Feb 11, 2020

Intuit Inc. (INTU)

$297.74 (As of 02/10/20)

Price Target (6-12 Months): **$313.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 11/18/19) Prior Recommendation: Outperform	**Neutral**
Short Term: 1-3 Months	**Zacks Rank:** (1-5)	**3-Hold**
	Zacks Style Scores:	VGM:F
	Value: F | Growth: F | Momentum: C	

Summary

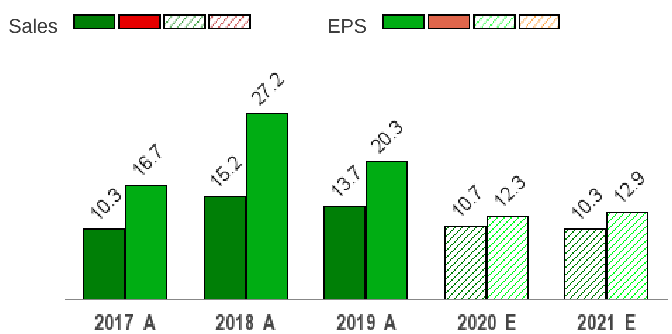
Intuit is benefiting from strong momentum in Online ecosystem revenues and solid professional tax revenues. The TurboTax Live offering is also driving strong growth in the Consumer tax business. Solid momentum in the company's lending product, QuickBooks Capital, is a positive. Moreover, the company's strategy of shifting its business to cloud-based subscription model will help generate stable revenues over the long run. Also, QuickBooks Online Advanced solution, which is targeting the midmarket, seems promising. Estimates have been stable ahead of its Q2 earnings release. It has positive record of earnings surprises in recent quarters. However, high costs and expenses pose a major concern. Moreover, the company expects total QuickBooks Online subscriber growth to moderate in the near term as it continues to focus on additional services.

Price, Consensus & Surprise

Data Overview

52 Week High-Low	**$298.82 - $224.66**
20 Day Average Volume (sh)	**1,175,603**
Market Cap	**$77.5 B**
YTD Price Change	**13.7%**
Beta	**1.03**
Dividend / Div Yld	**$2.12 / 0.7%**
Industry	**Computer - Software**
Zacks Industry Rank	**Top 22% (56 out of 255)**
Last EPS Surprise	**57.7%**
Last Sales Surprise	**3.7%**
EPS F1 Est- 4 week change	**-0.1%**
Expected Report Date	**02/24/2020**
Earnings ESP	**0.0%**
P/E TTM	**43.3**
P/E F1	**39.3**
PEG F1	**2.5**
P/S TTM	**11.2**

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2021	1,285 E	1,861 E	3,953 E	1,205 E	8,284 E
2020	1,165 A	1,678 E	3,577 E	1,096 E	7,512 E
2019	1,016 A	1,502 A	3,272 A	994 A	6,784 A

EPS Estimates

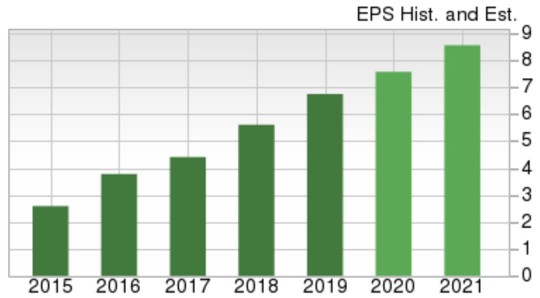
	Q1	Q2	Q3	Q4	Annual*
2021	$0.42 E	$1.24 E	$6.95 E	-$0.07 E	$8.56 E
2020	$0.41 A	$1.02 E	$6.17 E	-$0.04 E	$7.58 E
2019	$0.29 A	$1.00 A	$5.55 A	-$0.09 A	$6.75 A

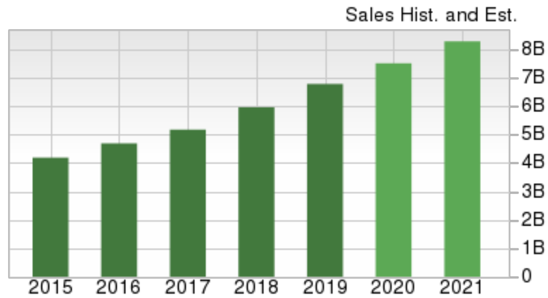
*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 02/10/2020. The reports text is as of 02/11/2020.

Overview

Headquartered in Mountain View, CA, Intuit Inc. is a business and financial software company that develops and sells financial, accounting and tax preparation software and related services for small businesses, consumers and accounting professionals globally. The company has major offices in the United States, Canada, India, the United Kingdom, Singapore, Australia, and other locations. In fiscal 2018, the company generated total revenues of $5.964 billion.





The company has three reportable segments: Small Business, Consumer Tax and ProConnect.

The Small Business (52% of FY19 total revenues) segment offers online ecosystem and desktop ecosystem solutions to small businesses and accounting professionals. The company's products under the QuickBooks banner come under this segment. Additionally, merchant services, including business management online services and desktop software, payroll solutions and payment processing solutions, also fall under this segment.

Under its Consumer Tax (41%) segment, the company offers TurboTax income tax preparation products and services as well as electronic tax filing services.

With products like Lacerte, ProSeries, ProFile, and Intuit Tax Online professional tax products and services, and services like electronic tax filing services, bank product transmission services, and training services, the company's ProConnect (7%) segment targets professional accountants in the United States and Canada.

In fiscal 2019, the company generated $6.78 billion in revenues, up 13% year over year.

Intuit sells its products and services through various sales and distribution channels, which include retail locations, websites, call centers, promotions and online mobile application stores. Apart from this, it sells its products and services through alliance partners, such as banks, credit unions and other financial institutions.

In the Small Business and Self-Employed segment, Intuit competes with companies such as The Sage Group. In payroll, it competes with Automatic Data Processing and Paychex, among others. In the area of merchant services, the company's rivals are financial institutions like Wells Fargo, JP Morgan Chase and Bank of America. In the Consumer Segment, Intuit faces intense competition from tax preparation service provider H&R Block.

Reasons To Buy:

> We are positive about Intuit's growing SMB exposure and believe that its strategic acquisitions will boost the segment. Increased adoption of its cloud-based services and products is another positive.

- Intuit has two main products – QuickBooks, which offers financial and business management online services and desktop software to small businesses, and TurboTax, which offers income tax preparation products and services. The space in which Intuit operates has huge growth opportunity. There are over 29 million small and medium businesses in the U.S. alone. Moreover, the company with its QuickBooks Online Advanced solution is now targeting the midmarket. Furthermore, the number of individuals preferring to file their income tax themselves is increasing rapidly, thereby increasing the scope for Intuit's TurboTax software.

- For the last few years, Intuit is trying to shift its business model from selling software to cloud-based subscription providers. Cloud-based solutions, as against software-based ones, have gained popularity as they offer anywhere, anytime access. Cloud is a flourishing part of the technology space and has been gaining momentum in recent years. It is a process by which data or software is stored outside of a computer and is accessible from anywhere any time via the Internet. This revolutionary idea can lower IT costs of companies by cutting down the need for servers and staff. According to Gartner, Software-as-a-Service (SaaS) spending is estimated to grow 17.8% to reach $85.1 billion in 2019. With its SaaS-based QuickBooks and Online Tax applications, we think that Intuit is well-positioned to lead the market.

- In a move to focus more on its core tax and accounting businesses, Intuit divested its three businesses last year, namely Quicken, QuickBase and Demandforce. We believe that Intuit's initiatives have provided it the much needed funds to invest in and focus more on the fast-growing online businesses. The company looks forward to add more recurring revenues within its Consumer Tax and Small Business segments, capitalizing on the ongoing shift toward digital solutions. Notably, the company's cloud-based accounting software QuickBooks Online subscriber base surged 32.9% year over year in the las-reported quarter to 4.5 million. Intuit's efforts to convert itself into a cloud-based tax and accounting solution provider are encouraging.

- Over the past few years, Intuit is trying to expand its international operations. The company has expanded in France, Brazil and India. With its market leading product portfolio that includes QuickBooks and TurboTax, we believe the company is well poised to penetrate in new regions and increase its international contribution to the total revenue.

Reasons To Sell:

- Intuit's high costs and expenses remain a major concern. The company has increased investments in engineering and marketing to grab the growing opportunity globally, making us cautious about the company's bottom-line results.

- Intuit's market share and revenues necessarily depend on client relationships and the number of contracts it secures. This, along with the limited scope for product differentiation, makes the renegotiation of large contracts extremely important. As a result, competition from strong companies like H&R Block and Microsoft is a concern. This also increases pricing pressure.

Rising costs and expenses owing to higher investments in engineering and marketing is anticipated to hurt Intuit's near-term profitability. Also, heightening competition from other payroll solution providers is a concern.

- Intuit's business is seasonal in nature and typically generates stronger sales during the second and third quarters, which are characterized by the U.S. tax season. As a result, the company is exposed to significant risks if the seasons fail to deliver expected operating performance. Furthermore, in the first and fourth quarters, the company incurs losses as revenues from the tax business remain at their lowest point during these periods. However, its operating expenses remain consistent throughout the year.

- Intuit currently has a trailing 12-month P/E ratio of 52.6. This level compares unfavorably to some extent with what the industry saw last year. Hence, valuation looks stretched from a P/E perspective.

Last Earnings Report

Intuit's Q1 Earnings & Revenues Beat Estimates

Quarter Ending	10/2019
Report Date	Nov 21, 2019
Sales Surprise	3.69%
EPS Surprise	57.69%
Quarterly EPS	0.41
Annual EPS (TTM)	6.87

Intuit reported first-quarter fiscal 2020 non-GAAP earnings of 41 cents per share, beating than the Zacks Consensus Estimate of 26 cents. Moreover, the figure was much higher than management's guided range of 23-25 cents per share. The bottom line also improved 41% on a year-over-year basis.

Further, this tax preparation-related software maker's revenues grossed $1.17 billion, up 15% from the year-ago quarter's adjusted revenues. The top line also outpaced the consensus estimate of $1.12 billion. Strong momentum in Online ecosystem revenues and growth in the Consumer business drove revenues.

Quarter in Detail

Segment wise, Small Business and Self-Employed Group revenues jumped 15% year over year to $1 billion. This rise was primarily driven by solid growth in customers for QuickBooks Online, which led to a 41% year-over-year surge in accounting revenues.

Online ecosystem revenues rose 35% to $501 million. Robust growth in U.K. subscribers enabled the company to hold the top position in terms of countrywide cloud accounting subscribers.

Within QuickBooks Online payroll, a mix-shift to Intuit's full-service offering, which is priced 75% higher than self-service, was a tailwind. Moreover, within QuickBooks Online payments, continued uptick in customer base and an increase in charge volume per customer aided revenue growth in this area. Online Services revenues grew 27%.

The company recently launched a revenue streams dashboard to help customers easily compare revenues across products and services to better understand their business performance.

A sturdy traction from the company's lending product QuickBooks Capital was a positive as well. Additionally, the company's QuickBooks Online Advanced solution, which is targeting the midmarket, seems promising.

Desktop ecosystem revenues inched up 1% year over year to $545 million during the quarter. QuickBooks enterprise customers within Desktop ecosystem consistently grew at double-digit pace.

In the fiscal first quarter, revenues from Consumer Group improved 11% year over year to $100 million while the same from Strategic Partners Group grew 15% to $19 million, boosted by a 6% rise in professional tax revenues.

Operating Results

The company posted non-GAAP operating income of $29 million, up 26% year over year. Operating margin expanded 100 basis points year over year to 11%.

Balance Sheet and Cash Flow

Intuit exited the quarter with cash and cash equivalents of $1.63 billion compared with $2.12 billion sequentially. Long-term debt was $373 million compared with $386 million in the prior quarter.

Cash used in operational activities was $127 million as of Oct 31, 2019.

Outlook

The company reiterated its guidance for fiscal 2020. Revenues are projected in the range of $7.44-$7.54 billion. Non-GAAP earnings per share are anticipated between $7.5 and $7.6. Non-GAAP operating income for the full fiscal is expected in the band of $2.52-$2.57 billion.

For the full fiscal, Small Business and Self-Employed group is expected to grow 12-14% year over year whereas the Consumer Group is anticipated to increase 9-10%. Also, Strategic Partner Group is predicted to rise 1-2%.

For the second quarter of fiscal 2020, the company envisions revenue growth of 11-13% within $1.67-$1.69 billion.

It expects non-GAAP earnings in the $1-$1.03 per share bracket. This estimate accounts for a shift of marketing investments in Consumer Group into the fiscal second quarter.

Intuit expects Online Ecosystem revenues to soar more than 30% in the forthcoming quarters.

Recent News

On Dec 12, Intuit announced additional QuickBooks Online Payroll offerings to enable small businesses to run payroll and file taxes automatically, all while receiving tax penalty protection and gaining access to on-demand HR, health benefits, workers' compensation, and like.

On Dec 11, Intuit announced new features, updates and enhancements to its cloud-based professional tax preparation software Intuit ProConnect Tax Online for Tax Year 2019.

Valuation

Shares of Intuit have risen 9.2% in the past six months and 30% over the trailing 12-month period.Stocks in the Zacks sub-industry increased 25.5% and the Zacks Technology sector are up 21.9% in the past six months. Over the past year, the Zacks sub-industry and sector have gained 46% and 27.6%, respectively.

The S&P 500 Index has risen 16% in the past six months and 20.3% in the past year.

The stock is currently trading at 36.76X forward 12-month earnings, which compares to 30.34X for the Zacks sub-industry, 22.82X for the Zacks sector and 19.12X for the S&P 500 Index.

Over the past five years, the stock has traded as high as 54.11X and as low as 27.9X with a 5-year median of 35.51X. Our Neutral recommendation indicates the stock to perform in line with the market. Our $313 price target reflects 38.6X forward 12-month earnings.

The table below shows the summary valuation data for INTU

Valuation Multiples - INTU

		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	36.76	30.34	22.82	19.12
	5-Year High	54.11	30.34	22.82	19.34
	5-Year Low	27.9	18.59	16.86	15.18
	5-Year Median	35.51	24.45	19.32	17.47
P/S F12M	Current	9.78	7.61	3.72	3.53
	5-Year High	10.67	7.61	3.72	3.53
	5-Year Low	4.67	3.88	2.3	2.54
	5-Year Median	6.35	5.3	3.02	3
P/B TTM	Current	21.33	10.73	5.63	4.29
	5-Year High	43.3	10.75	5.66	4.42
	5-Year Low	9.44	3.99	3.13	2.85
	5-Year Median	21.81	6.3	4.23	3.62

As of 02/10/2020

Industry Analysis **Zacks Industry Rank:** Top 22% (56 out of 255)

Top Peers

JPMorgan Chase & Co. **(JPM)**	Outperform
Automatic Data Processing, Inc. **(ADP)**	Neutral
Bank of America Corporation **(BAC)**	Neutral
Paychex, Inc. **(PAYX)**	Neutral
PayPal Holdings, Inc. **(PYPL)**	Neutral
Rosetta Stone **(RST)**	Neutral
Square, Inc. **(SQ)**	Neutral
Wells Fargo & Company **(WFC)**	Neutral

Industry Comparison Industry: Computer - Software

	INTU Neutral	X Industry	S&P 500	ADP Neutral	BAC Neutral	PAYX Neutral
				Industry Peers		
VGM Score	F	-	-	D	D	D
Market Cap	77.50 B	2.04 B	24.00 B	77.44 B	312.04 B	31.67 B
# of Analysts	10	4	13	11	10	11
Dividend Yield	0.71%	0.00%	1.78%	2.03%	2.08%	2.80%
Value Score	F	-	-	C	C	D
Cash/Price	0.03	0.10	0.04	0.02	2.16	0.02
EV/EBITDA	35.79	22.32	14.07	17.30	-1.82	17.92
PEG Ratio	2.45	2.34	2.04	2.24	1.26	4.07
Price/Book (P/B)	21.33	5.58	3.28	14.44	1.29	12.33
Price/Cash Flow (P/CF)	45.60	27.35	13.58	21.00	10.63	22.09
P/E (F1)	39.33	34.14	18.86	29.08	11.36	28.48
Price/Sales (P/S)	11.18	4.95	2.65	5.34	2.75	7.85
Earnings Yield	2.54%	2.82%	5.30%	3.44%	8.79%	3.51%
Debt/Equity	0.18	0.18	0.71	0.25	1.00	0.35
Cash Flow ($/share)	6.53	1.01	6.89	8.54	3.26	4.01
Growth Score	F	-	-	C	F	C
Hist. EPS Growth (3-5 yrs)	24.52%	10.54%	10.80%	16.45%	26.87%	10.85%
Proj. EPS Growth (F1/F0)	12.22%	12.95%	7.23%	13.16%	11.02%	9.41%
Curr. Cash Flow Growth	18.22%	8.40%	9.51%	15.63%	25.85%	10.82%
Hist. Cash Flow Growth (3-5 yrs)	9.68%	7.84%	8.55%	14.63%	14.04%	12.37%
Current Ratio	1.80	1.49	1.20	1.02	0.91	1.17
Debt/Capital	15.57%	18.94%	42.90%	20.26%	47.63%	25.87%
Net Margin	22.79%	7.06%	11.76%	16.97%	24.15%	26.72%
Return on Equity	42.04%	11.82%	16.98%	46.96%	11.95%	41.21%
Sales/Assets	1.12	0.64	0.54	0.33	0.05	0.44
Proj. Sales Growth (F1/F0)	10.73%	7.63%	4.15%	5.32%	0.82%	10.17%
Momentum Score	C	-	-	D	C	C
Daily Price Chg	1.03%	0.00%	-0.64%	0.15%	0.23%	0.58%
1 Week Price Chg	5.11%	0.00%	-2.60%	4.50%	5.42%	2.58%
4 Week Price Chg	7.86%	0.09%	0.72%	4.06%	-1.06%	2.59%
12 Week Price Chg	10.93%	8.24%	4.69%	5.05%	5.25%	4.03%
52 Week Price Chg	32.05%	21.93%	16.01%	21.59%	22.10%	19.50%
20 Day Average Volume	1,175,603	71,998	1,961,054	2,182,943	45,565,240	1,300,054
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	-0.03%	0.16%	0.00%
(F1) EPS Est 4 week change	-0.09%	0.00%	-0.00%	0.13%	1.02%	0.00%
(F1) EPS Est 12 week change	0.07%	-0.01%	-0.16%	0.03%	2.26%	0.01%
(Q1) EPS Est Mthly Chg	0.21%	0.00%	0.00%	-1.92%	1.67%	0.00%

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	F
Growth Score	F
Momentum Score	D
VGM Score	F

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

Disclosures

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