Intuit Inc. (INTU)

Updated June 16th, 2020 by Nikolaos Sismanis

Key Metrics

Current Price:	$291	**5 Year CAGR Estimate:**	3.7%	**Market Cap:**	$75.03B
Fair Value Price:	$190	**5 Year Growth Estimate:**	12.0%	**Ex-Dividend Date:**	07/08/2020
% Fair Value:	153%	**5 Year Valuation Multiple Estimate:**	-8.2%	**Dividend Payment Date:**	19/19/2020
Dividend Yield:	0.7%	**5 Year Price Target**	$355	**Years Of Dividend Growth:**	8
Dividend Risk Score:	B	**Retirement Suitability Score:**	D	**Last Dividend Increase:**	12.7%

Overview & Current Events

Intuit is a Cloud-based accounting and tax preparation software giant, headquartered in Mountain View, California. Its products provide financial management, compliance, and services for consumers, small businesses, self-employed workers, and accounting professionals worldwide. Its most popular platforms include QuickBooks, TurboTax, Mint, and TSheets. Cumulatively they serve more than 52 million customers. The $75.5 billion company does more than $6.5 billion in annual.

On May 21st, 2020, Intuit reported 2020 Q3 results for the period ending April 30th, 2020. The third quarter has always accounted for around half of the company's revenues and the majority of its profits. This is because it coincides with the tax-reporting season, to which Intuit's business model is based. For the quarter, EPS was $4.11, 21% lower than Q3 2019, while revenues also fell by 8% to $3 billion. The decline in both sales and earnings was merely technical. The IRS extended the tax filing deadline season to July 15th, in response to COVID-19, mismatching Intuit's sales. Extra revenues should rollover to Q4. Moreover, the company's Small Business Online Ecosystem revenue grew 28%, exciting investors in terms of future growth. The company also reported an all-time high cash position of $4 billion, showcasing its firepower for future acquisitions. Management did not provide any guidance for the quarter or the rest of the year.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
EPS	$1.82	$2.07	$2.68	$2.89	$3.18	$1.30	$3.74	$3.83	$5.19	$5.99	**$5.13**	**$9.04**
DPS	---	---	$0.60	$0.68	$0.76	$1.00	$1.20	$1.36	$1.56	$1.88	**$2.12**	**$3.74**
Shares[1]	316	307	296	297	285	281	262	257	256	260	**255**	**225**

EPS CAGR over the past decade has been around 14%, while DPS CAGR has been about 17% since its initiation. Consistent earnings growth has been the result of multiple acquisitions that have allowed the company to expand its portfolio of products. We expect both earnings and dividends to keep growing at approximately 12% annually in the medium term, as the company matures further. Management has a stellar track record of capturing profitable opportunities, and they continue to do so. For example, during the quarter, Intuit's QuickBooks Capital distributed $875 million of Paycheck Protection Program loans to 25,000 small businesses, and it expects to earn 3-4% on these loans, including service fees. We anticipate profitability to keep growing, upheld by Intuit's impressive gross margins of around 80%. Despite exciting DPS growth, the company has recently started favoring buybacks. Its stock repurchase program currently has $2.4 billion remaining, representing 3.4% of its market cap.

Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
Avg. P/E	23.3	26.4	26.2	24.9	29.5	58.2	45.3	39	47.1	48.7	**56.8**	**37.0**
Avg. Yld.	---	---	1.0%	1.1%	0.9%	1.3%	1.2%	1.1%	0.8%	0.8%	**0.7%**	**1.1%**

[1] Share count is in millions.

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Intuit's valuation has seen a significant premium over the past five years, as the company has dominated the tax-reporting software market. With robust cash flows and a recurring revenue model, the market has currently assigned an all-time high valuation of around 57 times its underlying earnings. We expect the company's valuation to continue being rich in the future. However, the multiple should eventually become a more reasonable figure, around 37, which is its ten-year average.

The dividend yield should remain relatively low, despite its rapid growth and the moderate payout ratio. We expect investors to enjoy total returns mainly from share price appreciation, boosted by share buybacks.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	---	---	22%	24%	24%	77%	32%	36%	30%	31%	41%	41%

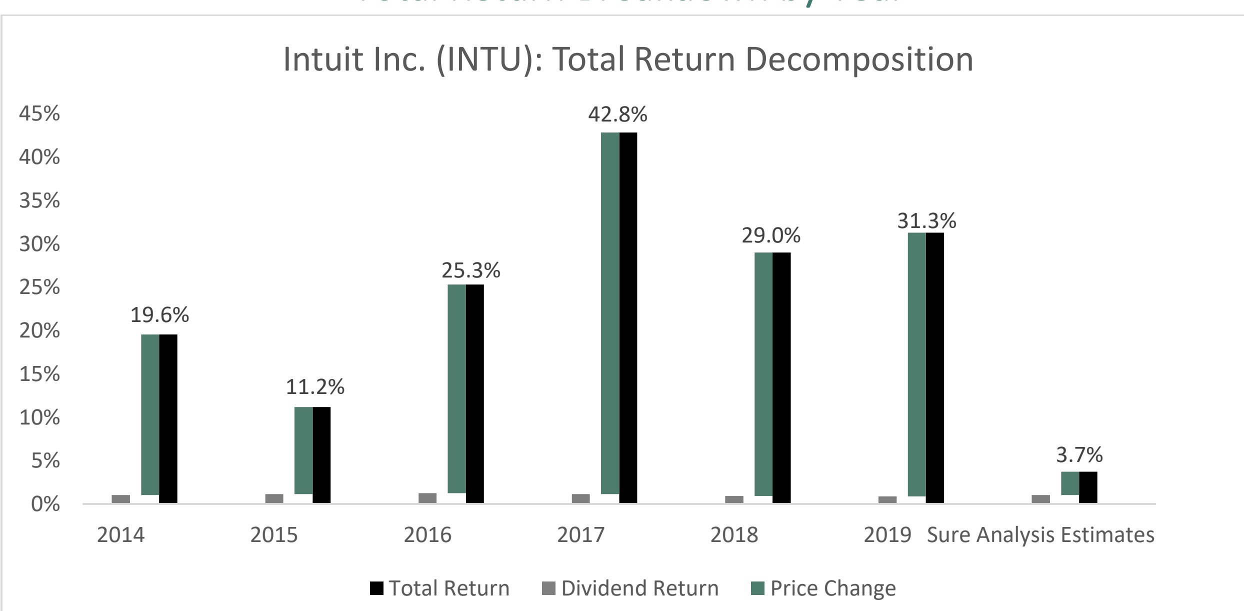
Intuit makes for an incredibly safe investment, as its revenues are largely recession-proof. In this world of uncertainty, it is safe to say that taxes won't be disappearing. Other than death, taxes are the only thing that is guaranteed, and Intuit has captured the tax-reporting market. Intuit's suite of products will be there to help people pay their inevitable taxes.

In the midst of the Great Financial Crisis, for example, the company still managed to grow earnings by around 7%. We consider Intuit to be incredibly resilient, and future acquisitions should further strengthen its portfolio of products, hence its rich valuation.

Final Thoughts & Recommendation

Intuit's stock has been delivering jaw-dropping returns over the past five years, beating the market by a wide margin. While we still expect the company to keep growing both organically and through acquisitions, we believe that the future valuation will return to a more reasonable multiple. While a quality firm, shares are currently noticeably overvalued. As a result, our prudent expected CAGR returns result in a little less than 4%. While the stock may not be the most ideal for income investors, its rapidly growing dividend and cash flow resilience could end up being a moderate source of income in the long-term, *if* valuation multiple declines don't eat up too much of the growth returns..

Total Return Breakdown by Year



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Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	$3,403	$3,449	$3,808	$3,946	$4,243	$4,192	$4,694	$5,196	$6,025	$6,784
Gross Profit	$2,769	$2,959	$3,223	$3,406	$3,622	$3,467	$3,942	$4,386	$5,047	$5,617
Gross Margin	81.4%	85.8%	84.6%	86.3%	85.4%	82.7%	84.0%	84.4%	83.8%	82.8%
SG&A Exp.	$1,259	$1,300	$1,414	$1,534	$1,601	$1,771	$1,807	$1,968	$2,295	$2,524
D&A Exp.	$256	$241	$242	$232	$197	$231	$238	$236	$253	$225
Operating Profit	$904	$1,082	$1,168	$1,208	$1,300	$886	$1,242	$1,418	$1,560	$1,854
Operating Margin	26.6%	31.4%	30.7%	30.6%	30.6%	21.1%	26.5%	27.3%	25.9%	27.3%
Net Profit	$574	$634	$792	$858	$907	$365	$979	$985	$1,329	$1,557
Net Margin	16.9%	18.4%	20.8%	21.7%	21.4%	8.7%	20.9%	19.0%	22.1%	23.0%
Free Cash Flow	$855	$785	$1,050	$1,171	$1,260	$1,328	$938	$1,369	$1,988	$2,169
Income Tax	$292	$354	$374	$378	$447	$299	$397	$405	$237	$324

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	$5,198	$5,110	$4,684	$5,486	$5,201	$4,968	$4,250	$4,068	$5,134	$6,283
Cash & Equivalents	$214	$722	$393	$1,009	$849	$808	$638	$529	$1,464	$2,116
Accounts Receivable	$135	$171	$142	$130	$115	$91	$108	$103	$98	$87
Goodwill & Int. Ass.	$2,170	$2,066	$1,493	$1,395	$1,456	$1,353	$1,326	$1,317	$1,672	$1,709
Total Liabilities	$2,377	$2,494	$1,940	$1,955	$2,123	$2,636	$3,089	$2,714	$2,318	$2,534
Accounts Payable	$143	$129	$139	$137	$145	$190	$184	$157	$178	$274
Long-Term Debt	$998	$999	$499	$499	$499	$500	$1,000	$488	$438	$436
Shareholder's Equity	$2,821	$2,616	$2,744	$3,531	$3,078	$2,332	$1,161	$1,354	$2,816	$3,749
D/E Ratio	0.35	0.38	0.18	0.14	0.16	0.21	0.86	0.36	0.16	0.12

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	11.5%	12.3%	16.2%	16.9%	17.0%	7.2%	21.2%	23.7%	28.9%	27.3%
Return on Equity	21.3%	23.3%	29.6%	27.3%	27.4%	13.5%	56.1%	78.3%	63.7%	47.4%
ROIC	15.6%	17.1%	23.1%	23.6%	23.8%	11.4%	39.2%	49.2%	52.2%	41.9%
Shares Out.	325	317	305	303	291	286	265	261	261	264
Revenue/Share	$10.47	$10.88	$12.49	$13.02	$14.58	$14.66	$17.71	$19.91	$23.08	$25.70
FCF/Share	$2.63	$2.48	$3.44	$3.86	$4.33	$4.64	$3.54	$5.25	$7.62	$8.22

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.