Intuit Inc.
Second-quarter Fiscal 2014
Conference Call Remarks
February 20, 2014

Introduction

Good afternoon and welcome to Intuit's second-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.

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.

Second Quarter Fiscal 2014 Overview

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

Today we reported second-quarter revenue of $782 million, down 12 percent from last year. This reflects a shift of tax revenue into the third quarter. As a result, we've raised our third-quarter guidance, and we have reaffirmed our guidance for fiscal 2014.

Before we drill into the details, let me begin by talking more broadly about a secular theme that is driving growth across all of our businesses – the adoption of connected services with favorable lifetime value and predictable, recurring revenue streams.

The move to the cloud powers our connected services strategy to deliver awesome product experiences, and allows us to leverage the contributions of others and capitalize on data to deliver customer delight.

With our restructuring efforts this past summer, our teams are focused and aligned against two strategic outcomes:

- To be the operating system behind small business success, and
- To do the nations' taxes, in the U.S. and Canada.

We are successfully leading the platform shift to the cloud, with a goal of adding 5 million small business customers and 20 million more tax filers over the next five years.

Here's a brief overview of the progress we've made against these strategic goals since declaring them six short months ago.

Beginning with small business, our cloud solutions continue to build momentum.

- QuickBooks Online subscribers grew 30 percent in the second quarter, accelerating versus last quarter. We added 45,000 net new customers in the past quarter alone.
    - We're seeing strong growth in QuickBooks Online outside the U.S., where we have 46,000 subscribers, nearly double last year's base and accelerating from 80 percent growth last quarter.
    - In parallel, we are early in the migration of our existing base of QuickBooks Online customers. Once customers are on the new version, the leading indicators are quite promising, with attach rates of payments and payroll much improved versus the classic QuickBooks Online.
    - When you include desktop customers who have elected to pay us recurring subscription fees, total subscriber growth is up 26 percent.
- Moving beyond QuickBooks Online, Demandforce subscribers also grew 33 percent and Intuit Online Payroll subscribers grew 20 percent.

On the marketing front, we've launched a new small business campaign that showcases the ease and versatility of the new QuickBooks Online and the supporting ecosystem of services.

All of this is occurring with the halo effect of our Small Business Big Game campaign, which was the biggest social campaign in our history. This campaign significantly raised Intuit's profile, generating more than 11 billion impressions in seven months. We also made a small business's dream come true, putting GoldieBlox, a 15-employee toy company from Oakland, California, in front of the world with a commercial during the Big Game.

Wrapping up our small business performance, we are powering through several proactive decisions as we aggressively reposition ourselves for the future:

- We are leaning into the new QuickBooks Online. As a result, the expected decline in QuickBooks desktop units will continue as we create greater incentives and migration support to move these customers to a much better cloud-based solution.
- We've also shifted our strategic focus in payments to QuickBooks merchants in support of our ecosystem approach. We've simplified our pricing model to ensure we are delivering a superior customer value for the price. Our revenue this quarter reflects our increased focus on the small business ecosystem. Neil will cover the details in a moment.

Even with these transitional moves, our small business online ecosystem is building momentum every day, and we continue to expect double-digit revenue growth in small business overall this year.

Now let's move to tax.

As we shared at the beginning of this fiscal year, the current season is our first step in a multiyear journey to redefine the tax preparation paradigm, and radically simplify the tax preparation experience.

In particular, we remain focused on improving our share of the more than 70 million simple filers in the U.S. and Canada, many of whom are paying too much for tax prep for their relatively simple returns.

Let me share some examples of the product innovations that we're already delivering for these simple filers in the current year:

- For the first time, our free federal product transfers returning customers' personal information and prior-year tax return data. This includes W-2 wage and salary information from their employer, drastically reducing the time it takes to complete a tax return.
- We've also executed targeted pricing actions in key time windows when these filers typically do their returns, complementing our free federal product with our state product at $15.
- SnapTax, a favorite among simple filers, is now available in both Spanish and English, and includes an "all-in" price of $15 as well.

For the broader tax base, we've also redesigned the online experience for returning customers. We now offer a more personalized experience that adapts itself to a customer's unique tax situation, based on their previous tax return data, eliminating unnecessary questions.

The redesign highlights year-over-year changes to a customer's tax refund, providing personalized, easy-to-understand explanations that help tax filers understand why their refund increased or decreased. These explanations eliminate unnecessary confusion and customer care calls.

These product improvements are occurring within the context of a shift in our marketing efforts. While we are investing less in marketing year-over-year, we are approaching our programs with bolder execution and clearer positioning as the champion of the do-it-yourself tax filer.

We've received a very positive reaction to our new advertising campaign, "It's Amazing What You're Capable Of," which clearly demonstrates how TurboTax empowers people to tackle their taxes with confidence and ease.

So what does this add up to? Well, it is very early in the season, but we're seeing good trends in traffic, conversion and net promoter scores. As we shared in our separate TurboTax update release today, our units grew 7 percent through February 15, versus the comparable prior-year period.

I realize the question on everyone's mind is "who's winning?"

Public data from the IRS through February 14 shows total self-prepared e-files up nearly 7 percent, which is a decent proxy for the DIY [do-it-yourself] software category. On a comparable basis through February 14, our e-files were up 10 percent, which indicates we gained share.

As a reminder, our next unit update will be at the end of April.

On the ProTax side of the business, we've seen strong early trends in customer acquisition. E-files for Intuit Tax Online have increased more than 40 percent year to date. We expect about 7 percent of our ProTax customers will use our online solution over the course of the tax season.

To put a bow around our progress in the first half of this year:

We're moving faster, in the U.S. and globally, but we still have work to do.

Small business subscriber growth is accelerating, driving double-digit revenue growth this year and beyond as we remain focused on global customer acquisition, enabled by cloud-based services.

And while it's early in the tax year, I'm inspired by our teams' work to re-imagine 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.

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.

For the second quarter of fiscal 2014, we delivered:

- Revenue of $782 million.
- Non-GAAP operating income of $17 million.
- GAAP operating loss of $46 million.
- Non-GAAP diluted earnings per share of $0.02.
- GAAP loss per share of $0.13.

Turning to the business segments:

Small Business

Total Small Business Group revenue grew 8 percent in the second quarter.

Within small business, **Small Business Financial Solutions**, or SBFS, revenue grew 5 percent. QuickBooks revenue grew 12 percent, while payments revenue was flat.

Customer acquisition in our online ecosystem continues to drive growth:

- QuickBooks Online subscribers grew 30 percent, accelerating from the first quarter.
- QuickBooks Desktop subscribers grew 19 percent.
- QuickBooks Enterprise subscribers grew 20 percent.

QuickBooks desktop units declined 9 percent versus last year. As Brad mentioned, we expect desktop units to decline and revenue growth from the desktop ecosystem to slow as we continue to improve and emphasize QuickBooks Online. The good news here is that the lifetime value of QuickBooks Online customers is 40 percent higher than desktop. Total paying QuickBooks customers were up 15 percent for the quarter, driven by the shift from desktop units to subscriptions.

Payments revenue was flat versus the year-ago quarter. Brad described some of the strategic decisions we've made in payments. Let me walk you through the numbers.

As you can see on the fact sheet, merchants grew 7 percent, and card transaction volume grew 3 percent. One click down, our core QuickBooks payments business is growing and certain non-core channels are declining. The numbers also reflect the impact of strategic decisions we've made to drive customer growth:

- Over the past few years our payments pricing structure has become less competitive. We have rolled out a simplified pricing plan that lets customers choose between a pay-as-you-go option with a clear rate per transaction and no monthly fee and a plan with a monthly fee and a lower discount rate.
- While we give up some near-term revenue because we have fewer merchants on plans with monthly fees, we believe more merchants and higher overall volume will more than make up for that over time.

- And we'll still have to grow over our non-strategic business lines. These represent about 10 percent of the payments business, and in the second quarter this non-strategic revenue declined approximately 25 percent.

Small Business Management Solutions, or SBMS, revenue grew 16 percent.

Employee Management Solutions revenue grew 14 percent, driven by strong growth in online customers, as well as our assisted and full service offerings.

Demandforce revenue grew 32 percent.

One last point on Small Business: Our guidance remains 10 to 12 percent revenue growth for the year. This growth is coming more from customers and mix improvement this year and less from price. Price drove about 5 points of growth last year and will only drive about 2 points this year. That's a much healthier mix and bodes well for continued customer growth as we move forward.

Consumer and Professional Tax

Brad covered the tax update, and the numbers are in the press release.

Let me remind you that the consumer tax comparisons get a bit tougher in the back half of the year, and our strategy this season is built to drive customer growth and share gains. This means customers may grow a point or two faster than revenue, which we think is a very healthy sign for the business long term.

Moving to:

Financial Principles and Capital Allocation

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

- Our first priority is investing for growth in the business.
- So far this fiscal year, we've made five small acquisitions with a total investment of around $125 million.
- When it's the best use of cash, we'll return cash to shareholders via share repurchases.
    - We completed the repurchase of $1.4 billion of shares so far this fiscal year; about $2.0 billion remains on our authorization.
    - As we've mentioned, we expect to reduce our share count 4 to 6 percent, net, in fiscal 2014 and we intend to be in the market every quarter.
    - Our board approved a $0.19 dividend for fiscal Q3, payable on April 18.

Fiscal Q3 and Full-Year 2014 Guidance

We reiterated our guidance for fiscal 2014 and provided updated details on quarterly guidance to reflect the expected shift in tax revenue in our press release.

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

Closing Comments

Thanks, Neil.

We've talked a lot about our strong small business results and our multiyear efforts to re-imagine the tax preparation experience.

Our aspirations to be the operating system behind small business success and to do the nations' taxes are bold strategic objectives.

I have confidence in our abilities to achieve these multiyear goals because of our company's commitment to creating an environment where the most talented employees can do the best work of their lives.

It takes effort to create a culture that operates like a 30-year-old start-up, and we continue to make big advances each and every day.

This commitment not only shows up in the kinds of innovative products and experiences we deliver for our customers, but it is acknowledged in the war for top talent, where Intuit has been ranked for the 13th year in a row on Fortune magazine's "100 Best Companies to Work For" list.

This year we broke into the top 10 at number eight, our highest ranking ever!

We have lots of opportunity in front of us, and we remain deeply committed to accelerating customer and revenue growth.

But it all starts with great people, and I couldn't be more proud of our team at Intuit.

With that, let me turn it over to you for your 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 2014 and beyond; expectations regarding a shift in consumer tax revenue from the second fiscal quarter to the third fiscal quarter of 2014; expectations regarding our strategic outcomes and our ability to achieve them; expectations regarding growth opportunities from connected services; 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 "Fiscal Q3 and Full Year 2014 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 February 20, 2014 and we do not undertake any duty to update any forward-looking statement or other information in these materials.