

Intuit Inc. (INTU)

\$302.18 (As of 07/29/20)

Price Target (6-12 Months): **\$317.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 07/07/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:B

Value: C

Growth: B

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 growth in the Consumer tax business. Solid momentum in the company's lending product, QuickBooks Capital, remains a positive. Moreover, Intuit's strategy of shifting its business to cloud-based subscription model will help generate stable revenues over the long run. Nonetheless, Intuit's near-term prospect looks gloomy as the global lockdown amid the coronavirus crisis has affected small businesses, posing risks to the company's revenue growth. Additionally, higher costs and expenses due to increased investments in engineering and marketing is likely to continue impacting bottom-line results in the near term. The stock has underperformed the industry over the past year.

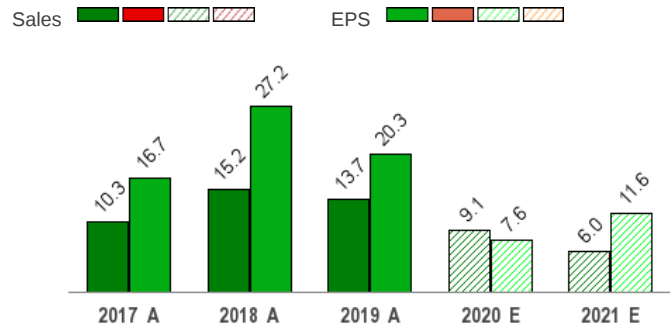
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$314.73 - \$187.68
20 Day Average Volume (sh)	1,159,476
Market Cap	\$78.8 B
YTD Price Change	15.4%
Beta	1.04
Dividend / Div Yld	\$2.12 / 0.7%
Industry	Computer - Software
Zacks Industry Rank	Bottom 39% (154 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	0.5%
Last Sales Surprise	0.2%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	08/27/2020
Earnings ESP	0.0%
P/E TTM	50.6
P/E F1	41.6
PEG F1	2.6
P/S TTM	11.5

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	1,130 E	1,731 E	3,803 E	1,111 E	7,846 E
2020	1,165 A	1,696 A	3,002 A	1,548 E	7,404 E
2019	1,016 A	1,502 A	3,272 A	994 A	6,784 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.35 E	\$1.19 E	\$6.55 E	-\$0.04 E	\$8.10 E
2020	\$0.41 A	\$1.16 A	\$4.49 A	\$1.20 E	\$7.26 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 07/29/2020. The reports text is as of 07/30/2020.

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.

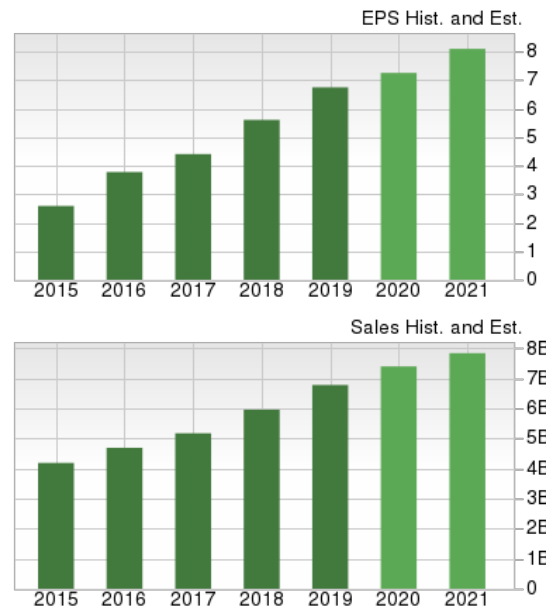
Under its Consumer Tax (41%) segment, the company offers TurboTax income tax preparation products and services as well as electronic tax filing services.

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 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.
- ▲ Over the last few years, Intuit has divested some of its non-core businesses including Quicken, QuickBase and Demandforce in a move to focus more on its core tax and accounting businesses. 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% year over year in fiscal 2019 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 near-term prospect looks gloomy as the global lockdown amid the coronavirus crisis has affected small businesses, consequently posing risks to the company's revenue growth. Small businesses are pushing back their payroll-related investments due to global economic and business uncertainty caused by the pandemic.
- ▼ 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 62.8. 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 Q3 Earnings and Revenues Surpass Estimates

Intuit reported third-quarter fiscal 2020 non-GAAP earnings of \$4.49 per share, which beat the Zacks Consensus Estimate by 0.5%. However, the bottom line declined 19% on a year-over-year basis.

Further, this tax preparation-related software maker's revenues grossed \$3 billion, outpacing the consensus mark by 0.2%. Nevertheless, the top line declined 8% from the year-ago quarter.

Management noted that momentum in revenues continued in the beginning of the fiscal third quarter. However, the extension of the tax filing deadline to Jul 15, due to the COVID-19 pandemic, resulted in the postponement of tax filings, which caused decline in revenues.

Moreover, the shelter-in-place directives affected small businesses, consequently weighing on the company's top-line performance in the quarter.

Quarter in Detail

Segment wise, Small Business and Self-Employed Group revenues jumped 11% year over year to \$982 million. This rise was primarily driven by solid growth in customers for QuickBooks Online and higher effective prices.

Total Online Ecosystem revenues rose 28% year over year to \$560 million. QuickBooks Online Accounting revenues were up 36% year-over-year to \$353 million. Online Services revenue, which includes payroll, payments, time tracking and capital, grew 16% year over year to \$207 million.

Within QuickBooks Online payroll, a mix-shift to Intuit's full-service offering, 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 \$89 million.

Total Desktop ecosystem revenues declined 6% year over year in the reported quarter to \$422 million. Within Desktop ecosystem, revenues from QuickBooks Desktop Enterprise grew at mid-single-digit pace.

In the fiscal third quarter, revenues from Consumer Group declined 15% year over year to \$1.83 billion, due to the shift of tax-filing deadline to Jul 15 led by disruptions related to the coronavirus pandemic. Meanwhile, Strategic Partner Group backed by professional tax generated revenues of \$193 million, down 18% year over year.

DIY category grew 2.2% year over year. Meanwhile, assisted category declined 18.8%.

Management is optimistic on growing clout of TurboTax Live and QuickBooks Live, which is expected to aid the company acquire new customers, with enhanced engagement and drive average revenue per customer or ARPC. This is likely to be accretive to the company's Consumer business in the days ahead.

The company witnessed "highest customer satisfaction scores" for TurboTax Live driven by the usage of 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 \$1.54 billion, down 18.5% year over year. Operating margin contracted 700 basis points year over year at 51%.

Balance Sheet and Cash Flow

As of Apr 30, 2020, Intuit's cash and cash equivalents were \$3.37 billion compared with \$1.64 billion as of Jan 31, 2020.

Cash provided by operational activities was \$2.13 billion for the nine months ended Apr 30, 2020, compared with \$2.45 billion for nine-months ended Apr 30, 2019.

Total debt (short-term plus long-term), as of Apr 30, was \$398 million compared with \$411 million, as of Jan 31. Notably, on May 7, the company drew down the entire amount of its \$1 billion revolving credit facility, in a bid to sustain financial flexibility.

During the fiscal third quarter, Intuit repurchased \$40 million of shares, with \$2.4 billion remaining on the company's authorization.

However, the company has temporarily suspended share purchases due to the pending Credit Karma acquisition, which is a stock-based transaction. Markedly, on Feb 25, 2020, the company had announced that it is set to acquire consumer technology platform Credit Karma, for approximately \$7.1 billion. Management expects the acquisition to close during the second half of calendar year 2020 and be accretive over time.

Notably, Intuit's board of directors approved a cash dividend of 53 cents per share, payable on Jul 20, to shareholders as on Jul 10. The

Quarter Ending 04/2020

Report Date	May 21, 2020
Sales Surprise	0.21%
EPS Surprise	0.45%
Quarterly EPS	4.49
Annual EPS (TTM)	5.97

dividend payout indicates a 13% increase on a year-over-year basis.

Guidance

The company refrained from providing any guidance. Markedly, on May 7, 2020, the company withdrew guidance for fiscal 2020, citing uncertainty pertaining to impact of coronavirus crisis on small businesses.

Recent News

On Jun 25, Intuit announced the pricing of senior notes offering worth \$2 billion.

On May 7, Intuit withdraws fiscal 2020 guidance and stated that revenues, operating income and earnings for its fiscal third-quarter to be lower than guidance due to the negative impact of coronavirus on small businesses customers and the extension of the IRS tax filing deadline to July 15.

On Apr 13, Intuit launched Intuit Aid Assist, a free website that would help consumers and small businesses access and navigate U.S. Government aid and relief programs.

On Apr 10, Intuit revealed that its subsidiary Intuit Financing Inc. has been approved as Paycheck Protection Program (PPP) lender. With this approval, small businesses and other eligible applicants would be able to apply for PPP relief through the company's QuickBooks Capital systems.

On Apr 4, Intuit's online tax preparation service, TurboTax launched Stimulus Registration product. The free product is designed to help Americans, who are not required to file a tax return, can easily register with the IRS to get their stimulus money.

On Mar 24, Intuit and GoFundMe co-founded an initiative to help small businesses raise money to overcome the challenges caused by COVID-19.

On Feb 25, 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.

Valuation

Shares of Intuit have increased 15.4% in the year-to-date (YTD) period and 9% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Computer & Technology sector grew 22.9% and 13.9%, respectively, YTD. Over the past year, the Zacks sub-industry and the Zacks Computer & Technology sector have gained 33.5% and 24.2%, respectively.

The S&P 500 Index has gained 0.1% year to date and 8.4% in the past year.

The stock is currently trading at 37.32X forward 12-month earnings, which compares to 31.73X for the Zacks sub-industry, 25.48X for the Zacks sector and 22.44X 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 36.36X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$317 price target reflects 33.78X 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	37.32	31.73	25.48	22.44
	5-Year High	54.11	32.39	25.57	22.44
	5-Year Low	27.90	18.62	16.72	15.25
	5-Year Median	36.36	25.11	19.32	17.52
P/S F12M	Current	10.05	7.28	3.89	3.54
	5-Year High	10.67	8.01	3.89	3.54
	5-Year Low	4.67	3.88	2.32	2.53
	5-Year Median	7.03	5.62	3.14	3.02
P/B TTM	Current	16.62	10.83	5.92	4.40
	5-Year High	43.30	11.35	6.11	4.56
	5-Year Low	9.44	4.11	3.16	2.83
	5-Year Median	21.79	7.20	4.40	3.71

As of 07/29/2020

Industry Analysis Zacks Industry Rank: Bottom 39% (154 out of 253)



Top Peers

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

Industry Comparison Industry: Computer - Software				Industry Peers		
	INTU	X Industry	S&P 500	ADP	BAC	PAYX
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	3	3
VGM Score	B	-	-	A	F	B
Market Cap	78.80 B	1.64 B	22.69 B	58.93 B	219.23 B	26.39 B
# of Analysts	8	3.5	14	11	10	12
Dividend Yield	0.70%	0.00%	1.8%	2.65%	2.85%	3.37%
Value Score	C	-	-	B	F	C
Cash/Price	0.05	0.08	0.07	0.03	4.61	0.04
EV/EBITDA	35.30	17.83	13.11	13.11	-9.07	14.04
PEG Ratio	2.59	2.79	3.05	2.01	2.29	3.35
Price/Book (P/B)	16.62	5.68	3.15	10.24	0.91	9.49
Price/Cash Flow (P/CF)	46.28	22.70	12.28	15.06	6.89	17.36
P/E (F1)	41.62	32.98	22.27	24.12	16.00	26.78
Price/Sales (P/S)	11.49	4.55	2.46	4.04	2.06	6.53
Earnings Yield	2.40%	2.74%	4.25%	4.15%	6.25%	3.74%
Debt/Equity	0.01	0.16	0.75	0.23	1.08	0.32
Cash Flow (\$/share)	6.53	1.18	6.94	9.10	3.67	4.24
Growth Score	B	-	-	C	F	B
Hist. EPS Growth (3-5 yrs)	23.70%	9.26%	10.85%	17.22%	21.29%	10.82%
Proj. EPS Growth (F1/F0)	7.50%	4.45%	-7.70%	-1.09%	-42.58%	-8.44%
Curr. Cash Flow Growth	18.22%	7.44%	5.31%	5.23%	3.02%	5.65%
Hist. Cash Flow Growth (3-5 yrs)	9.68%	9.27%	8.55%	14.63%	27.50%	12.12%
Current Ratio	1.79	1.54	1.31	1.05	0.93	1.23
Debt/Capital	1.00%	22.84%	44.23%	18.98%	49.62%	24.32%
Net Margin	19.50%	6.21%	10.45%	16.91%	19.09%	27.18%
Return on Equity	32.03%	7.32%	14.99%	46.66%	9.11%	40.76%
Sales/Assets	1.02	0.63	0.53	0.34	0.04	0.46
Proj. Sales Growth (F1/F0)	9.14%	3.92%	-1.97%	-0.35%	-5.11%	-3.64%
Momentum Score	D	-	-	A	A	C
Daily Price Chg	1.81%	0.95%	1.52%	-6.50%	3.74%	0.56%
1 Week Price Chg	-0.20%	0.00%	0.37%	-1.47%	4.87%	-1.77%
4 Week Price Chg	-0.13%	0.90%	5.44%	-8.04%	8.64%	-3.60%
12 Week Price Chg	9.54%	18.75%	15.38%	-5.15%	13.06%	9.58%
52 Week Price Chg	8.97%	16.84%	-1.61%	-17.66%	-17.63%	-11.44%
20 Day Average Volume	1,159,476	152,121	1,846,377	1,491,192	60,384,744	1,875,216
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.96%	0.00%	0.00%
(F1) EPS Est 4 week change	0.00%	0.00%	0.27%	0.96%	16.75%	-0.21%
(F1) EPS Est 12 week change	-4.93%	-3.81%	-0.85%	-0.08%	10.42%	-3.99%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.13%	-1.16%	33.13%	-7.12%

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	C
Growth Score	B
Momentum Score	D
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.

Disclosures

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