Macquarie Securities - Analyst

* Gil Luria

Wedbush Securities - Analyst

* Sterling Auty

JPMorgan Chase & Co. - Analyst

* Scott Schneeberger

Oppenheimer & Co. - Analyst

* Ross MacMillan

Jefferies & Company - Analyst

* Kartik Mehta

Northcoast Research - Analyst

* Jim MacDonald

First Analysis Securities - Analyst

* Yun Kim

Janney Capital Markets - Analyst

* Jennifer Lowe

Morgan Stanley - Analyst

* James Ellman

Ascend Capital - Analyst

* Kash Rangan

BofA Merrill Lynch - Analyst

Presentation

OPERATOR: Good afternoon. My name is Sayid and I will be your Conference Facilitator. At this time, I would like to welcome, everyone, to Intuit's third-quarter fiscal 2013 conference call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer period.

(Operator Instructions)

With that, I will now turn the call over to Matt Rhodes, Intuit's Director of Investor Relations. Mr. Rhodes, you may begin.

MATT RHODES, DIRECTOR - IR, INTUIT INC.: Thank you, sir. Good afternoon and welcome to Intuit's third-quarter 2013 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 2012 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 statements.

Some of the numbers in this report are presented on a non-GAAP basis. We've reconciled the comparable GAAP to 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.

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

BRAD SMITH, PRESIDENT AND CEO, INTUIT INC.: All right, thank you, Matt. I want to thank all of you for joining us as well. Today, we reported third-quarter revenue of $2.2 billion, up 13% from last year. Yesterday, we also announced a series of organizational changes to better focus our efforts, develop our leadership bench and accelerate our progress. Now, we anticipate the combination of these two announcements has generated many questions in your mind, so we're going to keep our prepared remarks brief and leave the majority of our time for your questions.

But let me begin by proactively addressing one of the questions that I suspect is on everyone's mind, what happened this tax season? As we announced last month, TurboTax paid units increased 4%. And we now anticipate TurboTax revenue will also grow about 4% for the fiscal year. Needless to say, it was a challenging tax season on almost every dimension and things played out differently than we had expected.

There are four key drivers that form the foundation of our tax planning and our results each year. The first is the number of overall tax returns filed with the IRS. IRS returns were down nearly 1% this year through May 3 versus our expectation of 1% to 2% growth. This was a meaningful difference, as each point of total return growth equals about $15 million in TurboTax revenue. So this delta in returns filed accounted for about 2 points of TurboTax growth that did not materialize.

The second driver is the number of tax filers choosing to use a digital solution. This season, we expected the software category to gain 2 points of share from manual and assisted, but we estimate the software category gained about 1 point. Every point of category share at our current market penetration equates to nearly 3 points of TurboTax growth. So this shortfall cost us about 3 points.

The third driver is our share of the digital category. While we grew share in retail and the emerging mobile category, we did not grow our online share as expected. Maintaining a roughly 60% share in a highly competitive season is a positive outcome, but it is not what we set out to achieve. Each point of software share equals about 1.5 points of TurboTax growth.

The final driver is revenue per customer, which results from favorable mix and improved free-to-pay conversion. We typically get 2 points to 3 points of upside in revenue per customer each year, but this year we did not anticipate improvement because of our decision to outsource our debit card offering. So in summary, total IRS returns being down cost us about 2 points. Slower category growth cost us about 3 points. And not gaining share cost us roughly another 1 point. In our view, the majority of the shortfall is an execution opportunity that we're already addressing.

While we're not satisfied with this season's overall outcome, we did make progress in several key areas, growing new customers that were first time filers and former tax store customers, as well as significantly increasing mobile adoption. We've already shifted our focus to making the adjustments for next year based upon what we know about the market and what we learned this season. The central pillar of our go-forward tax strategy is to deliver an awesome product experience. This is the key to driving awareness and improving conversion. The TurboTax experience has to be drop dead simple and more personalized if we're going to win share in the digital category and earn the business of the 40 million assisted tax filers who are willing to try software.

Our experiments this season tell us that personalization works. Our military and mobile offerings delivered a more personalized experienced for these specific customers this year to easily file their returns. As a result, we saw double-digit growth this season from the military and digital native customer segments. Given our scale and our data capabilities, we plan to extend this advantage to even more taxpayers next season.

We also need to deliver a great end-to-end customer experience. We've set a high bar for ourselves to deliver a product so personalized, simple and accurate that customers don't have any questions. But if they do, we need to have the right resources and business model in place to answer them effectively and efficiently. As I shared, activity is already well under way for next year with an intense focus on an improved product and an improved customer experience.

Now with that overview on Tax, let me shift to Small Business, which posted revenue growth of 17% this quarter. The team continued to do an amazing job, growing customers in what remains a weak environment for small businesses overall. Each of our Small Business groups grew double digits this quarter and continued to innovate to set the stage for the next phase of growth. For example, we completely re-imagined QuickBooks online for the iPad, which is more like CRM with the accounting just happening in the background. It is designed for small businesses who are mobile enough by nature and about half of the customers who downloaded and launched the app are new to the QuickBooks franchise.

We also launched Intuit Pay in the United Kingdom, making Intuit the first to market in the region, with the mobile payment solution designed for small businesses. QuickBooks online has doubled to 27,000 paying customers in more than 100 countries outside the United States. So across our Small Business landscape, we're building momentum and I am encouraged by our results.

With that, I'm going to hand it over to Neil to walk you through the financial details.

NEIL WILLIAMS, CFO, INTUIT INC.: Thanks, Brad. Let's start with overall Company results. For the third quarter of fiscal 2013, we delivered revenue of $2.2 billion, up 13%, non-GAAP operating income of $1.4 billion, up 17%, GAAP operating income of $1.2 billion, up 12%, non-GAAP earnings per share of $2.97, up 18%, and GAAP earnings per share of $2.71, up 12%.

Turning to the business segments, total Small Business Group revenue grew 17% in the third quarter, 12% excluding Demandforce. Within Small Business, Financial Management Solutions revenue grew 24% for the quarter, 12% excluding Demandforce. Customer acquisition in our Connected Services businesses continues to drive our growth. QuickBooks online subscribers grew 26%. QuickBooks Enterprise Solutions subscribers grew 29%. Online payroll subscribers grew 20%. And Demandforce subscribers grew over 65%. In addition, QuickBooks desktop managed well through the discounting issues we discussed last quarter, growing units slightly this quarter. Combining our active QuickBooks subscriber base with QuickBooks desktop units sold, QuickBooks customers have grown about 4% year to date.

Employee Management Solutions revenue grew 11% for the quarter, driven by accelerated new customer acquisition, increased revenue per customer and improved retention. Total customers grew about 3%. Payment Solutions revenue grew 13% in the third quarter. Merchants grew 12% versus last year. Merchant growth has slowed slightly, as we tune our underwriting process and payments, particularly in mobile, to balance customer acquisition with acceptable levels of profitability. Card transaction volume grew 7%.

Consumer Tax revenue of $1.2 billion grew 14%. Brad has already covered the details on customers and revenue, I'd just like to point out that the margins in this business held up extremely well despite single-digit revenue growth. Accounting professionals revenue of $257 million increased 9%. Our Accountant Tax group grew customers this season, and total e-file returns grew 6%. We expect revenue growth for the year of 5% to 6%.

Financial Services revenue of $99 million was up 9% for the quarter. Adjusted for Mint and the sale of our corporate banking business, Financial Services revenue grew 6%. Other Businesses revenue totaled $116 million, increasing 3%. Other Businesses revenue increased 10% when adjusted for the transfer of Mint to Financial Services. Revenue for Intuit Health was down 2% and is trending below last year. Based on these results and other factors, we have recorded an impairment charge for Intuit Health which reduced GAAP earnings per share by $0.14 in the third quarter.

Turning to the balance sheet, our financial principles and capital allocation strategy have not changed. We target double-digit organic revenue growth while growing revenue faster than expenses. We also take a disciplined approach to capital management, looking to invest the cash we generate in opportunities that yield 15% plus return on investment. We also returned cash to shareholders via share repurchases and dividends. We repurchased $92 million of shares in the third quarter, with $1.4 billion remaining on our authorization.

In addition, our board approved a $0.17 dividend for the fiscal fourth quarter, up 13% from last year, payable on July 18, 2013. We have provided our guidance for the fourth quarter and our updated guidance for fiscal 2013 in our press release. This guidance does not include incremental costs, if any, that may result from the strategic organizational changes we announced yesterday.

And with that, I'll turn it back over to Brad to close.

BRAD SMITH: All right, thank you, Neil. I hope you all had a chance to review our release from yesterday. It outlines the changes we've made to better position our organization for global growth opportunities. And I'd like to close by providing some context around those changes. The changes were driven by our refreshed Company strategy that we unveiled and shared with you in the fall, and then the clarification of two major strategic business outcomes this spring, to be the Small Business operating system around the globe and to do the nation's taxes. It is the next chapter of our Connected Services journey.

And as a reminder, that refresh Connected Services strategy, it's first to deliver awesome product experiences that have been designed for a mobile first, mobile only world and deliver an amazing first user experience that accelerate the user growth. Second, to enable the contributions of others, enlisting our end users and third party developers to participate in localizing, configuring, and adding value to our products. And third, to use customer data to create Delight making our products easier to use while delivering breakthrough benefits for our end users.

The long-term trends and the market opportunities are as clear as ever. With the strategy and the organizational changes that we've announced, we've proactively focused our talent and resources on the biggest opportunities to ensure that Intuit is set up for the next stage of growth. As always, I want to thank our employees for their hard work and their ongoing focus.

And with that, we'd like to turn it over to you for your questions. Sayid?

Questions and Answers

OPERATOR: Ladies and gentlemen.

(Operator Instructions)

Peter Goldmacher, Cowen.

PETER GOLDMACHER, ANALYST, COWEN AND COMPANY: Brad, I want to talk to you a little bit about this reorg. It seemed like you were taking a lot of the same players, putting them in slightly different roles so it looks like you've got some cross training going there. But the one thing I noticed that was really interesting was Sasan, who was your CIO, is now running Tax. You talk about these changes as an opportunity to take advantage of your Connected Services strategy and then you talk about using customer data for ease of use and benefits to end user and then you put your CIO in that Tax business. What are you -- what are the implications for Tax now that Sasan is -- your former CIO, is now running that business?

BRAD SMITH: Yes, thank you, Peter. First and foremost, we have a very strong and deep bench. And as you know, over the years, we've taken pride in moving our leaders into functional roles and different business roles to round out their experience and get them ready for bigger opportunities.

And so as we approach this year, Kiran and I have been speaking for the last couple years about his personal true north. And at that point in time, we decided, and Kiran was very interested in talking about what he wanted to do in the next chapter, and our hope was that that next chapter was to be with Intuit forever and ever. But at some point he reached the point where he said it's time for me to retire. We celebrated his birthday a week ago and he said now is the time.

And it set up the opportunity for us to make some key organizational changes. In the case of Sasan Goodarzi, which is where your specific question was, Sasan has actually been the General Manager of many of our businesses. He led our vertical businesses several years ago in the early 2000s. He was the General Manager of our accounting professional division, the Pro Tax portion of Tax. He was also the General Manager of our Digital Insight, our Intuit Financial Services business for several years. And we've had Sasan in the CIO role to help us move the Company from shrink-wrapped software to the Cloud.

What we get in Sasan is a very seasoned Executive who had run multiple portions of the Company's business and he clearly understands the power of a great product, the importance of having a platform that allows data to flow freely for end users and third-party developers to help us make our products better and he understands how to use data to make things a better outcome for customers. He is the right leader for the next chapter of TurboTax, as we put our energy into having a more personalized tax experience and building the next innovative set of products that will change the landscape for tax overall.

The rest of the leaders are also well positioned as they step into their new roles, and it's the next growth opportunity for them. But in terms of Sasan specifically for Tax, his general management experience, his opportunities working in our CIO role moving us to the Cloud and working with data, and now moving him into the Consumer Tax business, we think positions him and the Company for the next chapter of great.

PETER GOLDMACHER: Brad, can I -- I'm sorry, can I -- I have a corollary. Two tax seasons ago, you felt like you didn't compete well against H&R Block and that showed in the share shifts. This year, Tax overall was weak, but you competed much better against H&R Block. And now you've got your CIO running Tax. Can you draw some lines between the tax season a year ago, this tax season and tax season next year and the kinds of things that you think you can do differently to get that Tax business where you think it can be, which you've said is an 8% to 10% growth business?

BRAD SMITH: Yes, Peter, I can. Couple years ago, we started to see the early signs of the manual filers starting to reach a plateau in the single-digit millions. We also saw a significant opportunity for a group of people who use an assisted tax experience to say they would be open to software if the product was simple and easy for them to use, and if they had enough confidence to not be feeling like they were alone if they had a question. We've been running a lot of experiments. We've been testing a lot of things. We've had tax advice. We've launched SnapTax on the mobile platform. And we started to see things that are really working and quite frankly, some things that haven't worked as well as we had hoped.

We think between two years ago, what we learned with the experiences we had, and then this year what we learned started to work, we have the foundation for what we think will have a much stronger season as we look ahead next year. If I had to put a bow around what that is, it's what I've talked about in the prepared remarks. It is a product that is so simple, so elegant and so easy to use and feels like it is customized for you, that you don't have questions and you have no concerns about whether or not you can do your taxes on your own. That's going to be our emphasis. That's the way our franchise has built itself over the last three decades and that'll be the energy we put into next year as well.

PETER GOLDMACHER: Thanks, Brad.

OPERATOR: Brent Thill, UBS.

BRENT THILL, ANALYST, UBS: On the Tax business (inaudible) this has been your third year of declining growth. And if this pace continues, does this put weight on other initiatives that you have to kick start now, if you assume that next year that Tax business is going to be a mid single-digit grower? Or do you feel that there is a snapback, if you will, and that does not put weight on the Small Business segment to find new innovations or push international quicker?

Can you walk through how you think about the dynamic? And I know you're not giving guidance for next year, but I think everyone's trying to understand with a Company that's got a goal of growing 10% a year with steady operating margins, how do you do that with the Tax business at that rate of growth?

BRAD SMITH: Yes, I can. And what I would say is this is the power of a strong portfolio of businesses. It was just a few years ago in the depth of the recession, where Small Business was struggling to get to double digits and the Tax business was continuing to plow along at a good strong double-digit rate. And what we've had in the last year, because last year actually, two years ago rather, H&R -- excuse me, our TurboTax results grew 11%.

This year is a single-digit grower, but our Small Business group's growing 17%. The Company overall is healthy and we have the ability to step back and say what can we do to reignite growth in all the businesses that they hit a period of time where they've actually slowed down a little bit. And that's where we are with TurboTax.

We continue to see tremendous upside and opportunity in Small Business. We do think global is a tremendous opportunity for us if we can get it right. And quite frankly, as we look ahead to next year at Tax, we look at it as a multi-year effort. We clearly think we can do better than the 4% we did this year. I'm not here to tell you that in the next 12 months we see a double-digit growth year, we'll provide guidance in August. But what we do see is a strong franchise in Tax that when you put that in conjunction with our Pro Tax business, has the potential to do many more of the nation's tax returns and that's our focus and one of our two core strategic goals.

BRENT THILL: And just a quick follow up, online you didn't get the market share gains you wanted. What in your view -- why didn't those gains play out? And who did take the share, from your perspective in your early data?

BRAD SMITH: Yes, we're still sorting through all the data as well. As you know, there's a lot of clouding that's right now around what's happened in the macro with tax. I think even the IRS is working towards what they had anticipated the number of returns to be versus where it is. Looks like it's down about 1% versus growing 1% to 2%. When you look at the actual tax category, that's a part of the macro. And then when you get down into share, it looks like we did very well and retail actually picked up about 200 basis points. And I know we always talked about online because that is the future, but retail is still 25% of the market in the units to 200 basis points was good results.

And in mobile, quite frankly, it looks like we outsold the second closest competitor eight to one. When we get into online, it looks like right now from the data we've seen, we use third-party data sources, that we had a couple of key competitors, two competitors who may have picked up about a half a point each. And then everyone else was pretty much neutral. I would say that it's probably those two competitors that picked up a little bit and then everyone else pretty much had a flat year, and that would put us into the flat category as well.

BRENT THILL: Thanks, Brad.

OPERATOR: Walter Pritchard, Citigroup.

UNIDENTIFIED PARTICIPANT, ANALYST: (Inaudible) for Walter. Brad, my first question is earlier in the year, you guys highlighted simplifying the online interface to improve first time experience conversion. Can you talk about what you guys saw there and did it get the effect that you guys were hoping for?

BRAD SMITH: Yes, I can. We're doing this across the entire Company. We know that if we can get the conversion up 50%, which is moving it from literally 2 or 3 out of 100 customers who start the product, end up using it for a second time, and you move it up to the neighborhood of 3 or 4, that that is a significant opportunity for the Company across the board. Because most of our products begin with a free trial. You come in, you start to use the product, and if you like it, then you move on to being a paying customer.

We've seen very strong progress across our Company. And QuickBooks online continues to grow extremely well, 26% growth. The same thing with online payroll, up 20%. And those are all the results of making our first time use experience very simple. We've also driven stronger attach for products like payroll and payments inside of QuickBooks by eliminating the redundancy of keying data in and simply making it a feature that just happens inside of QuickBooks. We're making good progress.

In the case of TurboTax, probably the biggest progress was in our SnapTax offering, where we're able to use data, use the pictures that we're able to take and narrow down the number of questions and get you up and running very quickly. This year in SnapTax, we had 2.7 times more people actually file their taxes through a mobile device, a phone or a tablet. And perhaps a more interesting number is almost 5 million people who filed the TurboTax this year logged in at some point through either a tablet or phone. We really think mobile is going to be an important chapter going forward. And this simple first use experience is going to be a key piece of that.

We're seeing progress. It's happening across all the product lines. It's a game of inches. It's a game of using data to get a lot of the work done for customers. And we think it's one of the absolute biggest levers in the Company if we stay focused on it and continue to make the improvements we know we can.

UNIDENTIFIED PARTICIPANT: Got it. And, Neil, I think the last year and this year, you guys talked about spending more aggressively early in the season with the marketing. Can you talk about whether or not you guys saw the positive results from that? And then two, going forward, is that the new buy-in in terms of this particular market, or is that something you guys can dial back if needed?

NEIL WILLIAMS: I think as we look at three levers to grow the Tax business, we look at what we spend building a product, what we spend marketing the product and what we spend in care. And I would tell you that overall, we're very comfortable we got the right level of spend. But we're looking really, really hard at how we want to reallocate that going forward. And I think you can tell from the results that our conclusion would be that we didn't get the ROI that we would have desired or expected in the adjustments we made last season, and so we're looking at how we spend that money differently going into next year, specifically around how we build a product, as Brad mentioned. I don't consider anything that we spent last season necessarily locked in or our commitment going into next year.

UNIDENTIFIED PARTICIPANT: Great. Thanks, guys.

OPERATOR: Greg Dunham, Goldman Sachs.

GREG DUNHAM, ANALYST, GOLDMAN SACHS: I actually want to switch gears a little bit. I know the focus has been Tax, but the SMB business has been a standout performer here with the growth in the quarter. But the guidance looks to be a little bit -- I guess how should we think about guidance in that business for Q4? You did a strong number this quarter, but when I look at the guidance, there is a slowdown at 9.5% growth versus the double-digit growth that you've been growing. And specifically, the Payments business slowed a little bit this quarter, can you talk about what caused that? Thank you.

NEIL WILLIAMS: Yes, Greg, this is Neil. If you look back at the fourth quarter of last year, our Payments growth was north of 30%, and we talked about a one-time revenue item that flowed through Q4 of last year that's obviously not going to recur this year. Other than that, all of our business segments we think are, in the Small Business category, are very consistent with the trends you've seen this year. That one revenue item is the only exception that we called out last year in the fourth quarter, and we knew it was going to be a -- give us a tough [grover] for Q4 this year. That's the only oddball item.

GREG DUNHAM: Okay. And I guess one follow up, you're talking about international and it sounds like that is going to be an increase in focus on the SMB side. How big can that category get for you over the next several years? How big of a focus is international? Thanks.

BRAD SMITH: Yes, you're welcome, this is Brad. Greg, it's a big focus for us. We're still early days, but we've now moved to the third chapter of our global journey. Chapter one five years ago, was we formed a separate team to be a scouting party, to go out into the different markets and find which countries and which customer problems we thought we could solve.

Chapter two was those teams then began to come back and work with the US counterparts to globalize our products and we've rewritten our products to basically be global ready so they can be localized for different countries. We're now in chapter three, and chapter three is it's primarily a Small Business focus. We now have QuickBooks online re-architected and it's now in 100 countries since July. And we now have 27,000 customers that are paying for that product and we like the growth trajectory.

In terms of opportunity, for every small business we see in the United States, we see 20 outside the United States that could be potential customers who look just like the ones we have here. There's a lot of upside opportunity. We're early days. We've got a lot to learn, but we like the trajectory right now. And if we stay focused on it, we want to see this Company be much more of a global Company over the next three to five years.

GREG DUNHAM: Thank you.

OPERATOR: Brad Zelnick, Macquarie.

BRAD ZELNICK, ANALYST, MACQUARIE SECURITIES: You talked about the second driver of Tax results as the number of filers that choose digital and you had baked in 2 points of share gains from manual and assisted categories. Can you give us a feel for how much of the disappointment was in converting manual versus assisted filers and maybe what Intuit could have done better to drive the overall category?

BRAD SMITH: Yes, I can. We saw a good conversion from the assisted filers this year. At the same time, manual continues to be a decline, so it's a little bit of addition by subtraction. You have fewer people filing manually and you've got people in the stores that you want to convert to come into the program. I think our total assisted was up about 17% and some of the converting from assisted into the category. But I don't remember the manual numbers, what the decline was. Do you remember, Matt, by any chance?

MATT RHODES: No, it's pretty flat, down a little bit year over year for new customers.

BRAD SMITH: Yes. I would say it's -- more of it is the drag of manual. And to be honest with you, we're going to have to accelerate getting people out of the tax stores, but we did get an increase year over year.

BRAD ZELNICK: Thanks, Brad. If I could add a quick follow up, you didn't mention the April 14 outage. Do you feel that had any impact whatsoever on this tax season, and maybe you can comment a little bit about that?

BRAD SMITH: Yes, it was a disappointment for us. There's no question about it. We're better than that. We hold ourselves to higher standard. With that being said, I want to put it into context. There was a 60-minute window on April 14 where our teams were continuing to make configuration changes to the product to handle what is quite frankly unprecedented volume. As you know, we had a delay to the tax season. And we had the continuing procrastination towards April 14 and 15.

On those last two days, the volumes were up 81% over prior year and our teams were making changes on the fly to make sure we could continue to scale and we had a human error. We made a configuration change that was wrong, and for 60 minutes, there was intermittent performance for some customers. It was not a material number of customers. It had no impact on our financials from what we can see. But from a reputation and our own standards, we were very disappointed in ourselves. But quite frankly, at the end of the day, it didn't have a big impact financially.

BRAD ZELNICK: Thank you.

OPERATOR: Gil Luria, Wedbush Securities.

GIL LURIA, ANALYST, WEDBUSH SECURITIES: There's a laundry list of possible reasons for why overall tax filings were down this year, and I understand the post mortem is not done yet, but if you had to name the one or two reasons that are at least your leading hypothesis of why tax filings, overall tax filings were down this year, what would you put your finger on?

BRAD SMITH: Gil, I really wish that I could answer this question. I hesitate to speculate. And as you might imagine, the IRS is pretty busy these days, so we haven't had the opportunity to sit down and talk to them about what their hypotheses are. I can tell you what we've started to rule out.

We've looked at as an extension, are there a lot of people filing extensions? It looks like our extensions in TurboTax are up about 10%, which is what we planned on. In the Pro Tax business, they're up about 20%. Even if those numbers played out across the industry, the total number of returns would still be down year over year for the IRS. Beyond that, I really can't tell you what's happened here and we're just going to have to wait until we have a good conversation as an industry with the IRS to figure out what root cause was.

GIL LURIA: Got it. And as we went through this tax season, you reached out to some of your consumers and some of your small businesses and started engaging them in the discussion about health insurance and the implementation of the Affordable Care Act. Is that something you can continue to act on and engage with consumers and small businesses as you go through this year? Or are you going to wait until next tax season, and as people come in with these questions, try to answer them then?

BRAD SMITH: Yes, thanks, Gil. It is something we're going to continue to engage with consumers and small businesses on. There's still a lot of unknowns and a lot of uncertainty here and quite frankly, a lack of confidence around how the whole thing will be administered. That debate continues. But in the meantime, we have to help people try to understand what their choices are and what decisions they might want to make and will have implications for their tax situation next year.

Our teams are proactively working this. We've got a small dedicated team and a group of experts that are helping us design this program. We're already in dialogue with consumers and small businesses and we'll continue to try to demystify that and make it simple for them so next year they can move forward with their life and not have to worry about this.

GIL LURIA: Finally, to that point, do you expect a lot of consumers and filers to switch to an assisted mode of filing next year as opposed to using digital methods?

BRAD SMITH: Gil, that's not our goal. Our job is to make things that appear complicated simple. Right now, we believe that with the digital solutions we have and the programs we have in place and the natural trends we see in the market of people wanting to use digital solutions that there's no reason why that needs to be a foregone conclusion that they go to assisted. We simply need to make sure we're delivering the right answers to questions and giving them a good set of solutions to choose from. And that's going to remain our focus as we head into next year as well.

GIL LURIA: Excellent, thank you.

OPERATOR: Sterling Auty, JPMorgan.

STERLING AUTY, ANALYST, JPMORGAN CHASE & CO.: I want to better understand, it seems like the biggest delta and the difference in consumer tax growth is the number of filings and the shift in the digital category. Help me better understand why those can be execution issues and why those are not just structural things that you have to wait to see a turn in.

BRAD SMITH: Yes, thank you, Sterling. I would separate the two, because one is clearly a structural issue, that's the number of people filing returns with the IRS. The second, you could say is a structural issue, but as the category champion with the 60% share online and over an 85% share in retail, we view it as our job to help people understand that software, whether it's online or on a mobile device or in a desktop software product, is a better solution. We take accountability for growing the category. We work hard to educate consumers that there's a better solution that's one third the price. And so we view that as an execution opportunity for us.

STERLING AUTY: And then on the payroll side, despite the small business index still showing the pessimism, it sounds like the online portion really has picked up. I would imagine that's share shift. Can you talk about where you're seeing those inbound new companies coming from?

BRAD SMITH: Yes, we can, Sterling. I tell you I'm very proud of our payroll business and the leadership that Ginny Lee and the team have driven there. Total customers are up 3%. When you compare that with the overall competitors in the market, that is faster growth. And then you look at online growing 20%. And one of the things that we are seeing is a shift in share. And that shift is coming from outsourcers and into the digital solution.

And one of the interesting products that is driving that shift is our full service payroll product. It literally provides the same value proposition of the outsourcers, but it does it at 25% lower prices. And so we're starting to see a strong growth there in terms of customers coming into that product and we think that plus online is driving share shift into our category.

STERLING AUTY: Got it. Thank you.

OPERATOR: Scott Schneeberger, Oppenheimer.

SCOTT SCHNEEBERGER, ANALYST, OPPENHEIMER & CO.: Brad, could you assess your -- the help from representatives this year? Second year of the model, how that works for you, what you liked, what you didn't like, what the future plans are there? Thanks.

BRAD SMITH: Yes, Scott, I can. After two years of having tax experts working with us, and we've tried multiple things from free tax advice to having it targeted in certain areas, I would tell you what we've learned is it worked well for those who have used it, but it has not done the job in terms of helping us accelerate the shift out of tax stores and into software. Now we have multiple levers that we're looking at as we head into next year. Great products, making sure we have the right tax advice at the right time, and we're going to readjust our mix as we head into next year.

But right now, I would tell you it's a mixed bag. For those people who have used it, they like it. But for what we wanted it to do, which was accelerate the category shift into software, it has not done the job by itself. And we're going to have to step back and look at other ways to make that happen.

SCOTT SCHNEEBERGER: Thanks. Two more, if I could, jumping around. Neil, could you speak to your level of buybacks and it felt a little lighter than we had anticipated, and the strategy going forward with returning capital? Thanks.

NEIL WILLIAMS: Sure, Scott. Our plan is to be in the market every quarter. The extent to which we're in the market is driven by other things we have going on, competing uses we may have for the cash and the capital and our own expectations. And so we weren't able to be as aggressive this past quarter as we have been typically, but we've given ourselves a pretty wide band of expectations. Expect us to be in the market each quarter, but the level of vary based on other things that are under consideration, so we'll have to wait and see.

SCOTT SCHNEEBERGER: Thanks, and if I could sneak one more in. The write down of the asset value in Intuit Health, could you speak a little bit to that? I read the footnote in the release, but could you elaborate? Thanks.

NEIL WILLIAMS: Yes, sure. Our primary customer in Intuit Health is an AHR provider and they made an acquisition in our fiscal third quarter of a competing product, a competing offer. And that caused us to reevaluate our plans going forward and things like that. And we usually take a really conservative approach on these type things as we evaluate our asset carrying values each quarter and we felt like this adjustment was the appropriate thing to do.

SCOTT SCHNEEBERGER: Okay. Thanks, guys.

OPERATOR: Ross MacMillan, Jefferies.

ROSS MACMILLAN, ANALYST, JEFFERIES & COMPANY: Two quick questions on Tax. First of all, I think you ran some promotions over a certain short time windows this season. I was curious to get a sense for the rationale behind that and whether those were successful. And then number two, Neil, it looks like you did a great job in managing to a pretty high operating margin despite obviously the less than expected unit filer -- units that you got on the Consumer Tax business. From a high level standpoint, are you -- is it your approach to try to optimize for margins over growth, or can you maybe help us think about how we should think about margin structure, because you obviously did a very good job in maintaining the margin structure of the Consumer Tax business this year?

Thanks.

BRAD SMITH: Yes, I'll start, this is Brad.

We did run some promotions this year as a part of test to try to understand price elasticity and whether or not given the late filing season if there was a way to incentivize people to get into the tax product and start filing earlier. They were very targeted promotions. We saw some things that worked and some things didn't. But we certainly got the learning we want as we look ahead to next tax season, but there wasn't a material difference in terms of the outcome we had this year because there were more targeted promotions for a small group of customers so we could see what the results would be.

I'm going to let Neil take the operating margin thing, but I wanted to hit the high point here to set it up. Our Company is focused on growing customers and growing top line and then if we do that with revenue faster than expense, we get operating leverage. And because our Company is moving to the Cloud, we're getting natural economies of scale. Even in a year like this in Tax, we got good strong margin performance. This is not what we were optimizing for, that's a natural outcome of our business case. Neil, is there anything you want to add to that?

NEIL WILLIAMS: Ross, as a comment I made earlier that we've looked at the business and we feel like we've got the right investment levels, it's how we allocate it and how we spend it. And as Brad said, our first and foremost goal is always to grow customers and always to grow the top line. That said, when that doesn't come through, we've demonstrated that we have things we can do to adjust to at least deliver the margins that we expect. But first and foremost, we'd much rather invest for growth when we have the opportunity.

ROSS MACMILLAN: And maybe one quick follow on, if I could. I don't think I heard a GoPayment -- I think you talked about mobile payments growth, did you comment on the growth in either units or subscribers today?

BRAD SMITH: No, we didn't, but I'm happy to share that because we would tell you a couple things. Mobile payments continues to be a key growth driver for us, units were up about 40% in the quarter. The number of new users to the franchise, we used to tell you was roughly 70s, now closer to 80. At the same time, as Neil described, we've been adjusting and fine tuning our underwriting process to make sure we're getting good top line growth at the profit levels we're looking for. And so that metered a little bit of the growth, but that's been a choice on our part to make sure that we're getting the right customers into the franchise.

ROSS MACMILLAN: That's very helpful. Thank you.

OPERATOR: Kartik Mehta, Northcoast Research.

KARTIK MEHTA, ANALYST, NORTHCOAST RESEARCH: Brad, you indicated that on the digital side, at least for going from a market share from assisted to digital that manual had slowed down. I'm wondering, as you try to accelerate that market share growth from this year, does that require more marketing spend next year out of TurboTax or does it require a different type of spend?

BRAD SMITH: Yes, Kartik, honestly, we don't think it requires more marketing spend. We felt like we spent at sufficient level this year. What it does require is us getting back to our roots of understanding that the best way to change a customer's behavior is deliver a product that is so simple that they tell everyone else they should use it.

And so, if we talk about readjusting our portfolio allocations, I would think a lot more about how we're going to invest in taking a separate, change forward in the product. And at the same time, making sure that we remain competitive in the marketing aspects, as well. This is not about spending more in marketing, it's about making sure that the product is the key driver of marketing and letting our customers talk about our product and then support that with the right megaphone being our own marketing efforts here.

KARTIK MEHTA: And then Brad you commented a little bit on the pretax advice, maybe it's not lived up to your expectation or done exactly what you wanted it to do, does that mean that maybe you don't offer that service any longer, or you have to come up with a different service?

BRAD SMITH: I think, Kartik, what you're going to see is us refining our approach to how that service gets delivered. What we've discovered is there are certain customer groups at certain points in the filing process where they tend to have more questions. Our first job is to eliminate those questions completely by making that section in the product experience simple.

But then the rest of it's going to be then how can we blend in the right service and support experience so that the customers find it seamless. I would not say that it's a complete elimination. In its current format, it has not lived up to our expectations, but we have two years of very good learning here. And as we approach next year, I think you'll see a different approach to how we go to market.

KARTIK MEHTA: Could it be possibly that you charge customers to utilize this service, or is it that you keep it free, but maybe provide greater assistance up to the point where somebody needs to talk to a live human being?

BRAD SMITH: Yes. As you -- forgive me for my evasiveness, Kartik, but I got lots of people here that I'm sure would love us to answer that question more explicitly and they aren't necessarily the ones on the call, there could be other people out there. At this point, just say that we know that there's a lot of things we can do differently and we plan to do that as we head into next year.

KARTIK MEHTA: All right, fair. Thank you.

OPERATOR: Jim MacDonald, First Analysis.

JIM MACDONALD, ANALYST, FIRST ANALYSIS SECURITIES: I wanted to ask some tax questions maybe a different way. Your guidance doesn't seem to assume any spillover growth from late filers. What are the chances that actually could happen later here in next quarter or two?

BRAD SMITH: Yes, Jim, this goes back to a little earlier we were talking about what we believe we see in terms of extensions being filed because you need to notify the IRS by April 15 if you plan to file an extension. And we see that in the Consumer Tax product and TurboTax it's up about 10% year over year, which is pretty much what we forecasted it would be. And then in the Pro Tax product, Lacerte and ProSeries, it looks like it's up about 20%.

Again, we've already accounted for that in our guidance both business segments. In the Pro Tax business, we'll probably see a little bit of revenue shifting into next year. Neil mentioned that we're seeing the guidance for that business be about 5%, 6% this year and that's because some of it will shift into October. But beyond that, we don't have anything else that we could share in terms of spillover at this point. It's up 10% in the TurboTax product, it's up about 20% in ProSeries and Lacerte.

JIM MACDONALD: And then going back to the market share in the web tax product, any overall ideas why you might have not done as well as you expected there? And it looks like you're changing your -- you're looking to change your ad agency. Was the ad strategy a part of the share issue?

BRAD SMITH: This year, I think our advertising did the job that we needed it to do. What we have to do is get back again to the product and making sure the product is very, very simple and inspires confidence and you don't have any concerns about getting in and doing your taxes on your own.

And so, what we would tell you is we are looking at our agency next year. We do think that there's a different way to go to market. But the most important emphasis we'll have going into next year is a product that continues to inspire confidence and gets people talking about it. That's where the biggest energy will be as we head into the next season, Jim.

JIM MACDONALD: Okay. Thanks very much.

OPERATOR: Yun Kim, Janney Capital Markets.

YUN KIM, ANALYST, JANNEY CAPITAL MARKETS: Quick question on the Tax side, Brad, on retrospect. How effective do you think the live text help was this year in your view? Is there other ways to try to penetrate that assisted tax market besides providing live help?

BRAD SMITH: Yes, Yun, it was not as successful as we wanted it to be. We were able to get people out of tax stores at a higher rate than last year but not at the rate that we had anticipated, that's why we're talking about making some adjustments next year. And we do think there is a way to get people out of tax stores.

We see through some of the experiments we did this year that if you have a product that's extremely compelling and doesn't have an onerous interview process that you can really make some big changes in terms of customers behaviors. And so as we look ahead to next year, we're going to be looking hard at how we can take those learnings and build that into our experience that we deliver for customers. We still remain confident there's 40 million people out there that have relatively simple returns that are paying way too much that we think we can deliver a better solution for them and we're going to do that as we head into next year.

YUN KIM: Okay, great. And then switching gears to the Small Business group segment, can you give us any update on the Demandforce and specifically how's the cross-selling efforts are progressing? We saw healthy improvement in margins for all Small Business groups, especially in the Financial Management segment, which I believe faced margin headwind because of Demandforce business, but how much of that margin improvement is driven by cross-selling efforts, if any? Thanks.

BRAD SMITH: Yes, let Neil and I tag team on this, if you don't mind. I'll talk a little bit about the health of the Demandforce business and he can talk about the margin implications. As you saw, the subscriber base grew for the quarter over 65%. They continue to have a strong tailwind as they penetrate new verticals, and they continue to have strong retention rates across the current verticals. In terms of cross-sell, there's still relatively early days, but as you know, they have roughly 25,000 Demandforce customers today. And those customers tend to be appointment-based businesses and they have a certain revenue side so that they can pay the subscription service fees that Demandforce charges.

We've now matched that up against the existing 4 million QuickBooks customers and we have 400,000 existing QuickBooks customers who look exactly the same as the Demandforce customers. We see fertile ground there and we're in the early days of marketing Demandforce to those customers. We'll stay tuned and see how much we can drive that growth. But I think the 65% subscriber growth is a pretty good indication that there's some upside opportunity there. Neil?

NEIL WILLIAMS: And to that point, Yun, this is still a business where we're investing heavily, so the margin improvement you're seeing in FMS really is more related to working our way through the discounting issue that we talked about with QuickBooks desktop last quarter and seeing our revenue per customer respond appropriately as we -- on the QuickBooks side. Still investing in growth for our Demandforce.

YUN KIM: Okay, great. And one last quick question, Brad. With your expectation of having a pretty big presence in international markets within the next two to five years? How aggressively are you planning to invest in the near term to support that plan? Can we still expect earnings growth to be faster than revenue growth?

BRAD SMITH: We believe both can be true. It's a major focus area for us, that's one of our two core goals is to make QuickBooks and our related products the small business operating system around the world. Our Small Business group has an objective that we shared at the Investor Day that we want to make sure we grow that customer base and a large portion of that will come from outside the US, and that's where we're making the investment. But we believe we can do that with rigorous capital allocation and that we continue to grow revenue faster than expenses and continue to get the operating leverage that you have come to expect from us.

YUN KIM: Great. Thank you so much.

OPERATOR: Jennifer Lowe, Morgan Stanley.

JENNIFER LOWE, ANALYST, MORGAN STANLEY: I wanted to go back to the reorg. And one of the things I wanted to drill in on is the change in the Small Business segmentation, going from the three sub segments there that you had previously to the new segments, which combining the Payments business with Financial Management Solutions and then combine the employee piece with Demandforce. What is the thinking behind that, that change there? And what are some of the synergies that you're hoping to realize by bringing those businesses into closer alignment?

BRAD SMITH: Yes, thank you, Jen. First of all, what's important is to understand that every organization design, you try to balance the tension between what you don't want to break in terms of an alignment and experience with how do I get intense focus on the one or two biggest opportunities in front of us? And in the Small Business space, we have a group of very seasoned leaders who are good at working collaboratively, regardless of whether they all work in one business unit or they work in a couple. Just to make sure we keep that alignment clear, all the Small Business leaders have the same goal and that is to double our small business active user base over the next several years.

The second thing we're doing is we're making sure that we do not break the customer experience. And so in the Financial Solutions business, being led by Dan Wernikoff, he's responsible for having a harmonized product experience across all the Small Business offerings. So they look and feel the same, there's a seamless unlock, it feels like you're a part of the same company. And the other part of the Small Business group led by Dan Maurer, they're doing the same thing with sales and marketing and customer support. We have a seamless product, marketing and customer service experience.

Now why we split them apart is because if we look at going global, the kernel or the core of that ecosystem is Financial Management. And small businesses define that as money in and money out. We call that QuickBooks and Payments.

And so those two put together become the core of our operating system around the globe. And as you all know, our Payments penetration into QuickBooks today is about 6% and that's compared to our payroll penetration, which is much higher. And so we think by putting these together, we will not only accelerate Payments penetration into QuickBooks, but will also give us the foundation to go globally much faster.

The other ecosystem, which includes Demandforce, our payroll services and Quick base, those businesses will continue to rely on QuickBooks for customers, but they also have their own ecosystem. For example, our payroll customers today, 1.3 million of them, have 15 million employees that they pay W2s to. Those employees happen to be consumers that could use Mint and TurboTax and lots of other products. And so they become an ecosystem in and of themselves.

The reason why we split them apart is we wanted to make sure we could get real focus on QuickBooks and Payments around the globe and that we could also look at the ecosystem product that we'll continue to sell into QuickBooks, but could also start to build out some of their own attach services. And we think by getting that focus but keeping them aligned against the common goal, we'll get the best of both worlds.

JENNIFER LOWE: Thank you.

OPERATOR: James Ellman, Ascend.

JAMES ELLMAN, ANALYST, ASCEND CAPITAL: It really has to do with Obama Care ACA and potential immigration reform. There seems to be a disconnect out there on the street between the thought on H&R Block and Intuit, that for some reason H&R Block will see a great deal of benefit from Obama Care and immigration reform in terms of new filers and more dollars charged per return, but Intuit will not benefit from those two pieces of legislation. Why is that and how are you prepared for Obama Care this coming tax season and potentially immigration reform after that?

BRAD SMITH: James, thank you for the question. And I agree that seems to be the sentiment out there and we fundamentally disagree with it. The sentiment is because there's an implication that things get complicated, people are going to go somewhere to get help. If that were the case, taxes have been complicated for as many years as we can think about. And if you look at the only category that has grown in the last 10 years, and even this season digital grew 3% and tax stores were down between 1% and 2% according to the IRS. Complexity does not lead people to go talk to a human being.

It is the Company's job to make it simple, and that's the job we've been in for 30 years, to make complicated things simple. We fundamentally don't believe in the premise. I think there's some good stories out there in the market that some people are buying into and we'll have to prove that we have a different story to tell and that'll be our message as we go into next year, to make complicated things simple. And we can look at Tax as a great example, complexity does not always lead to you a human being.

JAMES ELLMAN: And do you believe that the way Obama Care is going to run through the tax code that your software will be able to handle the preparation for Obama Care for most of the filers who come to TurboTax?

BRAD SMITH: We do, absolutely. It'll be our job to make sure that anything that gets administered through the tax code can be handled in our software and for us to make it so simple that you don't have any questions or concerns about it.

JAMES ELLMAN: And is there any room for revenue uplift per user because of the extra complexity of having to fill out the Obama Care?

BRAD SMITH: That's something we'll have to figure out as we get closer to understanding how the program will actually be implemented. Right now, the most important thing we want to do is give 145 million potential tax filers confidence that they could use software to handle this. And if that leads to either more customers or greater revenue per customer, we'll work that out over time.

JAMES ELLMAN: Very good. Thanks so much for the time.

OPERATOR: Kash Rangan, Merrill Lynch.

KASH RANGAN, ANALYST, BOFA MERRILL LYNCH: My apologies if this question has already been answered. Brad, wondered if you could give a quick update as to what are you doing on the retention side, any steps to improve the retention? And also, if you could comment on the impact of the organizational changes on the Consumer Tax business? That's it for me, thank you very much.

BRAD SMITH: Yes, on the retention side, Kash, it really comes back to making sure we delivered a great experience in season and then making it easy for you to know when you come back next year that all the data and the information that you plugged in this year is waiting for you and that we have smart insights and recommendations to help you make better decisions as you do your tax return next year. We've done some really good work this season to make sure that we understand the data and to begin to make smart recommendations for you if you come back and file your returns with TurboTax next year and we think that will lead to good retention results.

In terms of the org change, we talked a little bit earlier about Sasan Goodarzi moving into Tax. Sasan's been a seasoned General Manager for us. He's run multiple businesses, from software verticals in the early 2000s to our Pro Tax business for a couple years to IFS, which is Digital Insight, and most recently as our Chief Information Officer moving us from shrink-wrapped software to the Cloud and working closely with our data services team to understand how data can make products more compelling. He is absolutely the right guy to move into Tax and build on the great foundation of his predecessor and take the game to the next level as we put more energy into our Tax product.

KASH RANGAN: Great. Thank you very much, Brad.

OPERATOR: Thank you. And gentlemen, I'm showing no further questions at this time. Would you like to close with any additional remarks?

BRAD SMITH: I do Sayid, thank you. And I want to thank everybody for their questions. I know we covered a lot of ground today, hopefully the message is more clear. Personally, we view this as a very exciting time at Intuit, as we're taking a bold step into the next chapter. We're making these changes from a position of strength. We think it's going to further accelerate our progress, and we're really looking forward to sharing our progress with each of you as we talk again in the coming days and months and looking forward to putting more points on the board. Thanks for your time, and everyone have a great Memorial Day weekend.

OPERATOR: Ladies and gentlemen, thank you for participating. This concludes today's conference. You may all disconnect and have a wonderful day.

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