



January 11, 2022

INVESTMENT COMMENTARY INTUIT, INC. (NASDAQ: INTU)

A savvy investor does not dream of a white Christmas. Instead, he dreams of a Christmas celebrated with the knowledge that when the New Year comes, he will pay no tax on his appreciated investments if he has not sold these investments. And year after year, if he does not sell his capital gain, his economic growth will escape taxation, and his gain will experience the eighth wonder of the world, a compound return escaping the harsh reality of taxes.

The most wonderful thing in the world of money management is a long-term capital gain that easily exceeds the inflation rate and beats the performance of the Standard & Poor 500. The world looks even more wonderful when that same investment produces an untaxed capital gain. Or, in the jargon of the Internal Revenue Service, has not been realized. Let's be clear about one thing; an investor is always subject to a capital gain arising from an appreciated asset unless the asset is held in a tax-protected vehicle, such as an Individual Retirement Account or a 401(k) account. One more thing to point out, no law says that an investor must sell an appreciated asset, realize a gain, and pay tax on that gain.

To enjoy an after-tax capital gain whose annual return dramatically exceeds the rate of inflation is a beautiful thing. It is a situation that can enthuse the most jaded investor. Even more impressive is to achieve a capital gain, year after year, without paying taxes, an achievement that could qualify as the ninth wonder of the world. All those who pretend to understand the subtlety and power of language know that the eighth wonder of the world is the mathematical force achieved when investment returns enjoy a compounding effect, as, for example, when a twelve percent return magnifies a return of twelve percent in year one in year two, and so on. Combine the eighth wonder of the world with the ninth wonder, and you have an investment dynamic. Close to perfection, on [December 12, 2013](#), we took a position in [Intuit, Inc \(NASDAQ: INTU\)](#), paying \$73.18 per share. On [October 5, 2021](#), the shares reached \$716.35. per share, a gain of 976 percent. There are a couple of things to note here: I assume the [Intuit, Inc \(NASDAQ: INTU\)](#) investor is patient and aware of the excellent investment potential offered by a company with unusually attractive, maybe even impregnable competitive advantages could offer and did not sell any of his shares during the nine years as described above.

If dividends include dividends, the total return is over one thousand percent.

I am wary about the word “assumption” and the use of the word ‘ASSUME.’ I recall my experience at Washington University in St. Louis, where I dutifully completed all of my assignments in accounting and finance (dutifully does not always mean correct or rigorously complete in my case). In the course Financial Accounting, I remember a post-course interview with the professor and his resigned comment about my mediocre subterranean performance colliding with his self-described merciful attitude toward learning accounting and his decision to give me a passing grade. With kindness, he boasted, triumphing over cold analysis. A couple of years later, I decided that I would prove his analysis of my accounting prowess way off the mark, and I secured a position on the accounting faculty at Eastern Michigan University in Ypsilanti, Michigan. I would teach introductory accounting at 9:00 a.m., then take intermediate at 10:00 a.m. I followed this schedule through tax accounting, advanced accounting, cost accounting, and virtually any subject considered part of accounting knowledge until I had enough accounting hours to sit for the uniform C.P.A. Exam. It took two attempts, but I passed. Accounting knowledge has been beneficial for me in finding the truth, often inadvertently or deliberately closeted away by the management of publicly held companies, such as the ones we consider for investment in our portfolios.

In the exciting but demanding world of equity investing, markets can become undervalued when pessimism dominates optimism. The market can also become overvalued when optimism is unchecked by reality. The price of any common stock is not immune to this phenomenon. Consider [Intuit, Inc \(NASDAQ: INTU\)](#). For several months beginning in 2019, many analysts considered [Intuit, Inc \(NASDAQ: INTU\)](#) overvalued, reasoning that its' net income had been spectacular and would continue to be outstanding but that the price had gotten far ahead of reality. The contradiction between reality and fantasy seemed to be especially obvious in the last twelve months, during which [Intuit, Inc \(NASDAQ: INTU\)](#) recorded dramatic increases in net income, and all the mutual funds that had never invested in the company decided that this was the time. This



period coincided with an exuberant embrace of the ‘tech’ group, which **Intuit, Inc (NASDAQ: INTU)** is considered.

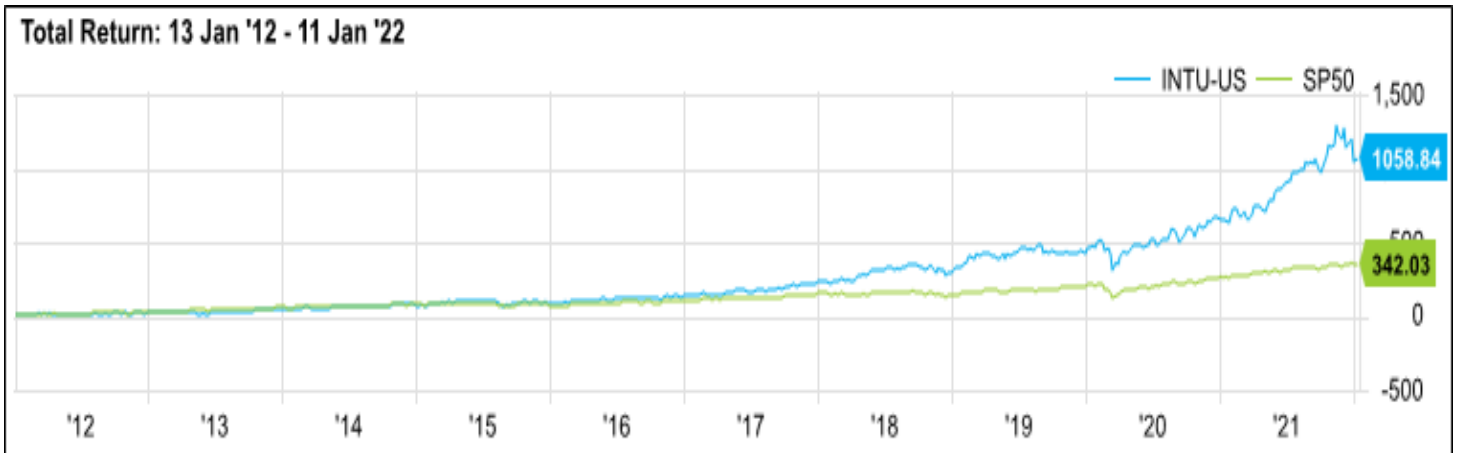
This exuberance presented a problem, a good problem, but a decision that called for an unconventional answer. My thought was that when reality overtook fantasy that **Intuit, Inc (NASDAQ: INTU)** could quickly decline by fifteen to twenty percent. It fell from \$716 to \$605, a decline of 14 percent. To avoid that decline would have meant subjecting my clients and myself to federal and state capital gains, which, even though applied to the favorable, long-term capital gains rates, would have exceeded twenty percent. **Intuit, Inc (NASDAQ: INTU)** is in a great position, and I expect it to be so for many years. Also, few companies are comparable and competitive; finding one takes many hours of research. Why not stay with a company that has proven itself? Also, to find another long-term untaxed situation, an investor must hold the security for one year before the Internal Revenue Service considers the holding period to be long-term. We have already passed the test with **Intuit, Inc (NASDAQ: INTU)**

Sincerely,

Fredric E. Russell

Returns of Intuit, Inc. Compared to S&P 500 For the Last Ten Years

Comparable Returns				
	Price Change (%)		Total Return (%)	
	Cum	Ann (CGR)	Cum	Ann (CGR)
Intuit Inc	955.04	26.56	1,058.84	27.75
S&P 500	262.29	13.73	342.03	16.02
Intuit Inc. Relative to Comparables				
	Price Change (%)		Total Return (%)	
	Cum	Ann (CGR)	Cum	Ann (CGR)
S&P 500	692.75	12.83	716.81	11.74



Intuit, Inc (NASDAQ: INTU) INTU QQ 19 Nov 2021 03:22, UTC

Last Price	Fair Value Estimate	Price/FVE	Market Cap	Economic Moat™	Moat Trend™	Uncertainty	Capital Allocation	ESG Risk Rating Assessment¹
628.94 USD <small>18 Nov 2021</small>	511.00 USD <small>19 Nov 2021 03:21, UTC</small>	1.23	179.97 USD Bil <small>17 Nov 2021</small>	Wide	Stable	Medium	Exemplary	<small>3 Nov 2021 05:00, UTC</small>

Morningstar Historical Summary

Financials as of July 31 2021

Fiscal Year ends 31 Jul	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	YTD	TTM
Revenue (USD Mil)	3,449	3,808	3,946	4,243	4,192	4,694	5,196	6,025	6,784	7,679	9,633	9,633
Revenue Growth %	1.4	10.4	3.6	7.5	-1.2	12.0	10.7	16.0	12.6	13.2	25.4	25.4
EBITDA (USD Mil)	1,343	1,430	1,447	1,528	970	1,476	1,657	1,839	2,121	2,430	2,948	2,948
EBITDA Margin %	38.9	37.6	36.7	36.0	23.1	31.4	31.9	30.5	31.3	31.6	30.6	30.6
Operating Income (USD Mil)	1,082	1,168	1,208	1,300	886	1,242	1,418	1,560	1,854	2,176	2,500	2,500
Operating Margin %	31.4	30.7	30.6	30.6	21.1	26.5	27.3	25.9	27.3	28.3	26.0	26.0
Net Income (USD Mil)	634	792	858	907	365	979	985	1,329	1,557	1,826	2,062	2,062
Net Margin %	18.4	20.8	21.7	21.4	8.7	20.9	19.0	22.1	23.0	23.8	21.4	21.4
Diluted Shares Outstanding (Mil)	317	305	303	291	286	265	261	261	264	264	273	273
Diluted Earnings Per Share (USD)	2.00	2.60	2.83	3.12	1.28	3.69	3.78	5.09	5.89	6.92	7.56	7.56
Dividends Per Share (USD)	—	0.60	0.85	0.76	1.00	1.20	1.36	1.56	1.88	2.12	2.36	2.36

Valuation as of October 29 2021

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Recent Qtr	TTM
Price/Sales	4.2	4.3	5.4	5.9	6.3	6.3	7.8	8.5	10.0	12.8	15.3	17.7
Price/Earnings	26.2	23.4	28.2	32.2	59.5	37.9	41.8	41.2	43.9	51.0	71.4	82.6
Price/Cash Flow	14.8	14.9	17.4	17.6	19.1	21.6	23.8	25.3	29.6	38.8	45.2	52.6
Dividend Yield %	0.29	1.08	0.92	0.89	1.09	1.08	0.89	0.83	0.74	0.57	0.44	0.39
Price/Book	6.6	6.4	9.8	9.0	24.2	31.4	33.6	18.3	18.8	19.8	14.9	17.3
EV/EBITDA	11.6	12.3	14.6	16.5	26.7	20.3	24.4	27.3	31.4	41.5	0.0	0.0

Operating Performance / Profitability as of July 31 2021

Fiscal Year ends 31 Jul	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	YTD	TTM
ROA %	12.3	16.2	16.9	17.0	7.2	21.2	23.7	28.9	27.3	21.2	15.6	15.6
ROE %	23.3	29.5	27.4	27.5	13.5	56.1	78.3	63.7	47.4	41.2	27.5	27.5
ROIC %	16.8	25.8	24.1	24.3	11.8	36.4	50.0	52.2	41.2	27.9	19.7	19.7
Asset Turnover	0.7	0.8	0.8	0.8	0.8	1.0	1.2	1.3	1.2	0.9	0.7	0.7

Financial Leverage

Fiscal Year ends 31 Jul	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Recent Qtr	TTM
Debt/Capital %	16.0	15.4	12.4	14.0	17.7	29.6	24.4	12.1	9.3	30.6	19.7	—
Equity/Assets %	51.2	58.6	64.4	59.2	46.9	27.3	33.3	54.8	59.7	46.7	63.6	—
Total Debt/EBITDA	0.7	0.3	0.3	0.3	0.5	0.7	0.3	0.2	0.2	1.5	0.8	—
EBITDA/Interest Expense	22.4	28.6	48.2	49.3	35.9	42.2	53.4	92.0	141.4	173.5	101.7	101.7

Morningstar Analyst Historical/Forecast Summary as of 18 Nov 2021

Financials	Estimates					Forward Valuation	Estimates					
	2020	2021	2022	2023	2024		2020	2021	2022	2023	2024	
Fiscal Year, ends 31 Jul												
Revenue (USD)	6.78	7.68	9.63	12.79	14.63	Price/Sales	11.8	18.9	18.5	13.9	12.2	
Revenue Growth %	12.6	13.2	25.5	32.8	14.4	Price/Earnings	45.4	67.4	65.1	53.0	43.5	
EBITDA (USD Mil)	2,079	2,394	2,863	2,788	4,829	Price/Cash Flow	37.0	63.6	57.0	61.5	52.0	
EBITDA Margin %	30.7	31.2	29.7	21.8	33.0	Dividend Yield %	0.61	0.40	0.34	0.43	0.53	
Operating Income (USD Mil)	1,854	2,176	2,500	2,512	4,545	Price/Book	—	—	—	—	—	
Operating Margin %	27.3	28.3	26.0	19.6	31.1	EV/EBITDA	37.0	59.8	61.8	63.4	36.6	
Net Income (USD Mil)	1,782	2,076	2,634	3,289	4,090							
Net Margin %	26.3	27.0	27.4	25.7	28.0							
Diluted Shares Outstanding (Mil)	264	264	273	277	283							
Diluted Earnings Per Share(USD)	6.75	7.86	9.66	11.87	14.46							
Dividends Per Share(USD)	1.88	2.12	2.12	2.72	3.32							

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