

Intuit Inc. (INTU)

\$282.85 (As of 01/17/20)

Price Target (6-12 Months): **\$297.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 11/18/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

2-Buy

Zacks Style Scores:

VGM:F

Value: F

Growth: F

Momentum: D

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, Intuit's QuickBooks Online Advanced solution, which is targeting the midmarket, seems promising. 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 past year.

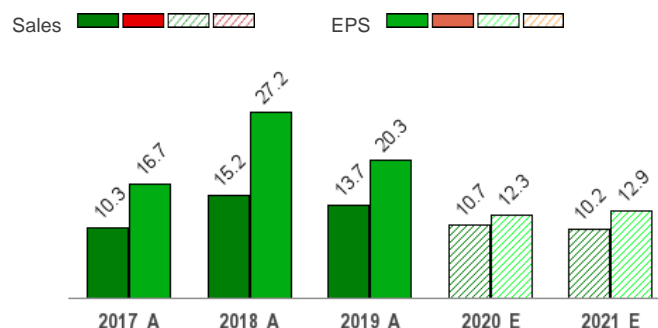
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$295.78 - \$207.69
20 Day Average Volume (sh)	993,377
Market Cap	\$73.6 B
YTD Price Change	8.0%
Beta	1.06
Dividend / Div Yld	\$2.12 / 0.7%
Industry	<u>Computer - Software</u>
Zacks Industry Rank	Top 34% (87 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	57.7%
Last Sales Surprise	3.7%
EPS F1 Est- 4 week change	-0.1%
Expected Report Date	02/20/2020
Earnings ESP	0.0%
P/E TTM	41.2
P/E F1	37.4
PEG F1	2.3
P/S TTM	10.6

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	1,283 E	1,858 E	3,950 E	1,202 E	8,280 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	\$1.23 E	\$6.94 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 01/17/2020. The reports text is as of 01/20/2020.

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.

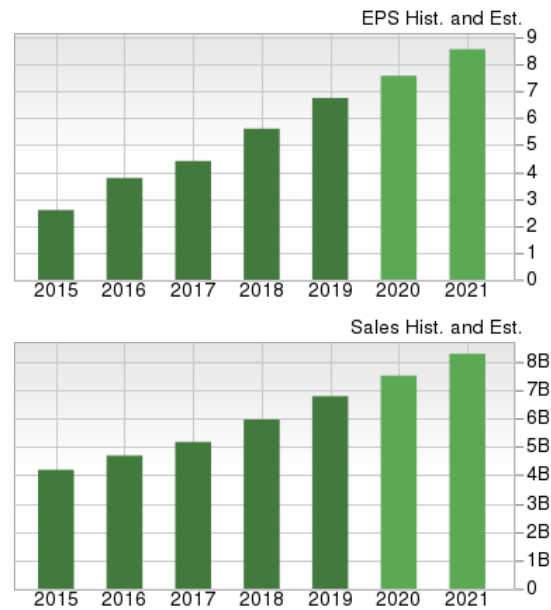
Under its Consumer Tax (41%) segment, the company offers TurboTax income tax preparation products and services as well as electronic tax filing services.

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:

- ▲ 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 last-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.

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.

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 49.97. 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 Q1 Earnings & Revenues Beat Estimates

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 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

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.

TurboTax Live is likely to be accretive to the company's Consumer business going ahead.

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.

On Sep 23, Intuit launched the Prosperity Hub program aimed to provide full-time jobs, vocational training, and education resources to underprivileged communities.

On the same day, Intuit also announced that it has signed the United Nations Global Compact pledge, highlighting the company's commitment to 1.5°C science-based emissions reduction targets.

On Aug 27, Intuit announced that customers of QuickBooks Online Payroll have been enabled to provide their employees with easy and affordable medical, dental and vision benefits from within QuickBooks.

Valuation

Shares of Intuit have risen 0.6% in the past six months and 32.2% over the trailing 12-month period. Stocks in the Zacks sub-industry increased 13.1% and the Zacks Technology sector are up 16.5% in the past six months. Over the past year, the Zacks sub-industry and sector have gained 40.9% and 32.7%, respectively.

The S&P 500 Index has risen 12.3% in the past six months and 23.8% in the past year.

The stock is currently trading at 35.19X forward 12-month earnings, which compares to 29.87X for the Zacks sub-industry, 23.16X for the Zacks sector and 19.2X 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 35.33X. Our Neutral recommendation indicates the stock to perform in line with the market. Our \$297 price target reflects 36.95X 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 F 12M	Current	35.19	29.87	23.16	19.2
	5-Year High	54.11	29.87	23.16	19.34
	5-Year Low	27.9	17.61	16.87	15.17
	5-Year Median	35.33	24.13	19.24	17.44
P/S F 12M	Current	8.88	6.53	3.74	3.57
	5-Year High	10.67	6.97	3.74	3.57
	5-Year Low	4.67	3.88	2.3	2.54
	5-Year Median	6.28	5.22	3.01	3
P/B TTM	Current	18.89	9.36	5.61	4.55
	5-Year High	43.3	9.9	5.61	4.55
	5-Year Low	8.3	3.87	3.13	2.85
	5-Year Median	21.81	6.08	4.22	3.61

As of 01/17/2020

Industry Analysis Zacks Industry Rank: Top 34% (87 out of 254)



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				Industry Peers		
	INTU Neutral	X Industry	S&P 500	ADP Neutral	BAC Neutral	PAYX Neutral
VGM Score	F	-	-	C	D	D
Market Cap	73.63 B	2.08 B	24.65 B	76.53 B	312.22 B	31.58 B
# of Analysts	10	3	13	11	10	11
Dividend Yield	0.75%	0.00%	1.73%	2.06%	2.07%	2.81%
Value Score	F	-	-	D	B	D
Cash/Price	0.03	0.10	0.04	0.07	2.24	0.02
EV/EBITDA	33.97	23.85	14.11	16.24	-2.31	17.87
PEG Ratio	2.32	2.27	2.08	2.21	1.27	4.06
Price/Book (P/B)	20.27	5.72	3.39	14.28	1.29	12.29
Price/Cash Flow (P/CF)	43.32	27.37	13.81	20.71	10.63	22.03
P/E (F1)	37.36	33.59	19.19	28.72	11.39	28.40
Price/Sales (P/S)	10.62	4.89	2.69	5.33	2.75	7.83
Earnings Yield	2.68%	2.74%	5.21%	3.48%	8.79%	3.52%
Debt/Equity	0.18	0.17	0.72	0.19	1.00	0.35
Cash Flow (\$/share)	6.53	1.01	6.94	8.54	3.26	4.01
Growth Score	F	-	-	B	F	C
Hist. EPS Growth (3-5 yrs)	24.52%	9.51%	10.56%	15.36%	30.95%	10.85%
Proj. EPS Growth (F1/F0)	12.22%	12.10%	7.57%	13.01%	10.84%	9.41%
Curr. Cash Flow Growth	18.22%	7.45%	14.73%	15.63%	25.85%	10.82%
Hist. Cash Flow Growth (3-5 yrs)	9.68%	8.09%	9.00%	14.63%	14.04%	12.37%
Current Ratio	1.80	1.49	1.24	1.01	0.91	1.17
Debt/Capital	15.57%	18.61%	42.99%	15.77%	47.63%	25.87%
Net Margin	22.79%	6.46%	11.14%	16.52%	24.15%	26.72%
Return on Equity	42.04%	12.33%	17.16%	46.94%	11.95%	41.21%
Sales/Assets	1.12	0.64	0.55	0.34	0.05	0.44
Proj. Sales Growth (F1/F0)	10.73%	7.04%	4.16%	5.72%	0.50%	10.17%
Momentum Score	D	-	-	A	A	C
Daily Price Chg	2.16%	0.00%	0.27%	1.14%	-0.03%	0.31%
1 Week Price Chg	4.11%	1.74%	0.39%	0.66%	-0.46%	0.53%
4 Week Price Chg	7.12%	6.51%	2.95%	4.82%	-0.69%	3.81%
12 Week Price Chg	9.25%	13.46%	7.76%	8.82%	10.68%	4.18%
52 Week Price Chg	33.59%	34.85%	22.29%	33.04%	19.73%	28.35%
20 Day Average Volume	993,377	90,386	1,536,375	1,301,863	39,607,640	1,236,951
(F1) EPS Est 1 week change	-0.09%	0.00%	0.00%	0.00%	0.62%	0.00%
(F1) EPS Est 4 week change	-0.09%	0.00%	0.00%	-0.10%	1.14%	0.01%
(F1) EPS Est 12 week change	0.07%	-0.01%	-0.40%	0.00%	2.08%	0.01%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	-0.06%	2.54%	-1.73%

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	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

This report contains independent commentary to be used for informational purposes only. The analysts contributing to this report do not hold any shares of this stock. The analysts contributing to this report do not serve on the board of the company that issued this stock. The EPS and revenue forecasts are the Zacks Consensus estimates, unless indicated otherwise on the reports first page. Additionally, the analysts contributing to this report certify that the views expressed herein accurately reflect the analysts personal views as to the subject securities and issuers. ZIR certifies that no part of the analysts compensation was, is, or will be, directly or indirectly, related to the specific recommendation or views expressed by the analyst in the report.

Additional information on the securities mentioned in this report is available upon request. This report is based on data obtained from sources we believe to be reliable, but is not guaranteed as to accuracy and does not purport to be complete. Any opinions expressed herein are subject to change.

ZIR is not an investment advisor and the report should not be construed as advice designed to meet the particular investment needs of any investor. Prior to making any investment decision, you are advised to consult with your broker, investment advisor, or other appropriate tax or financial professional to determine the suitability of any investment. This report and others like it are published regularly and not in response to episodic market activity or events affecting the securities industry.

This report is not to be construed as an offer or the solicitation of an offer to buy or sell the securities herein mentioned. ZIR or its officers, employees or customers may have a position long or short in the securities mentioned and buy or sell the securities from time to time. ZIR is not a broker-dealer. ZIR may enter into arms-length agreements with broker-dealers to provide this research to their clients. Zacks and its staff are not involved in investment banking activities for the stock issuer covered in this report.

ZIR uses the following rating system for the securities it covers. **Outperform-** ZIR expects that the subject company will outperform the broader U.S. equities markets over the next six to twelve months. **Neutral-** ZIR expects that the company will perform in line with the broader U.S. equities markets over the next six to twelve months. **Underperform-** ZIR expects the company will underperform the broader U.S. equities markets over the next six to twelve months.

No part of this report can be reprinted, republished or transmitted electronically without the prior written authorization of ZIR.