Intuit Inc.
Second-quarter Fiscal 2016
Conference Call Remarks
February 25, 2016

Introduction

Good afternoon and welcome to Intuit's second-quarter fiscal 2016 conference call. I'm here with Brad Smith, our chairman 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 2015 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.

Also, all reported results and guidance except GAAP net income and EPS exclude Demandforce, QuickBase and Quicken, which have been declared held for sale 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 2016 Overview

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

We're out of the gates strong in the first half of fiscal 2016. We grew revenue 23 percent in the second quarter, exceeded our guidance across the board, and we're on pace to deliver against our full-year outlook.

We know tax is on everybody's mind at this point in the year, so let me start there.

Overall, our tax strategy is on track. We are focused on expanding the do-it-yourself software category while driving customer growth and share gains, particularly in the simple returns segment. TurboTax Online units grew 12 percent through February 20, with total units up 9 percent. We're growing our accepted e-files season-to-date faster than the category, implying that we're once again taking share.

Our growth is being driven by product innovation, as we continue our journey to reimagine tax preparation:

- This year, TurboTax expanded its data import capability in our pursuit of "taxes are done." Approximately 75 percent of taxpayers will be able to digitally import W-2s directly into the product this year, up from 68 percent last year. TurboTax securely imports tax information directly from more than 1.4 million employers and financial institutions, saving considerable time and improving accuracy for the taxpayer.
- This season, all mobile ***and*** online customers can snap a photo of their W-2, and TurboTax will import the information into their tax return, whether they are on a phone, a tablet or a computer, which also saves time and reduces errors.
- Our TurboTax SmartLook feature is resonating with customers. This new feature quickly connects users with TurboTax experts who answer questions in real time – completely free.
- And for the second consecutive year, Americans with more straightforward tax situations are able to use TurboTax to file both their federal 1040A or 1040EZ returns, as well as their state returns, for free. This is a highly compelling offer for those 60 million Americans, many of whom live paycheck to paycheck and count on their tax refund as being the biggest check they'll get all year.

I'm really excited about our pace of innovation. While there is plenty of time left on the clock, if you look at the scoreboard so far, you'll see that:

- IRS data through February 19 shows that self-prepared e–files were up about 3 percent, contrasted with assisted e-files down 5 percent.
- And as I mentioned earlier, our e-file growth and other third-party data indicate that we're gaining share so far this season.

Looking beyond TurboTax Online, TurboTax desktop units are roughly flat, and the data suggests we're gaining share and winning back customers who may have gone elsewhere last year.

On the ProTax side of the business, we've seen positive early trends in customer acquisition and returns growth as well.

As I always say at this time of year, it's early in the season for our tax businesses, but I like the strong start we've delivered so far. We're staying agile, and I'm very pleased with our products and our customer experience.

Now let's talk small business.

We continue to generate strong new user growth in our online ecosystem. Over 80 percent of QuickBooks Online customers were new to the Intuit franchise once again this quarter. Total QuickBooks paying customer growth was also healthy in the quarter, as our desktop business posted strong results as well.

QuickBooks Online continues to build momentum:

- Total QuickBooks Online subscribers grew 49 percent in the second quarter.
- This resulted in the addition of nearly 100,000 QBO subscribers in the quarter, bringing us to 1,257,000 paid subs worldwide at the end of January.
- Roughly 50,000 of our QuickBooks Online subscribers are using QuickBooks Self-Employed, up from 35,000 last quarter.
- Outside the U.S., QBO subs grew roughly 80 percent, to 230,000 paying subscribers, in line with our expectations.
    - We remain focused on growing customers globally. We've built good momentum in the U.K., Australia and Brazil, and we recently went live in France.
    - We continue to get smarter as we expand our global footprint. We're tuning the local game plan in each country to achieve our targets for lifetime value to customer acquisition costs. Near term, this is dampening subscriber growth a bit in India and Canada, but we have clear plans in place to drive healthy, profitable growth in these markets over the long term.
- Finally, our expanding QBO ecosystem gives us confidence that growth will remain healthy:
    - 85,000 accountants who use the accountant version of QBO also have at least three clients using QBO – that's more than double the number of accountants with at least three QBO clients versus last year.
    - And we now have over 2,000 apps that integrate with QBO in our marketplace, which is also more than double the number we had a year ago.
    - Thirteen percent of QBO subscribers now use a third-party application, up from about 8 percent a year ago. We know that the retention of a QBO customer who also uses a third-party app is better, which increases lifetime value.

QBO subscriber growth remained near 50 percent this quarter, and we remain confident in our outlook for the full year and fiscal 2017. In fact, we saw record QBO subs growth during the last month of the quarter, which is the peak season for adding QBO subscribers. As a result, we're raising the low end of our QBO subscriber outlook for the remainder of the fiscal year; the range is now 1.475 million to 1.500 million subscribers.

As a reminder, at investor day we shared our expectation that QBO subscribers would grow better than 40 percent on average between FY '15 and FY '17, enabling us to exit FY'17 with 2 million to 2.2 million subs. Given this quarter's performance, we remain on track to deliver against this longer-term outlook.

Hitting the total key, it's been a strong first half of the year:

- I'm inspired by our teams' commitment to reimagine the tax preparation experience in both our consumer and professional tax businesses. There's much more innovation in store from these teams over the next few years.
- And total small business customer growth remains strong, as we continue to focus on global customer acquisition, enabled by our cloud solutions.

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

Financial Results and Segment Details

Thanks Brad, and good afternoon, everyone.

For the second quarter of fiscal 2016, we delivered:

- Revenue of $923 million, up 23 percent.
- Non-GAAP operating income of $114 million, versus a loss of $22 million a year ago.
- GAAP operating income of $42 million, versus a loss of $89 million.
- Non-GAAP earnings per share of $0.25, versus a loss of $0.06.
- GAAP earnings per share of $0.09, versus a loss of $0.23.

These results reflect the changes we made to our desktop software offerings in fiscal 2015, resulting in ratable revenue recognition from that point forward.

Business Segment Results

Turning to the business segments:

Small Business

Total Small Business segment revenue increased 7 percent for the quarter.

Small business online ecosystem revenue grew approximately 23 percent for the quarter, as customer acquisition in our online ecosystem continues to drive growth.

- QuickBooks Online subscribers grew 49 percent.
- Online payments customers grew 5 percent, and online payments charge volume grew 17 percent.
- Online payroll customers grew 17 percent.

I know some of you have been tracking QBO subs in the product itself. You should be aware that due to a one-week lag in the data, it's not always a good indicator of where we will land for the quarter. You also have to consider variability from marketing and pricing tests, seasonality and other data and timing issues when looking at the subs number. Our second and third fiscal quarters are our strongest seasonally, as accountants drive adoption during tax season.

Switching to desktop, total desktop ecosystem revenue increased 3 percent for the quarter.

- QuickBooks desktop units increased 14 percent in the second quarter. Our strong desktop performance was driven by our pricing and promotion strategy. For the full fiscal year, we expect desktop ecosystem revenue to be up slightly versus last year.

Consumer and Professional Tax

Consumer Tax revenue was up 29 percent versus the second quarter last year. Consumer Tax revenue is significantly higher than last year, reflecting a shift from the third quarter to the second quarter, primarily driven by an extra weekend day in January this year. We still expect revenue growth of 5 percent to 7 percent for the full year. We're focused on execution for the remainder of the season to grow the category and expand our share.

Our ProTax group grew revenue to $84 million, driven by changes to our desktop offerings, where revenue is now recognized ratably as services are delivered. For the third and fourth quarters, ProTax revenue should be roughly the same as it was in fiscal 2015.

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 over five years.

- We repurchased $455 million of shares in Q2, and $900 million remained on our authorization as of the end of the quarter.
- Our cash and investments balance was $334 million at the end of the second quarter.
- On February 1, we secured $1.5 billion in debt financing, including a $1 billion revolver and a new term loan of $500 million. One strategic use of this debt was the purchase of our San Diego campus, which we've previously discussed. Other potential uses include share repurchases and acquisitions that closely align with our strategic priorities.
- Our board approved a $0.30 dividend per share for our fiscal third quarter, payable on April 18. This represents a 20 percent increase versus last year.

And one final note on capital allocation. We expect the process to sell Demandforce, QuickBase and Quicken will be completed this fiscal quarter, with total proceeds of approximately $500 million. We expect to report GAAP-only gains when these sales close.

Q3 and Full-year Fiscal 2016 Guidance

We provided our guidance for the third quarter in our press release. We also reiterated our full-year revenue, operating income and EPS guidance.

As a reminder, we expect to provide a final TurboTax unit update in late April after the tax season ends.

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

Closing Comments

Thanks, Neil.

I'm pleased with our performance in the first half of the fiscal year. Based on these results, we're confident in our ability to deliver the back half of the year.

We recognize that the macro environment looks choppy. But if you look back over our three-plus decades as a company, it is during uncertain times that our products are needed most by our customers as we help them improve their financial lives. They still need to file their taxes, pay their bills, and look for ways to stretch their hard-earned dollars as far as they can.

And we've never been in a stronger position to serve our customers. Over the past several years, we've transformed from a North American desktop software company to a cloud-driven, global product and platform company, and that heavy lifting is now behind us.

That's why we'll continue to play offense, investing in innovation to fuel customer growth. 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 as always, I want to thank our employees for their hard work and their ongoing focus.

On the subject of great people, as a part of this earnings release, we announced the decision to rotate the general managers in our Consumer Tax and Small Business units following the tax season. Effective May 1st, Sasan Goodarzi will take over as head of the Small Business Group and Dan Wernikoff will assume responsibility as the general manager for our Consumer Tax business.

This commitment to leadership mobility is consistent with our historical practice. As we accelerate our transformation to a single ecosystem, strengthening and developing senior talent to possess a deep understanding of all aspects of the ecosystem is more important than ever. Intuit's future success centers on our ability to solve important two-sided interactions in ways that deliver tremendous benefits for both sides. This rotation will enable Dan and Sasan to develop deep empathy for each of Intuit’s core customers, as well as an understanding and appreciation of the collective products and technologies in our ecosystem.

We’re able to implement leadership moves like this from a position of strength. We’ve built deep talent benches, developed great momentum and have clear visibility into strong outlooks in both Small Business and Consumer Tax. I’m excited to watch that momentum continue as Sasan and Dan bring a fresh perspective and new capabilities to their respective teams.

So with that, let’s turn it over to you to hear what’s on your mind.

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; expectations regarding the planned divestitures of Demandforce, QuickBase and Quicken, and their impact on Intuit's business; Intuit's prospects for the business in fiscal 2016 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 investments in security; 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 "Q3 and Full-Year Fiscal 2016 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; availability of our products and services could be impacted by business interruption or failure of our information technology and communication systems; any 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 loss of confidence in using our software as a result of publicity regarding such fraudulent activity; any significant offering quality problems or delays; any lost revenue opportunities or cannibalization of our traditional paid franchise due to our participation in the Free File Alliance; the global economic environment may impact consumer and small business spending, financial institutions and tax filings; changes in the total number of tax filings that are submitted to government agencies due to economic conditions or otherwise; the seasonal and unpredictable nature of our revenue; our ability to attract, retain and develop highly skilled employees; increased risks associated with international operations; unanticipated changes in our income tax rates; changes in the amounts or frequency of share repurchases or dividends; 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; 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 the risks that may impact our business are included in our Form 10-K for fiscal 2015 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 25, 2016 and we do not undertake any duty to update any forward-looking statement or other information in these materials.