



Financial Statement Analysis

Individual Research Paper on Intuit Inc.

Domain: <https://www.intuit.com/>

Head Office: California, USA

International Offices: India

Founded: 1984

Sector: Financial Services

Categories: Software Manufacturer

1. Strategy Analysis

1.1. Overview of the firm and its business

Intuit is a software company that manufactures and sells personal & business financial management and tax compliance products to individual consumers, small and medium scale businesses (SMBs), and accounting professionals in the United States and Internationally. Its product lines are designed to help consumers and small businesses manage their finances, save money, pay off debt, access capital and do their taxes.

ess segment is categorized into small businesses & self-employed, Consumer personal finance and Professional services. Intuit’s list of products is listed in the table below:

Intuit’s busin

Business Portfolio			
Target Market	Consumer Personal Finance	Small & Medium Businesses	Professional Accountants
Product Lines	TurboTax Mint QuickBooks Credit Karma	QuickBooks QuickBooks Online QuickBooks Payroll, Payment, Time Tracking, & Capital Mailchimp	Lacerte Tax ProConnect Tax ProSeries Tax QuickBooks Online ProAdvisor Program

Intuit was founded in California, March 1984; it now runs in the United States and India, with 13,500 employees, over 100 million customers, \$9.6 billion in total annual revenue (2021 Financial Year) and \$122.03 billion in Market Cap. ^b Its revenues are mostly concentrated in the United States with 95% of its total revenue while the remaining 5% comes from its international services. Intuit’s revenue from each business segments are shown below:

Business Portfolio			
	FY 2021	FY 2020	FY 2019
Small businesses & self-employed	49%	53%	52%
Consumer personal finance	46%	41%	41%
Professional services	5%	6%	7%

N.B: Its consumer personal finance arm grew by 5% YoY in the 2021 financial year due to the acquisition of CreditKarma in December 2020 which contributed 9% of the total revenue.

Intuit executes its business promise by working with a number of partners such as **tech companies** that provide IT infrastructure; **accounting services** firm that help with customer success; **independent software vendors** that help sell the software solutions through offline stations; **affiliate developers** that contributes by developing plugin technology features working within Intuit's software ecosystem and **tax affiliates** that provides professional tax services to customers who need it.

1.2. Key operating and financial risks

The following are its identified operational and financial risks:

1.2.1. Operating Risks

- a. Security incidents, improper access to or disclosure of customers' data, or other cyberattacks on their systems could harm Intuit's reputation and adversely affect business.
- b. Business interruption or failure to its IT systems may impair the availability of its products and services, which may damage reputation and harm future financial results.
- c. Disruption to relationships with critical third-party partners will affect regular business service delivery and future financial results.
- d. High competition and increasing cost to attract, retain and develop highly skilled employees will impair anticipated business growth.

1.2.2. Financial Risks

- a. Tax business is highly seasonal and is influenced by changes in the policies of the IRS which could lead to fluctuations in financial results.
- b. Intuit provides businesses access to capital; capital levered on Intuit's relationship with financial institutions which exposes Intuit to the risks of borrower's inability to repay loans, that may cause material financial or reputational harm.
- c. Amortization of acquired intangible assets and impairment charges may cause significant fluctuations in net income.

- d. Adverse macroeconomic developments within the United States could negatively affect its business and financial conditions.

1.3. How firm fits within overall industry

Michael Porter's five forces was carried out on the Intuit industry, and it shows its faced by a **high propensity of threat in industry rivals**, due to a high number of incumbent technology providers and platform companies – Google, Amazon, Apple – that can proffer the same solution to their massive audience with little to no significant capital. They also have the capital to enter its business.

Buyer power is heightened by the fact that large competitors are offering their services for free to attract customers. **Supplier power is currently at medium** because its services customers through online/ offline and assisted and DIY approaches that limits leverage by any supplier but as Intuit moves towards cloud-based services, AWS could be a cause for worry. **New entrants' threat is low** although they enjoy a high flux of talents and capital infusion from venture capitals, but existing customers are faced with high switching cost as it disrupts their business systems/ process.

Furthermore, Intuit has a good foot in the industry because it is one of the most established businesses in the industry with its solutions integrated into the business process of customers, resulting in high switching costs. Nevertheless, **its greatest threat is from external and/or internal technological disruptions** which result in customer dissatisfaction (from poorly executed software updates), and customer migration (such as the move from desktop to mobile or internet-based solutions).

(See appendix 5.2 for an expanded breakdown)

2. Accounting Analysis

2.1. Identify 2-3 key reporting areas of risk and/or accounting estimates

- a. **Customer refund reserves:** Intuit has an established reserve against revenue in the financial statement for customer refunds, allocated from estimating past trends. However, experiencing actual mass refunds exceeding the reserves may result in lower revenue.
- b. **Impairment Assessment:** Intuit estimates the recoverable value from intangible and other long-lived assets by comparing the value of asset now and the future cash flow expected to generate from it. These assumptions can be affected by a variety of

factors, including external factors – industry & economic trends and internal factors – changes in business strategy and internal forecasts.

- c. **Legal Contingencies:** Intuit caters for possible legal claims on the business based on determination of probable loss and estimation of expense which is then recorded as a liability. Potential financial exposure is assessed and determined quarterly regardless of the existence of legal proceedings.

2.2. Link key accounts to firm's strategy

The following are key information inherent within the

- a. **Net Revenue split into Product + Services (IS):** In recording revenue, Intuit breaks its net revenue into products and services by categorizing its offline software sold through independent resellers in CDs and software downloads to products while all its Software as a Service (SaaS) solutions in the different business segments are considered services. This allows it to show the progress it makes moving from dependencies on its retail partners.
- b. **Goodwill, Acquired intangible assets and Other Long-lived Assets (BS):** This allows Intuit to record non-monetary value it gained from years of purchasing other technological solutions or businesses and/or holding intellectual property such as trademarks, customer data or domain names over the years.
- c. **Funds held for customers (BS):** its payroll services allow customers to automate payroll payment and payroll taxes which results in cash held in the Intuit system on behalf of the customer.
- d. **Share-based Compensation Expense (CF):** As a company faced by the effect of employee poaching in the technology industry, its compensation system includes allocating shares – Restricted Stock Units (RSUs) – to employees in addition to other remunerations. These shares are recorded every year when allocated and reduced quarterly as it vests.
- e. **Secured revolving credit facility (CF):** this covers the amount of money Intuit receives from lenders which is then loaned to its SMB customers to service their short-term liquidity demands.

3. Financial Analysis

3.1. Identify 7-10 as key ratios, calculate each for 3 years, interpret performance

	Ratios	2018	2019	2020	2021	Sparkline
Current Assets / Current Liabilities	LIQUIDITY	1.14	1.83	2.26	1.94	
Total Liabilities / Total Assets	FIN.LEV.	0.55	0.40	0.53	0.36	
Total Debt / Total Assets	FIN.LEV.	0.54	0.40	0.53	0.33	
Return on Total Assets	ROR	#N/A	27.4%	21.4%	15.8%	
Income / Sales	ROR	20.3%	23.0%	23.9%	21.5%	
Income on Assets / Sales	ROR	20.6%	23.1%	24.0%	21.7%	
Sales / Avg. Total Assets	EFF	#N/A	118%	89%	73%	
Cost of Goods Sold / Sales	EXP/SALE	12.2%	14.0%	15.2%	15.3%	
R & D / Sales	EXP/SALE	19.9%	18.2%	18.2%	17.5%	

a. Current Assets / Current Liabilities:

- **Trend:** it had gone up significantly in the three years preceding FY 21 but came down in 2021 FY,
- **Connotation:** stable ■
- **Logic:** this is due to a significant reduction in 'cash & cash equivalent' that came from paying \$3.4 billion cash to acquire CreditKarma in FY20.

b. Total Liabilities / Total Assets:

- **Trend:** dropped significantly in FY 21,
- **Connotation:** Positive ✓
- **Logic:** although liabilities had a steady fall from the previous year, goodwill and intangibles recorded from CreditKarma acquisitions went up. This likely means it hasn't acquired any business for the earlier 3 years.

c. Total Debt / Total Assets:

- **Trend:** dropped significantly in FY 21 than in previous years
- **Connotation:** positive ✓
- **Logic:** This is due to increases in "long-term deferred income tax liabilities" and "operating lease liabilities" (these are rent contracts for office spaces due for renewal in the last FY; these renewals could last 10 years).

d. Return on Total Assets:

- **Trend:** has had a steady fall for the last three years
- **Connotation:** stable ■
- **Logic:** Although all parameters retained a stable growth across the years, the firm took a \$2 billion long-term debt which was used to fund its acquisition of CreditKarma and used to repurchase stocks, owing to the low cost of capital.

e. Income / Sales:

- **Trend:** went up in the three years preceding FY 21 but came down in FY 21
- **Connotation:** stable ■
- **Logic:** The business has been cashflow positive for years with all business segments providing an operating income above 50% over the years but the acquired business – CreditKarma – contributed 21% income ratio, significantly lower than others but profitable.

f. Income on Assets / Sales:

- **Trend:** went up in the three years preceding FY 21 but came down in FY 21
- **Connotation:** stable ■
- **Logic:** It is the same situation as the summary above

g. Sales / Avg. Total Assets:

- **Trend:** has been falling significantly from FY 19 till FY 21
- **Connotation:** stable ■
- **Logic:** these fluctuations were due to the large loans received by the company in FY 20 and the intangible assets gained from the CreditKarma acquisition; sales remain stable.

h. Cost of Goods Sold / Sales:

- **Trend:** has been growing steadily since FY 18 till FY 21
- **Connotation:** negative Ⓜ
- **Logic:** The company strategy to hire temporary account professionals and customer support team to meet the fluctuations of tax filing caused the steady COGS increase, also its CreditKarma acquisition sold its tax product but redirected leads to them causing additional increase in expenses.

i. R & D / Sales:

- **Trend:** has dropped from previous years
- **Connotation:** stable ■
- **Logic:** R&D investment was kept stable, but the ratios reduced increased expenses incurred with the acquisition of CreditKarma. That brought increased compensation expense, and amortization of intangible assets.

3.2. Derive alternative roe decomposition for most recent year

a. Return on Equity:

Net Income/ Total Shareholder Equity
\$2,062 million/ \$9,869 million = 20.9%

b. Alternate ROE decomposition:

$$\text{ROE} = \underbrace{\left[\frac{\text{NOPAT}}{S} \times \frac{S}{\text{Net TA}} \right]}_{\text{Operating ROA}} + \underbrace{\left[\frac{\text{NOPAT} - \text{Int After Tax}}{\text{Net TA}} \times \frac{\text{Net Debt}}{E} \right]}_{\text{Financial Leverage}}$$

Margin Turnover Spread Leverage

ROE = Operating ROA + Financial Leverage
= (Margin = 22% * Turnover = 113%) + (Spread = 27% * Leverage = -14%)
ROE = 20.9%

(See appendix 5.4 for elaborate breakdown)

3.3. Prospective Analysis

Upon completion of accounting, strategic and SWOT analysis (appendix 5.3), I believe the company is poised to achieve residual income in the next five years for the following reasons: It has strong distribution network; Its achieved good returns on capital expenditure; It has a successful track record of integrating complementary firms through mergers & acquisition; They have a strong Brand Portfolio; Successful track record of developing new products; High level of customer satisfaction.

4. Reference

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5. Appendices

5.1. Business Model Canvas

Key Partnerships	Key Activities	Value Proposition	Customer Relationship	Customer Segments
<p>Distribution Partners: tech companies & accounting services firms</p> <p>Resellers: independent software vendors</p> <p>Affiliates Developer: software developers, cloud service companies & tech firms</p> <p>Tax Affiliate: Tax Professionals</p>	<ul style="list-style-type: none"> - Develop and market software solutions - Operate an application marketplace - Manage partners <p>Key Resources</p> <ul style="list-style-type: none"> - Software products - IT infrastructure - Network of partnerships - US Patents, domains & Trademarks 	<p>Intuit provides personal finance, business finance Management and consumer tax compliance products to users wishing to gain greater control of their finances and access easier methods of meeting tax requirements.</p>	<ul style="list-style-type: none"> - Self-service basis - Support services - Community Forums - Blogs/ Media releases <p>Channels</p> <ul style="list-style-type: none"> - Digital Software/ mobile apps - Cloud-based SaaS - Sales Rep - Retail 	<ul style="list-style-type: none"> - General Consumers - Small & Medium Businesses (SMB) - Accounting Professionals
<p>Cost Structure</p> <ul style="list-style-type: none"> - Development of products, cost of sales, & support services - Maintenance of IT infrastructure including servers & data centers 		<p>Products/ Services</p> <ul style="list-style-type: none"> - Tax Preparation - Payroll Mgt - Accounting Support - Personal finance help 	<p>Revenue Streams</p> <ul style="list-style-type: none"> - SaaS Subscription (Monthly) - One-off tax services & - One-off app marketplace 	

- Operate offices across the US, Australia, Canada, India, Brazil, Singapore, France, and the UK.

5.2.Porter’s Five Forces

S/N	Five Forces	Factors	Threat Level
1	Threats of New Entrants	Capital requirements, product differentiation, brand loyalty, switching costs, government policies, existing competitors	Medium
2	Bargaining Power of Buyers	Demand from customers, seasonality of service needs	High
3	Bargaining Power of Suppliers	Number of existing suppliers	low
4	Threat of Substitutes	Accounting firms, certified accountants, switching cost, internet access & software reach	Medium
5	Intensity of Industry Rivals	New entrants, existing competitors, franchises	High
6	Technology Disruptions	Changes caused by the advancement of technology	High

5.3.SWOT Analysis

Strength	Weaknesses	Opportunities	Threat
<ul style="list-style-type: none"> a. Strong distribution network b. Good Returns on Capital Expenditure 	<ul style="list-style-type: none"> a. Investment in Research and Development is below the fastest growing players in the industry. 	<ul style="list-style-type: none"> a. Lower inflation rate b. Economic uptick and increase in customer spending 	<ul style="list-style-type: none"> a. Stiff competition b. Economic slowdown

c. Successful track record of integrating complimentary firms through mergers & acquisition.	b. Limited success outside core business	c. The new taxation policy	c. Differing Federal, State, and international regulations
d. Strong Brand Portfolio		d. Stable free cash flow provides opportunities to invest in adjacent product segments.	
e. Successful track record of developing new products		e. Organization's core competencies can be a success in similar products field.	
f. High level of customer satisfaction			

5.4. ROE Alternate Decomposition

2021		(Amounts shown in millions)	
Cash & Equivalents	(3,870.0)		
Receivables - Total (Net)	653.0		
Inventories - Total	-		
CURRENT ASSETS	5,157.0		
Plant, Property & Equipment (Gross)	2,500.0		
Accumulated Depreciation	(1,340.0)		
Plant, Property & Equipment (Net)	1,160.0		
TOTAL ASSETS	15,516.0		
		keys	s
		NOPAT	2,094.3
		Sales	9,613.0
		Net Total	
		Asset	8,532.0
		Int After Tax	32.3
		Net Debt	(1,337.0)
		Equity	9,869.0

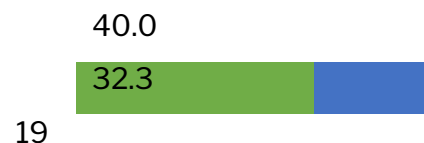
Accounts Payable	(623.0)
Notes Payable	-
Accrued Expenses	(530.0)
Taxes Payable	#N/A
Debt (Long-Term) Due in 1 Year	66.0
Other Current Liabilities	(1,436.0)
TOTAL CURRENT LIABILITIES	2,655.0
Long-Term Debt	2,414.0
Liabilities - Other	53.0
Deferred Taxes (Balance Sheet)	(525.0)
TOTAL LIABILITIES	5,647.0
Preferred Stock	-
Common Stock	3.0
Capital Surplus	10,545.0
Retained Earnings (Net Other)	12,272.0
Less: Treasury Stock	(12,951.0)
TOTAL SHAREHOLDERS' EQUITY	9,869.0
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Sales (Net)	9,613.0

RoE Decomposition

Margin	22%		
Turnover	113%	24.5%	
Spread	27%	-3.7%	20.9%
Leverage	-14%		

Cost of Good Sold	1,466.0
GROSS PROFIT	8,147.0
Selling, General & Admin. Expenses	(5,268.0)
OPERATING INCOME B4 DEPREC	2,879.0
Depreciation, Depletion & Amortization	(363.0)
OPERATING INCOME AFTER DEPREC	2,516.0
Interest Expense	(29.0)
Non-Operating Income/Expense	55.0

Special Items	14.0
PRETAX INCOME	2,556.0



Income Taxes - Total	494.0	%	tax rate
Minority Interest	-		
INCOME BEFORE EI & DO	2,062.0		
Extraordinary Items	-		
Discontinued Operations	-		
NET INCOME (Loss)	2,062.0		

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