Intuit Inc.
First-quarter Fiscal 2014
Conference Call Remarks
Nov. 21, 2013

Introduction

Good afternoon and welcome to Intuit's first-quarter fiscal 2014 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 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.

As a reminder, all reported results exclude Intuit Financial Services and Intuit Health, 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.

First Quarter Fiscal 2014 Overview

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

We're out of the gates strong in fiscal 2014. We grew revenue 11 percent in the first quarter, and we're reiterating our guidance for the fiscal year. You'll hear more on that from Neil in a moment.

As you know, we realigned the organization on August 1, focusing the company on two strategic outcomes:

- To be the operating system behind small business success,

- And to do the nations' taxes in the U.S. and Canada.

Over the past several years, Intuit has successfully transitioned to become a leader in cloud solutions for small businesses and consumers. Two-thirds of our 45 million customers use cloud solutions, and nearly two-thirds of our revenue comes from higher-value cloud and connected services with predictable, recurring revenue streams.

- In our tax businesses, 75 percent of our Consumer Tax customers use TurboTax Online, and we have a first-mover advantage with our cloud-based professional tax solutions.
- An aggressive shift to the cloud is building momentum in our small business segment as well.
    - More than 1 million QuickBooks customers are now in the cloud.
    - QuickBooks Online crossed the milestone of 500,000 subscribers, up 29 percent and accelerating from the fourth quarter. Global distribution is helping to drive this growth, with QuickBooks Online subscribers up more than 80 percent, to over 37,000 paying customers outside the United States. On average, a new QuickBooks Online subscriber is signing up every minute around the globe.
    - We also have an additional 500,000 QuickBooks desktop customers who have moved their data to the cloud.
    - When you include QuickBooks Enterprise subscribers, total QuickBooks subscribers are up 25 percent year-over-year.

This growth is no coincidence. Cloud-based offerings provide superior benefits for small businesses, and we want all our small business customers to adopt cloud solutions. In support of this goal, we've been aggressively reducing friction across our ecosystem to make it easy for QuickBooks customers, accountants and developers to embrace the next chapter.

The new QuickBooks Online that we unveiled on Investor Day in September is now available to all new customers, and we're rolling it out to existing QuickBooks Online and desktop customers over the next several months.

A few ways we're driving adoption include:

- A new three-step, three-minute conversion process for QuickBooks desktop customers to transfer their data to QuickBooks Online. We're marketing this capability more aggressively to our desktop base as the new QuickBooks Online rolls out more broadly.
- For new customers, we're using the power of big data to customize their QuickBooks Online experience based on other small businesses like them, completing the setup process in a matter of seconds.

- We're complementing these efforts with strong promotional incentives for accountants and small businesses to drive adoption of QuickBooks Online, and will continue to target and test promotions in different markets around the globe.
- To accelerate global adoption, we've strengthened our Intuit Partner Platform for third-party developers in the U.S., Canada, the U.K., Australia and India – the five priority countries we're currently focused on. We've strengthened our APIs, making it easier for developers to build solutions that seamlessly integrate with QuickBooks Online. And we've upgraded our apps.com distribution that showcases our developer partners, now making their apps easily discoverable from within the product at the moment of need as well.
- Finally, we've modified our pricing to attract the best developers, and are proud to announce the addition of American Express, who has built a new app called ReceiptMatch for QuickBooks. The app allows small businesses to take pictures of their receipts and match them with their QuickBooks chart of accounts in seconds. The app will be available in early 2014.

And while we have encouraging momentum in small business, we're looking forward to the upcoming tax season as well. Fiscal 2014 is a pivot year for Consumer Tax. I like the changes the team is driving, and believe this year will represent a strong initial step toward the multi-year journey to achieve our product vision of "taxes are done."

In the upcoming season, we are laser focused on driving improvement in three critical areas:

- First, we intend to improve the conversion of new users with a simpler experience to help customers through their tax return with increased speed, ease and confidence.
- Second, we're streamlining the returning user experience, unleashing the power of customer data to streamline the tax prep process and help them easily understand year-over-year changes in their tax return.
- And third, we're creating a unified help and answer experience, driving TurboTax customers to clear explanations on everything tax related, including the Affordable Care Act.

In the Professional Tax business, we're off to a strong start early in the season, and our shift to the cloud continues to pick up steam. We intend to build on our lead and capitalize on this once-in-a-generation shift to the cloud for accountants.

As you've likely heard, the IRS anticipates some delays to the start of the tax season again this year. It's too early to know the exact impact on our business, but we'll keep you posted as we learn more.

With that context, let me 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 the first quarter of fiscal 2014, we delivered:

- Revenue of $622 million, up 11 percent.
- Non-GAAP operating loss of $20 million.
- GAAP operating loss of $77 million.
- Non-GAAP loss per share of $0.06.
- GAAP loss per share of $0.04.
- In the first quarter, we accelerated some investments in data and small business marketing to drive growth throughout fiscal 2014 and beyond. As a result, expenses grew slightly faster than revenue in the quarter, consistent with our plans for the quarter.

Business Segment Results

Turning to the business segments:

Small Business

Total **Small Business** segment revenue grew 11 percent in the first quarter.

Within Small Business, **Small Business Financial Solutions,** or SBFS revenue grew 9 percent. Within SBFS, QuickBooks revenue grew 9 percent, driven by increased adoption of our cloud solutions:

- QuickBooks Online subscribers grew 29 percent, with modest benefit from the new QuickBooks Online, which became available to all new customers late in the first quarter.
- QuickBooks Desktop subscribers grew 17 percent.
- QuickBooks Enterprise subscribers grew 21 percent.
- Small Business deferred revenue grew 13 percent, driven in part by the subscriber growth I just described.

Payments revenue grew 8 percent in the first quarter. As a reminder, we had two months of benefit from the Durbin amendment in the first quarter of fiscal 2013, creating a tough comparison.

- Merchants grew 10 percent, and card transaction volume grew 6 percent.

- We also recently announced partnerships with Square and American Express, which provide easy integration with QuickBooks Online.

Now let's move to **Small Business Management Solutions,** or SBMS, where overall revenue grew 15 percent.

Within SBMS, Employee Management Solutions revenue grew 12 percent, driven by strong growth in online customers.

- Online Payroll customers grew 18 percent.
- Within Online Payroll, full-service payroll customers grew 85 percent, to over 13,000.

In addition, Demandforce subscribers grew 36 percent. We recently acquired Full Slate, a leader in online scheduling capabilities for small businesses, which will join the Demandforce team.

Consumer

Within the **Consumer** segment, Consumer Tax revenue was up 11 percent versus the first quarter last year, driven by late-season filers and additional attached services. As you know, our Consumer Tax business is highly seasonal and our first quarter is a light one.

Professional Tax

The first quarter is also relatively small for our **Professional Tax** segment, where revenue grew 16 percent. It's early in the year, but we've seen strong customer acquisition and renewals for the upcoming tax season.

As we told you in September, we made some product changes in this segment. The second-quarter guidance that we reiterated today includes a shift of approximately $70 million in ProTax revenue from the second quarter to the third quarter as compared to fiscal 2013.

Financial Principles and Capital Allocation

Turning to the balance sheet:

We continue to take a disciplined approach to capital management, investing the cash we generate in opportunities that yield 15-plus percent ROI.

So far this fiscal year, we've made three small acquisitions with a total investment of around $65 million.

- These were talent acquisitions that provide Intuit with innovative teams of highly skilled data scientists, engineers and designers who will add great value across our businesses.
- In acquiring these companies, we used a mix of cash and equity in order to align the sellers' success with Intuit's over the long term, and as a way to retain top talent.

We also returned cash to shareholders via share repurchases.

- In the first quarter, we entered into an accelerated share repurchase agreement to buy back $1.4 billion in shares; about $2 billion remains on our authorization.
- We expect to reduce our share count 4 to 6 percent, net, in fiscal 2014.
- Our board approved a $0.19 dividend for the second quarter of fiscal 2014, payable on January 21.

<u>Q2 and Full-year Fiscal Year 2014 Guidance</u>

We reiterated our guidance for the second quarter and fiscal 2014. You can find the details in our press release.

As Brad mentioned, we expect a late start to the tax season. That could impact form availability and push Consumer Tax and ProTax revenue from our second fiscal quarter to our third fiscal quarter. We'll update you as the season approaches if necessary.

And one housekeeping item. As a reminder, we will provide tax unit updates in February in conjunction with our second-quarter earnings release and in late April after the tax season is over.

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

<u>Closing Comments</u>

Thanks, Neil.

It's obviously early in our fiscal year, but we're off to a great start.

As you can probably sense, we're excited about the new QuickBooks Online, which is accelerating our transition to the cloud, creating value for Intuit and our shareholders.

We're also gearing up for tax season and looking forward to getting our new offerings out to market in the coming weeks.

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

And with that, let me turn it back to you to hear what's on your mind.

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 2014 and beyond; expectations regarding the impact of the refreshed company strategy and organization changes on Intuit's business; expectations regarding growth opportunities from connected services; expectations around Intuit's ability to help customers deal with the Affordable Care Act; expectations regarding the impact on Intuit's business resulting from the decline in the number of people who file multiple tax returns using do-it-yourself software and the IRS focus on preventing fraudulent tax filings; 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 and divestitures on Intuit's business; expectations regarding availability of our offerings; and all of the statements under the heading "Q2 and Full Year FY14 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; business interruption or failure of our information technology and communication systems; 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 significant offering quality problems or delays; our participation in the Free File Alliance; the global economic environment; changes in the total number of tax filings that are submitted to government agencies due to economic conditions or otherwise; the highly seasonal and unpredictable nature of our revenue; our inability to attract, retain and develop highly skilled employees; increased risks associated with international operations; our ability to repurchase shares; 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; 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 these and other 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 November 21, 2013 and we do not undertake any duty to update any forward-looking statement or other information in these materials.