per share increased 9 percent. These strong results were in the context of an acceleration to cloud-based subscriptions that shifted revenue into future reporting periods. The results also reflect a significant restructuring effort that we executed in our fiscal fourth quarter to reallocate resources to our online services, and drive a step-rate improvement in our products and customer growth. Adjusting for the impact of the related restructuring charges, our revenue, operating income and earnings per share would have been at the high end of our guidance ranges.

Stepping beyond the current-period results, I'm even more excited about the choices we are making for the future. To sum it up, we're fully committed to winning in the cloud. Over three decades, we've navigated several platform shifts – from DOS, to Windows, to the Web – and in every instance, we've seized the opportunity to re-imagine our offerings and extend our market leadership position. And we're doing it again.

We've been delivering cloud-based services for over a decade, with more than 30 million Intuit customers using these offerings across a variety of desktop and mobile devices. The benefits are clear: Online experiences are better for customers, they expand the total addressable market, and they generate more predictable, recurring revenue streams.

Today we'll discuss several decisions to further accelerate our shift to cloud-based services, which include changes we are making to our desktop products that will lead us to recognize desktop revenue over time. The combination of these choices will create a transition year for our fiscal 2015 financial reporting. As we will explain, this is a short-term impact, and we fully expect our fiscal 2016 results to return to double-digit top and bottom line growth in alignment with our financial principles. Our outlook for fiscal 2017 is a company approaching $6 billion in predictable, recurring revenue and generating roughly $5.00 in non-GAAP earnings per share.

With that context, let me click down and share my reflections on the company's current period performance, as well as the strategic choices we are making, starting with our Small Business Group.

I am quite encouraged by the increasing momentum in our QuickBooks Online ecosystem. This past quarter, we reached a strategic inflection point, with more new-to-the-franchise customers choosing QuickBooks Online over QuickBooks Desktop for the first time ever.

The achievement of this milestone was driven by two factors:

- First, the secular shift to the cloud is now in full swing for small businesses, just as it was several years ago for our consumer businesses. This tailwind is in the early stages of development and will continue for many years.
- And second, we have been accelerating small business adoption of cloud solutions. Our catalyst is the success of our QuickBooks Online offering as an open platform, that enables Intuit and third-party products to work together seamlessly in the cloud.

The new QuickBooks Online is one of the biggest breakthrough products we have launched, and it is living up to its billing:

- This past quarter, QuickBooks Online subscribers grew 40 percent, up from 36 percent in the previous quarter. We added approximately 60,000 net customers, in a seasonally slower quarter.
- We closed fiscal 2014 with nearly 700,000 QuickBooks Online customers, and more than 1 million total QuickBooks subscribers.
- The new online experience enables the seamless purchase of additional services, as evidenced by our payroll attach rates improving to 19 percent in the fourth quarter, up from 16 percent a year ago. The attach rate for active payments customers is currently 5 percent, also up from 3 percent in the prior year. These improved attach rates are contributing to an increase in the annualized recurring revenue per subscriber.
- And finally, the new QuickBooks Online is a global platform, which has significantly increased our total addressable market. Outside the U.S., QuickBooks Online subscribers were up more than 150 percent in the fourth quarter, further accelerating from 130 percent growth last quarter.

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

- As the category champion, we helped drive digital category growth of more than 6 percent, compared with assisted tax prep methods declining 1 percent. The secular shift to do-it-yourself software is the continuation of a decade-long transition to digital solutions, and our efforts simply added fuel to this trend.
- Within the software category, TurboTax gained over two points of share, growing TurboTax Online units 14 percent and total TurboTax units 10 percent. Our investment in product improvements paid off, with website traffic, conversion, retention and overall net promoter scores improved in every dimension.
- Hitting the total key, Consumer Tax revenue grew 7 percent for the fiscal year, better than our original guidance of 4 to 5 percent.
- As we've shared, this was just the first year of a multi-year journey toward our ultimate product vision, and the team has some exciting things in the pipeline as we look forward to next tax season.

We also had strong results in our ProTax and Consumer Ecosystem businesses. Both businesses exceeded their internal plans and external guidance, they have a strong pipeline of innovative offerings in the works, and are looking forward to another strong year.

When you sum up the results across the company, customer growth – and more specifically, subscriber growth – is accelerating; active use is improving; attach rates are increasing and global adoption has hit its stride.

Which takes me to my second reason for looking forward to today's call: the announcement of several strategic choices we have made that will enable us to further accelerate the growth of our online ecosystem.

First, as I mentioned earlier, we restructured our Small Business organization in the fourth quarter to increase the focus and investment on the QuickBooks Online ecosystem. The actions we've taken improve our speed of decision-making, prioritize key functionality and compliance services necessary to win in each of the global geographies, and include some soon-to-be-announced initiatives that will make it even more attractive for accountants and their clients to sign up for QuickBooks Online. We've increased our investment in R&D, sales and marketing and the infrastructure to capitalize on a huge addressable market with our global-ready QuickBooks Online offering. Our demonstrated success in fiscal 2014 convinced us that now is the time to make this investment.

Second, in support of our goal to win every cloud decision, we are making important product changes to continue to delight our QuickBooks desktop customers, many of whom will be cloud customers in the future. As you know, roughly 4 million small businesses use QuickBooks desktop. Our goal is to attract them with a compelling online experience and incentives to move to the cloud. To that end, we are strengthening our desktop products beginning in 2015 by delivering ongoing releases to continuously improve the product experience, support operating system updates, and provide access to connected services.

These actions ensure our desktop customers and their accountants remain our most vocal advocates today, and become our cloud customers of tomorrow.

As a result of these changes to our desktop products, we will begin recognizing desktop product revenue over time, as opposed to up front at the time of purchase. This change will apply to our future QuickBooks, ProTax and Quicken desktop products. This is a strategic decision in favor of the customer that will push about $400 million of revenue from our fiscal 2015 into deferred revenue that will be recognized in future periods. We'll provide all the relevant disclosures for you to see and model the financial impact.

For our Small Business Group, the combination of these decisions positions us to more rapidly penetrate an enormous global market with a proven online ecosystem, powered by the new QuickBooks Online. And the time to make these changes is now, because the proof points are clear. More specifically:

- QuickBooks Online is opening new doors, with 75 percent of new QuickBooks Online customers being new to the Intuit franchise.
- The QuickBooks Online platform is increasing our ability to generate higher annualized recurring revenue through selling additional services seamlessly. To put the improved payroll and payments attach results into perspective, the annualized recurring revenue for the small business online ecosystem was up 34 percent this quarter.
- Add the global opportunity, and our total addressable market expands from 29 million small businesses in the U.S., to over 100 million worldwide, focusing only on our currently prioritized markets of Canada, the U.K., Australia, and India. The number of

weekly gross new subscribers being added in non-U.S. markets is currently averaging 2,000 per week, up from 600 per week one year ago.

- Finally, for the existing QuickBooks desktop customers and their accountants, we have the market-leading online solution and will be introducing new initiatives to further incent them to move to the cloud. We do anticipate the number of desktop migrators will continue to increase meaningfully in the coming year.

On that note, I'll turn it over to Neil to walk you through the financial details and guidance.

Financial Results and Segment Details

Thanks Brad. Let's start with overall company results.

For fiscal 2014, we delivered:

- Revenue of $4.5 billion, up 8 percent.
- Non-GAAP operating income of $1.6 billion, up 6 percent.
- GAAP operating income of $1.3 billion, up 5 percent.
- Non-GAAP earnings per share of $3.49, up 9 percent.
- GAAP earnings per share of $3.09, up 9 percent.

For the fourth quarter of fiscal 2014, we delivered:

- Revenue of $714 million, up 13 percent.
- Non-GAAP operating income of $2 million.
- GAAP operating loss of $73 million.
- Non-GAAP loss per share of $0.01.
- GAAP loss per share of $0.14.

We incurred a charge of approximately $40 million in the fourth quarter, primarily as a result of the Small Business restructuring effort that Brad explained earlier, which impacted our non-GAAP and GAAP operating income and earnings per share. We also sold our 11 percent stake in Reckon, which generated a gain of $21 million in GAAP results. We've included a bridge in the fact sheet to illustrate this impact.

Business Segment Results

Turning to the business segments:

Small Business

Total Small Business Group revenue grew 12 percent for the quarter and 10 percent for the year.

Customer acquisition in our connected services businesses continues to be our primary goal, and is driving growth in the QuickBooks Online ecosystem:

- QuickBooks Online subscribers grew 40 percent, accelerating from the third quarter.
- Small Business Online Ecosystem annualized recurring revenue grew 34 percent, driven by retention and improved attach rates for additional services.
    - Annualized recurring revenue is a new metric that we will provide on our fact sheet each quarter. We've defined annualized recurring revenue as four times the most recent quarterly revenue for our online offerings serving small business customers. This includes QuickBooks Online subscriptions, online payroll, online payments, Demandforce and QuickBase.
    - Within this context, our online active payments customers grew 4 percent and online payments charge volume grew 24 percent driven by an increase in charge volume per user.
    - Online payroll customers grew 25 percent.
- And global adoption of QuickBooks Online continued to accelerate, as we finished the year with 84,000 paying QuickBooks Online customers outside the U.S., up from 32,000 a year ago.

As the adoption of the cloud becomes more prevalent, and we purposefully focus our energy and resources in this area, our recurring revenue will increase and QuickBooks desktop units will continue to decline. In the fourth quarter, desktop units declined 12 percent, and for the full year, they declined 10 percent. The decline in desktop units in fiscal 2014 was more than offset by growth in subscribers and total QuickBooks customer growth accelerated to 6 percent. We expect total QuickBooks customers to continue to grow next year as we emphasize the QuickBooks Online ecosystem, even though desktop units and revenue will decline.

We've described how the cloud is a better experience for customers. It's also a better business model for our shareholders since the lifetime revenue of QuickBooks Online customers is greater than that of desktop customers, and it increases the predictability of revenues.

We've provided details on our fact sheet to help you understand the unit economics of our online and desktop ecosystems as they stand today, and we'll talk about the levers for growth as we execute against our top priority: expanding the category while growing customers and share globally.

Here's one way to compare online and desktop, using fiscal 2014 as an example. As you can see on the fact sheet, online ecosystem revenue was $592 million. Using ending QuickBooks Online subscribers of 683,000, we generated more than $800 in annual revenue per customer. On the desktop side, dividing $1.6 billion in fiscal 2014 revenue by 4 million customers, we generated less than $500 per customer.

We've learned in our Consumer Tax business that we can use price and changes to our product lineup to effectively grow customers. We've also proven that we can build lifetime value through improved retention and attached services. To drive customer growth in the QuickBooks Online ecosystem, we'll continue to experiment with pricing, promotions and bundles that deliver value for more end users. We'll also continue to improve attach and retention to enhance lifetime value. This is our strategy to accelerate growth in customers and revenue over the next few years.

Now let's look more closely at the financial impact of the strategic decision to provide ongoing support and services to our desktop customers that Brad described. This decision will affect future sales of QuickBooks and Quicken desktop products, where revenue will be recognized ratably over approximately three years, and our Professional Tax solutions, where more revenue will be recognized over the entire tax year.

- For customers, this enables seamless product enhancements, as well as better care and online services, ensuring that we keep our desktop customers happy and retain them in the Intuit franchise. These are our future online customers.
- For our employees, this strategic decision means clarity of work priorities, freeing up their time to build better online products.
- For shareholders, this means more customers and faster growth longer term. Desktop revenue will now be recognized over time, similar to how monthly subscription revenue is recognized.

Now when we sell a desktop unit, the cash comes in and our deferred revenue balance increases, so you'll be able to easily track our progress on our balance sheet and cash flow statement.

We are committed to transparency and clarity around this strategic decision, and it will make modeling our business easier over time as predictability of our revenue increases.

We expect these changes to lower fiscal 2015 revenue by approximately $400 million, increasing deferred revenue by the same amount. We've included a bridge in our press release and fact sheet that will help you understand the impact of this change in revenue recognition and accelerated QuickBooks Online growth on our revenue guidance for fiscal 2015.

The best way to gauge the success and health of our small business ecosystem going forward will be through subscriber counts and annualized recurring revenue. We will help you bridge reported results over the next few quarters to our historically reported results.

Consumer and Professional Tax

Moving over to tax. Consumer Tax revenue grew 22 percent for the fourth quarter and 7 percent for the year.

We will continue to invest in the product experience and to prioritize growth in share and customers above margin expansion.

ProTax revenue grew 16 percent for the fourth quarter and 4 percent for the year. Our ProTax business also had a great season, with much of our customer growth coming in our higher-value solutions.

Financial Principles and Capital Allocation

One thing that has not changed is our disciplined approach to capital management.

- With approximately $1.9 billion in cash on our balance sheet, our first priority is investing for customer growth.
- We also look for M&A opportunities, and in fiscal 2014 we've made 10 acquisitions totaling approximately $550 million.
- We'll return cash to shareholders via share repurchases.
    - We repurchased $152.5 million of shares in the fourth quarter; about $1.9 billion remains on our current authorization.
    - We reduced our share count 4 percent, net, in fiscal 2014 and we expect to be in the market consistently in fiscal 2015.
- Our capital plans include a cash dividend of up to $1.00 per share for fiscal 2015, with the first quarter dividend of 25 cents per share payable on October 20. This represents a 32 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 2015 Guidance

Now let's move on to guidance. Taking into account the impact of the strategic decisions Brad described, our outlook for fiscal year 2015 is:

- Revenue of $4.275 billion to $4.375 billion.
    - Adjusted for the financial impact of the strategic decisions, fiscal 2015 revenue guidance would have been growth of 5 percent to 8 percent.
- GAAP operating income of $800 million to $830 million.
- Non-GAAP operating income of $1.11 billion to $1.14 billion.
- GAAP diluted EPS of $1.70 to $1.75.
- Non-GAAP diluted EPS of $2.45 to $2.50.

Moving to our segment guidance for fiscal year 2015, we expect:

- QuickBooks Online subscribers of 925,000 to 950,000, growth of 35 percent to 39 percent.
    - Small Business Group revenue to decline 3 percent to 6 percent. Adjusting for the changes we've discussed, revenue would grow roughly 10 percent.

- Consumer Group revenue growth of 3 percent to 4 percent, with Consumer Tax revenue growth of 5 percent to 7 percent.
- Professional Tax revenue decline of 34 percent to 37 percent. Adjusting for the change in the product, our ProTax revenue would grow approximately 5 percent.

Guidance for first quarter revenue, operating income, EPS, and QuickBooks Online subscribers is available in our press release and on our fact sheet.

Long-term Outlook

Looking beyond fiscal 2015, we've provided a longer-term outlook in our fact sheet and press release. Beginning in fiscal 2016, we expect to grow revenue double-digits, as we recognize the revenue we've deferred this year and continue to experience strong growth in our QuickBooks Online subscriber base and ecosystem. We expect to grow revenue faster than expenses, generating operating leverage.

For fiscal 2017, we expect:

- QuickBooks Online subscribers of approximately 2 million, an increase from 683,000 today, providing compounded annual growth of more than 40 percent.
- Intuit revenue of roughly $5.8 billion, 9 percent growth on average over the next three years.
- Non-GAAP earnings per share of approximately $5.00, reflecting low-teens growth on average over the next three years.

We've shared many new disclosures with you on our fact sheet, breaking our small business customer metrics and revenue disclosures clearly into online and desktop ecosystems.

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

Closing Comments

Thanks, Neil.

We have reached the inflection point, and we're seizing the opportunity. Our company is focused on two strategic outcomes: to be the operating system behind small business success, and to do the nations' taxes.

Our small business momentum continues to build and our QuickBooks Online ecosystem growth is accelerating, driving value for customers and Intuit.

We've reorganized our Small Business Group and prioritized investments that will further accelerate our online ecosystem globally, while ensuring the best product experience for existing desktop customers, speeding up their move to the cloud.

We have a proven formula at Intuit: If we innovate and delight customers with the absolute best solutions in the market, we'll expand our categories, grow share and increase lifetime value over time.

So we're stepping on the gas to drive share gains and longer-term growth opportunities in all of our businesses. We have lots of runway in front of us, and we remain deeply committed to accelerating customer and revenue growth.

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 30. We look forward to seeing you there.

As always, I want to thank our employees for their hard work and their ongoing focus.

With that, let me turn it over to you for your questions.

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 2015 and beyond; expectations regarding growth opportunities from connected services; 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 marketing campaigns and their impact on Intuit's business; expectations regarding the amount and timing of any future dividends or share repurchases; the impact of acquisitions and divestitures on Intuit's business; expectations regarding availability of our offerings; all of the statements under the heading "Q1 and Full-year Fiscal 2015 Guidance", and expectations regarding the impact of our refreshed company strategy, strategic outcomes and organization changes 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 2013 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 Aug. 21, 2014 and we do not undertake any duty to update any forward-looking statement or other information in these materials.