Intuit Inc. (INTU)

Updated September 6th, 2020 by Nikolaos Sismanis

Key Metrics

Current Price:	$333	**5 Year CAGR Estimate:**	9.4%	**Market Cap:**	$87.2B
Fair Value Price:	$287	**5 Year Growth Estimate:**	12.0%	**Ex-Dividend Date:**	10/09/2020
% Fair Value:	116%	**5 Year Valuation Multiple Estimate:**	-2.9%	**Dividend Payment Date:**	10/19/2020
Dividend Yield:	0.7%	**5 Year Price Target**	$505	**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 $87.2 billion company records more than $7.5 billion in annual revenues.

On August 25th, 2020, Intuit reported its 2020 Q4 results for the period ending July 31st, 2020. The company closed its financial year with another quarter of excellent figures. More specifically, it achieved record-high annualized revenues of $7.67 billion, a 13% increase YoY. EPS also hit a record-high of $6.92, a substantial 17% growth, backed by Intuit's world-class gross margins of 82.3%. Management attributed its success to resilient customer growth, despite the challenges in the overall economy. TurboTax saw an 11% customer growth, marking the best customer growth in the past four years, while TurboTax Live's customers grew by an astounding 70%. With more users than ever on its platforms, coupled with price increases, the company expanded its ecosystem on every aspect, beating analyst expectations once more. Finally, the company ended the year with an all-time high cash position of $7.1 billion, which should make for an ideal war chest to assist management with its ever-expanding acquisition strategy. No specific guidance was provided.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	$2.07	$2.68	$2.89	$3.18	$1.30	$3.74	$3.83	$5.19	$5.99	$6.92	***$7.75***	***$13.66***
DPS	---	$0.60	$0.68	$0.76	$1.00	$1.20	$1.36	$1.56	$1.88	$2.12	***$2.37***	***$4.18***
Shares[1]	307	296	297	285	281	262	257	256	262	262	***258***	***225.0***

EPS CAGR over the past decade has been around 14.4%, while DPS CAGR has been about 17.6% since its initiation. Consistent earnings growth has resulted from multiple acquisitions that have allowed the company to expand its portfolio of products. We expect both EPS and DPS to keep growing at approximately 12% annually in the medium term, as the company matures further. Management's outstanding record of identifying and capitalizing on profitable opportunities is on constant display. For example, during the quarter, Intuit and its bank partners helped make available just over $1.2 billion of small business loans to customers from the PPP through its QuickBooks Capital. This resulted in approximately $30 million in additional revenues in Q4, on which Intuit is expected to earn additional interest. Finally, the company's stock repurchase program currently has $2.4 billion remaining, representing 2.7% of its market cap.

Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	23.3	26.4	26.2	24.9	29.5	58.2	45.3	39.0	47.1	48.7	***43.0***	***37.0***
Avg. Yld.	---	1.0%	1.0%	1.1%	0.9%	1.3%	1.2%	1.1%	0.8%	0.8%	***0.7%***	***0.8%***

[1] Share count is in millions.

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.

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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. By showcasing robust, growing cash flows, even during times of uncertainty, the company currently has a (forward) P/E ratio of 43 attached to its shares. While we expect Intuit's valuation to remain rich in the medium term, backed by low rates and investors' increased appetite and capital allocation towards tech stocks, we retain our forecast for a more reasonable future multiple of around 37 times earnings.

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	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	---	22%	24%	24%	77%	32%	36%	30%	31%	31%	***31%***	***31%***

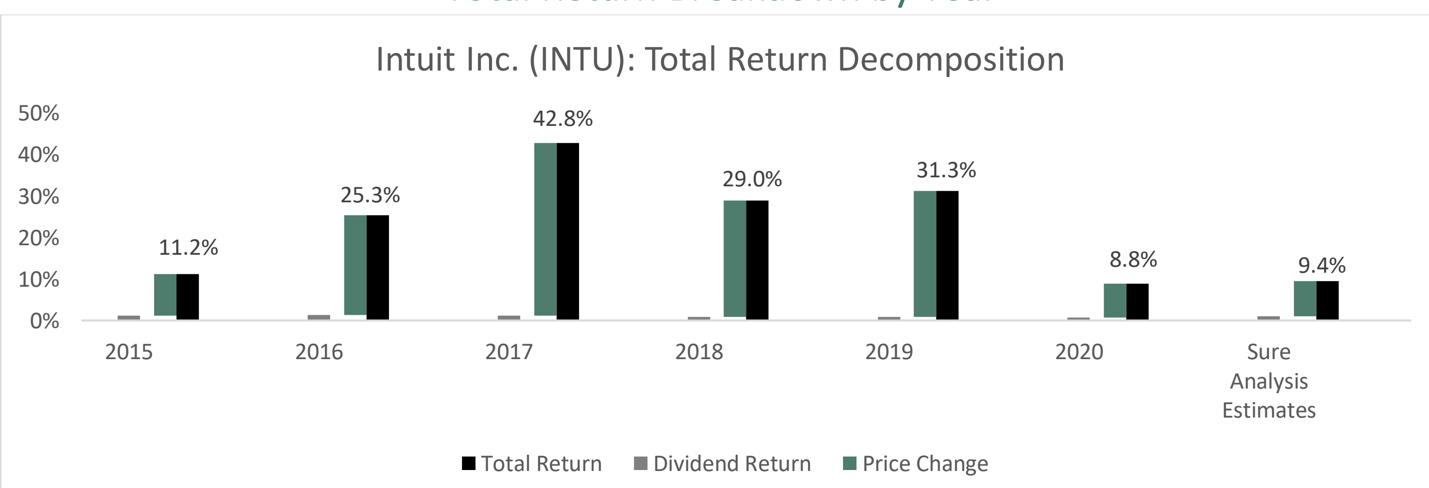
Intuit makes for an incredibly safe investment, as its revenues are primarily recession-proof, as proven by the recent challenges resulted from COVID-19. While uncertainty levels remain wide across global markets, it is safe to say that taxes won't be disappearing. The company has been dominating its sector, closing more than 32 acquisitions over the past few years. With non-meaningful levels of worrying competition, its suite of products will be there to help people pay their inevitable taxes, while the company enjoys a recurring stream of revenues.

To highlight its sales resilience, even In the midst of the Great Financial Crisis, the company managed to grow earnings by around 7%. We consider Intuit to be an incredible sector-leader, while its future acquisitions should further strengthen its portfolio of products, hence its rich valuation. The stock's dividend remains very safe, reflecting only around 31% of the company's total earnings.

Final Thoughts & Recommendation

Intuit's stock has been delivering jaw-dropping returns over the past five years, beating the popular market indices by a wide margin. While we still expect the company to keep growing both organically and through acquisitions, we believe that its future growth should slow down a bit. Its valuation should also return to more reasonable levels. As a result, our prudent expected CAGR returns result in a little just over 9% in the medium term. The stock may not have the most attractive characteristics for income investors. However, 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. We currently rate Intuit a hold.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	3,449	3,808	3,946	4,243	4,192	4,694	5,196	6,025	6,784	7,679
Gross Profit	2,959	3,223	3,406	3,622	3,467	3,942	4,386	5,047	5,617	6,301
Gross Margin	85.8%	84.6%	86.3%	85.4%	82.7%	84.0%	84.4%	83.8%	82.8%	82.1%
SG&A Exp.	1,300	1,414	1,534	1,601	1,771	1,807	1,968	2,295	2,524	2,727
D&A Exp.	241	242	232	197	231	238	236	253	225	218
Operating Profit	1,082	1,168	1,208	1,300	886	1,242	1,418	1,560	1,854	2,176
Operating Margin	31.4%	30.7%	30.6%	30.6%	21.1%	26.5%	27.3%	25.9%	27.3%	28.3%
Net Profit	634	792	858	907	365	979	985	1,329	1,557	1,826
Net Margin	18.4%	20.8%	21.7%	21.4%	8.7%	20.9%	19.0%	22.1%	23.0%	23.8%
Free Cash Flow	785	1,050	1,171	1,260	1,328	938	1,369	1,988	2,169	2,277
Income Tax	354	374	378	447	299	397	405	237	324	372

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	5,110	4,684	5,486	5,201	4,968	4,250	4,068	5,134	6,283	10931
Cash & Equivalents	722	393	1,009	849	808	638	529	1,464	2,116	6,442
Accounts Receivable	171	142	130	115	91	108	103	98	87	149
Goodwill & Int. Ass.	2,066	1,493	1,395	1,456	1,353	1,326	1,317	1,672	1,709	1,682
Total Liabilities	2,494	1,940	1,955	2,123	2,636	3,089	2,714	2,318	2,534	5,825
Accounts Payable	129	139	137	145	190	184	157	178	274	305
Long-Term Debt	999	499	499	499	500	1,000	488	438	436	3,369
Shareholder's Equity	2,616	2,744	3,531	3,078	2,332	1,161	1,354	2,816	3,749	5,106
D/E Ratio	0.38	0.18	0.14	0.16	0.21	0.86	0.36	0.16	0.12	0.66

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	12.3%	16.2%	16.9%	17.0%	7.2%	21.2%	23.7%	28.9%	27.3%	21.2%
Return on Equity	23.3%	29.6%	27.3%	27.4%	13.5%	56.1%	78.3%	63.7%	47.4%	41.2%
ROIC	17.1%	23.1%	23.6%	23.8%	11.4%	39.2%	49.2%	52.2%	41.9%	28.8%
Shares Out.	307	296	297	285	281	262	257	256	262	262
Revenue/Share	10.88	12.49	13.02	14.58	14.66	17.71	19.91	23.08	25.70	29.09
FCF/Share	2.48	3.44	3.86	4.33	4.64	3.54	5.25	7.62	8.22	8.63

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