Intuit Inc. (INTU)

Updated February 25th, 2021 by Nikolaos Sismanis

Key Metrics

Current Price:	$400	**5 Year CAGR Estimate:**	7.9%	**Market Cap:**	$109B
Fair Value Price:	$338	**5 Year Growth Estimate:**	11.0%	**Ex-Dividend Date:**	04/09/2021
% Fair Value:	118%	**5 Year Valuation Multiple Estimate:**	-3.3%	**Dividend Payment Date:**	04/19/2021
Dividend Yield:	0.6%	**5 Year Price Target**	$570	**Years Of Dividend Growth:**	9
Dividend Risk Score:	B	**Retirement Suitability Score:**	D	**Last Dividend Increase:**	11.3%

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 $109 billion company records more than $8.8 billion in annual revenues and is headquartered in Mountain View, California.

On February 23rd, 2021, Intuit reported its Q2-2021 results for the period ended January 31st, 2021. The company continued performing well during the year, growing its "Small business and Self-employed" revenues by 11% and its online ecosystem revenues by 22%. However, due to IRS opening later this year, its consumer group sales declined by 74%, causing total revenues to decline by 7% to $1.58 billion. The IRS began accepting and processing returns starting February 12th, compared to January 27th, during last year. EPS was $0.68 versus $1.16 last year, reflecting squeezed margins as a result of the IRS revenue period mismatch. Management remains focused on its acceleration of innovation-driven AI strategy and its 5 Big Bets, including connecting its customers with professionals, unlocking smart money decisions upon the closing of its pending Credit Karma acquisition and disrupting the small business mid-market with QuickBooks by offering tailor-made solutions. Finally, management reassured investors of its overall robust performance, raising its previous guidance. For FY2021, revenues are expected to be $8.81-$8.95 billion (previously $8.20-8.40 billion), implying a 15%-17% growth rate and non-GAAP EPS of $8.20 to $8.40, a growth rate of approximately 4%-7%. We forecast FY2021 EPS of $8.45 due to Intuit's tendency to outperform its given outlooks, as well as an overall humble EPS guidance against its revenue growth.

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	***$8.45***	***$14.24***
DPS	---	$0.60	$0.68	$0.76	$1.00	$1.20	$1.36	$1.56	$1.88	$2.12	***$2.36***	***$3.98***
Shares[1]	307	296	297	285	281	262	257	256	273	265	***260***	***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 resulted from multiple acquisitions that have allowed the company to expand its portfolio of products. We raise our EPS and DPS growth expectations from 9% to 11% in the medium term to reflect Inuit's better-than-expected revenue guidance. Overall, its resilient revenues should continue to grow rapidly due to its non-stop acquisitions, which can unlock significant economies of scale over time in the bottom line. We had mentioned in our latest report that our then estimates might be too prudent, and actual results were likely to stronger. The recent guidance proved that point.

Finally, the company's stock repurchase program currently has $2.2 billion remaining, representing 2.0% of its market cap. The company repurchased $175 million worth of shares during the second quarter.

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[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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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	***47.3***	***40.0***
Avg. Yld.		1.0%	1.0%	1.1%	0.9%	1.3%	1.2%	1.1%	0.8%	0.8%	***0.6%***	***0.7%***

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 P/E ratio of around 41 attached to its shares. We are raising our medium-term P/E ratio to 40. With rates near 0, investors' increased appetite and capital allocation towards tech stocks, and the company growing in the double-digits, we can see the premium valuation lasting longer than expected, before eventually compressing. 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 EPS growth and 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%	***28%***	***28%***

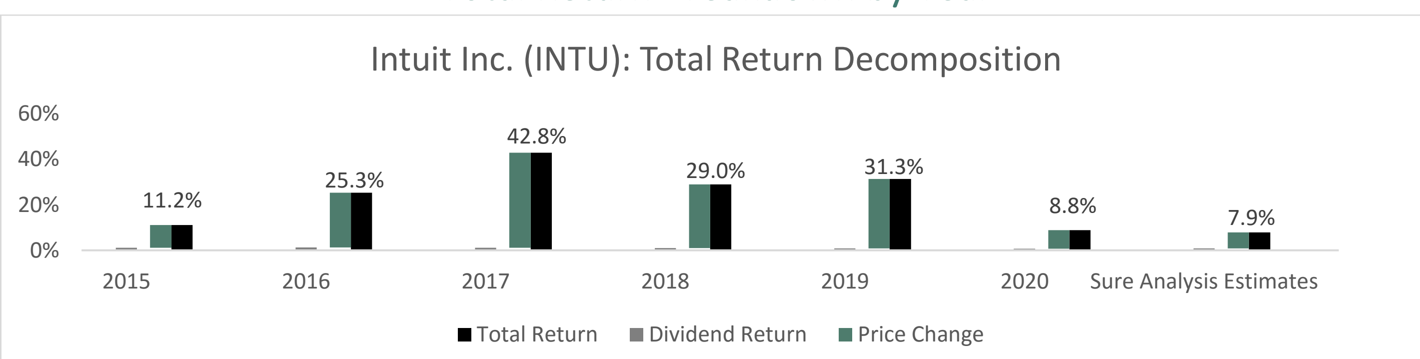
Intuit makes for an incredibly safe investment, as its revenues are primarily recession-proof, as proven by the robust sales growth despite the challenges resulting from COVID-19. While nothing is certain in life, it is safe to say that taxes won't be disappearing. The company has dominated its industry, 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 28% 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. We expect medium-term annualized returns of around 7.9% in the medium term, modestly pressured by the potential for a valuation compression. 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 headwinds don't eat up too much of the growth returns. We rate shares 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.