Intuit Inc. (INTU)

$280.36 (As of 05/08/20)

Price Target (6-12 Months): **$295.00**

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:B
	Value: D | Growth: A | Momentum: B	

Summary

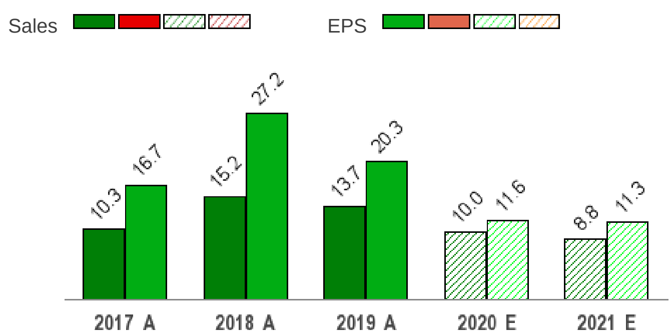
Intuit is benefiting from strong momentum in online ecosystem revenues and solid professional tax revenues. The TurboTax Live offering is also driving strong growth in the Consumer tax business. Solid momentum in the company's lending product, QuickBooks Capital, remains a positive. Moreover, the company's strategy of shifting its business to cloud-based subscription model will help generate stable revenues over the long run. Further, Intuit's QuickBooks Online Advanced solution, which is targeting the midmarket, holds promise. 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. Shares have underperformed the industry in the year to date period.

Price, Consensus & Surprise

Data Overview

52 Week High-Low	$306.89 - $187.68
20 Day Average Volume (sh)	1,154,756
Market Cap	$73.0 B
YTD Price Change	7.0%
Beta	1.05
Dividend / Div Yld	$2.12 / 0.8%
Industry	Computer - Software
Zacks Industry Rank	Top 25% (64 out of 253)
Last EPS Surprise	13.7%
Last Sales Surprise	1.1%
EPS F1 Est- 4 week change	-0.3%
Expected Report Date	05/21/2020
Earnings ESP	-12.3%
P/E TTM	39.9
P/E F1	37.2
PEG F1	2.3
P/S TTM	10.3

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2021	1,235 E	1,802 E	3,864 E	1,130 E	8,121 E
2020	1,165 A	1,696 A	3,390 E	1,211 E	7,461 E
2019	1,016 A	1,502 A	3,272 A	994 A	6,784 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	$0.38 E	$1.23 E	$6.72 E	-$0.07 E	$8.38 E
2020	$0.41 A	$1.16 A	$5.74 E	$0.24 E	$7.53 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.

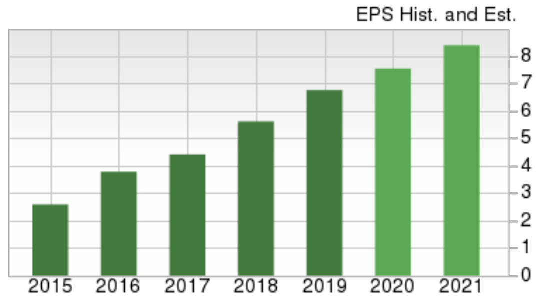
The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 05/08/2020. The reports text is as of 05/11/2020.

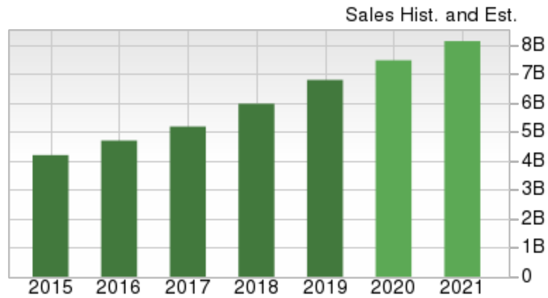
Overview

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 ResearchandMarkets, the global software as a service (saas) market is expected to grow to $220.21 billion at a CAGR of 13.1% between 2018 and 2022. 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.

- 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 45.1. This level compares unfavorably to some extent with what the industry saw last year. Hence, valuation looks stretched from a P/E perspective.

> 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.

Last Earnings Report

Intuit's Q2 Earnings and Revenues Top Estimates

Quarter Ending	01/2020
Report Date	Feb 24, 2020
Sales Surprise	1.05%
EPS Surprise	13.73%
Quarterly EPS	1.16
Annual EPS (TTM)	7.03

Intuit reported second-quarter fiscal 2020 non-GAAP earnings of $1.16 per share, beating than the Zacks Consensus Estimate by 13.7%. Moreover, the bottom line also improved 16% on a year-over-year basis.

Further, this tax preparation-related software maker’s revenues grossed $1.7 billion, up 13% from the year-ago quarter’s adjusted revenues. The top line also outpaced the consensus mark by 1.1%. Strong momentum in Online ecosystem revenues and growth in the Small Business and Self-Employed Group business drove revenues.

Quarter in Detail

Segment wise, Small Business and Self-Employed Group revenues jumped 17% year over year to $973 million. This rise was primarily driven by solid growth in customers for QuickBooks Online and higher effective prices, which led to a 43% year-over-year improvement in accounting revenues.

Online ecosystem revenues rose 35% year over year. Online Services revenue, which includes payroll, payments, time tracking and capital, grew 23% year over year.

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 drove revenues.

Sturdy momentum in the company’s lending product QuickBooks Capital was a positive as well. At the end of the quarter, net loans receivable balance was $103 million.

Desktop ecosystem revenues inched up 1% year over year during the quarter under review. Within Desktop ecosystem, revenues from QuickBooks Desktop Enterprise consistently grew at double-digit pace.

In the fiscal second quarter, revenues from Consumer Group improved 8% year over year to $499 million while Strategic Partner Group backed by professional tax generated revenues of $224 million, up 8% year over year. This highlighted delivery of more forms during the reported quarter compared with the prior-year comparable period.

DIY category grew 3.5% year over year. Meanwhile assisted category declined 3.7%.

TurboTax Live is likely to be accretive to the company’s Consumer business in the days ahead.

The company introduced real-time chat and a floating Live Help button to simplify connection with live help at all stages of the return process.

Intuit also continued to accelerate the application of AI to create tools to automate repetitive tasks, increase efficiency and improve customer experience.

Operating Results

The company posted non-GAAP operating income of $384 million, up 13% year over year. Operating margin remained flat year over year at 22.6%.

Balance Sheet and Cash Flow

Intuit exited the quarter with cash and cash equivalents of $1.64 billion compared with $1.63 billion sequentially. Long-term debt was $373 million.

Cash provided by operational activities was $190 million as of Jan 31, 2020.

Outlook

The company reiterated 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 in the range of 12-14% year over year, while the Consumer Group is anticipated to increase 9-10%. Also, Strategic Partner Group is predicted to improve 1-2%.

For third-quarter fiscal 2020, the company envisions revenue growth of 10-11%.

It expects non-GAAP earnings in the $5.9-$5.95 per share bracket.

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

Recent News

On Feb 25, 2020, Intuit announced Intuit Practice Management powered by Karbon, to improve software capabilities for tax professionals.

On the same date, the company announced that it is set acquire consumer technology platform Credit Karma, for approximately $7.1 billion.

On Dec 12, 2019, 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, 2019, 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 increased 1.3% in the year-to-date (YTD) period and 1.4% over the trailing 12-month period. While stocks in the Zacks sub-industry grew 6.9% YTD, the Zacks Computer & Technology sector declined 5.1%. Over the past year, the Zacks sub-industry and the Zacks Computer & Technology sector have gained 24.1% and 3.2%, respectively.

The S&P 500 Index has lost 10.9% year to date and 1.7% in the past year.

The stock is currently trading at 34.03 X forward 12-month earnings, which compares to 29.29X for the Zacks sub-industry, 23.31X for the Zacks sector and 20.81X 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 35.58X. Our Neutral recommendation indicates the stock to perform in line with the market. Our $295 price target reflects 33.8X 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	34.03	29.29	23.31	20.81
	5-Year High	54.11	29.29	23.31	20.81
	5-Year Low	27.9	18.62	16.71	15.19
	5-Year Median	35.58	24.78	19.23	17.44
P/S F12M	Current	8.15	6.72	3.18	3.07
	5-Year High	10.67	7.23	3.58	3.44
	5-Year Low	4.67	3.88	2.32	2.54
	5-Year Median	6.53	5.42	3.09	3.01
P/B TTM	Current	15.74	8.47	4.05	3.4
	5-Year High	43.3	10.56	5.35	4.55
	5-Year Low	9.44	4.03	3.13	2.85
	5-Year Median	21.79	6.36	4.26	3.63

As of 05/07/2020

Industry Analysis **Zacks Industry Rank:** Top 25% (64 out of 253)

Top Peers

Company (Ticker)	Rec	Rank
Automatic Data Processing Inc **(ADP)**	Neutral	3
Paychex Inc **(PAYX)**	Neutral	3
PayPal Holdings Inc **(PYPL)**	Neutral	3
Rosetta Stone **(RST)**	Neutral	3
Square Inc **(SQ)**	Neutral	3
Bank of America Corporation **(BAC)**	Underperform	4
JPMorgan ChaseCo **(JPM)**	Underperform	5
Wells FargoCompany **(WFC)**	Underperform	5

Industry Comparison Industry: Computer - Software

	INTU	X Industry	S&P 500	ADP	BAC	PAYX
				Industry Peers		
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Underperform	Neutral
Zacks Rank (Short Term)	3	-	-	3	4	3
VGM Score	B	-	-	C	F	B
Market Cap	73.03 B	1.59 B	20.19 B	62.75 B	204.48 B	24.07 B
# of Analysts	9	4	14	11	9	12
Dividend Yield	0.76%	0.00%	2.12%	2.49%	3.05%	3.70%
Value Score	D	-	-	C	F	C
Cash/Price	0.03	0.10	0.06	0.03	3.76	0.04
EV/EBITDA	33.54	18.27	11.95	13.96	-5.29	13.53
PEG Ratio	2.32	2.88	2.60	2.12	2.28	2.78
Price/Book (P/B)	19.59	5.22	2.75	11.43	0.85	8.72
Price/Cash Flow (P/CF)	42.94	21.77	10.78	17.09	6.42	16.75
P/E (F1)	37.23	29.98	19.85	25.40	15.96	22.25
Price/Sales (P/S)	10.25	4.45	2.03	4.27	1.83	5.86
Earnings Yield	2.69%	3.14%	4.83%	3.94%	6.28%	4.50%
Debt/Equity	0.10	0.16	0.75	0.25	1.06	0.33
Cash Flow ($/share)	6.53	1.22	7.01	8.54	3.67	4.01
Growth Score	A	-	-	C	F	B
Hist. EPS Growth (3-5 yrs)	26.40%	10.66%	10.87%	17.22%	24.42%	10.95%
Proj. EPS Growth (F1/F0)	11.62%	2.46%	-9.87%	5.47%	-46.30%	6.19%
Curr. Cash Flow Growth	18.22%	10.55%	5.88%	15.63%	3.02%	10.82%
Hist. Cash Flow Growth (3-5 yrs)	9.68%	8.91%	8.55%	14.63%	27.50%	12.37%
Current Ratio	1.67	1.47	1.24	1.03	0.92	1.19
Debt/Capital	9.10%	27.91%	44.23%	19.90%	49.21%	24.63%
Net Margin	22.89%	7.18%	10.68%	17.20%	21.64%	26.98%
Return on Equity	41.03%	11.18%	16.36%	47.51%	10.64%	41.68%
Sales/Assets	1.09	0.63	0.55	0.34	0.05	0.46
Proj. Sales Growth (F1/F0)	9.98%	3.45%	-2.26%	2.33%	-6.10%	8.15%
Momentum Score	B	-	-	D	D	A
Daily Price Chg	-0.16%	0.22%	2.40%	-1.20%	3.20%	-1.41%
1 Week Price Chg	-0.96%	0.00%	0.53%	0.85%	4.06%	-2.19%
4 Week Price Chg	11.21%	7.40%	2.68%	2.44%	-5.19%	0.86%
12 Week Price Chg	-5.87%	-11.19%	-19.20%	-18.94%	-32.48%	-24.26%
52 Week Price Chg	16.19%	0.34%	-8.44%	-9.07%	-20.67%	-20.40%
20 Day Average Volume	1,154,756	96,254	2,398,409	2,087,065	63,244,404	2,161,092
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.02%	0.00%	0.00%
(F1) EPS Est 4 week change	-0.32%	0.00%	-6.95%	-5.06%	-34.76%	-0.19%
(F1) EPS Est 12 week change	-0.25%	-8.15%	-15.68%	-6.80%	-51.63%	-2.92%
(Q1) EPS Est Mthly Chg	106.01%	0.00%	-13.12%	-26.84%	-45.55%	-0.29%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

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	D
Growth Score	A
Momentum Score	B
VGM Score	B

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.

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