

# Hyperion Asset Management

## Company Profile

### Intuit Inc.

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#### **Main Business Activities**

Intuit Inc. (Intuit) is a vendor of modern financial management and compliance software solutions for consumers, small businesses, and accountants. The company is evolving from a provider of stand-alone accounting and tax software solutions to being an AI-driven platform connecting consumers and small businesses to a large universe of applications (developed by both Intuit and third-parties), experts (e.g. accountants), and capital (e.g. credit providers).

95% of revenue is from the U.S., with the balance primarily from small business software subscription revenue in Canada, the U.K., Australia, France, Brazil and India.

The company has three segments: the Small Business and Self-Employed Group, the Consumer Group, and the Strategic Partner Group.

#### **Small Business and Self-Employed Group:**

This segment provides software to small businesses and the self-employed around the world, as well as to accountants and bookkeepers who advise them. The product suite includes QuickBooks financial and business management online services and desktop software, payroll solutions, merchant payment processing solutions, and financing for small businesses (Quickbooks Capital). This segment also includes MailChimp (acquired 2021) which is a global-focused consumer engagement and marketing platform.

#### **Consumer Group:**

This segment provides software that enables consumers to efficiently compile and lodge income tax returns in the US and Canada. The product suite includes the flagship TurboTax (do-it-yourself tax preparation), TurboTax Live (ad-hoc and full-service professional tax advice), Mint and Turbo which both assist consumers improve and understand their financial health. This segment also includes Credit Karma (acquired in 2021) which is a U.S.-focused consumer finance marketplace.

#### **Strategic Partner Group:**

This segment is non-core, and provides software to professional accountants and bookkeepers in the U.S. and Canada, who are essential to both small business success and tax preparation and filing. Intuit's professional tax offerings include Lacerte, ProSeries, ProFile, and ProConnect Tax Online.

#### **Key Value Proposition to Customers**

The core value proposition to both consumers and small businesses is saving time and money with efficiency tools and automation, at low cost. These efficiency gains will continue to improve with the evolution towards being an open platform/ecosystem, as users are able to supplement their Intuit software with third-party software to address a specific need across myriad use cases.

The value proposition to all users of Intuit products will continue to improve with consistent innovation (especially in data science) that will increasingly leverage the vast amount of user data to provide greater insights and a more personalised user experience.

#### **Sustainable Competitive Advantages and Outlook**

There are several aspects to Intuit's sustainable competitive advantage:

1) Dominant market leadership: In the U.S., which accounts for approximately 95% of group revenue, Intuit has a commanding lead over competitors in both the Consumer Group (TurboTax franchise) and the Small Business and Self Employed Group (Quickbooks franchise). This scale advantage provides multiple benefits, including:

- i) Brand awareness and platform retention as customers (and advisors/experts) become familiar with the software. The more applications they use on Intuit's platform, the more loyal they are likely to be. Moreover, the majority of new customers to Intuit's Small Business platform are new to small business software (usually coming from Microsoft Excel), and are more likely to select the better-known brand with a strong value proposition; and
- ii) Cost advantages across product development and sales and marketing, enabling Intuit to consistently invest large amounts in innovation and distribution, which attracts new customers and drives increased spending from existing customers (in turn enabling Intuit to reinvest more into product development and marketing, a virtuous cycle).

2) Data: Intuit has a large and rapidly growing set of unique user data which is becoming increasingly valuable in the age of artificial intelligence (AI) and machine learning (ML). Combined with Intuit's consistent research and development investment, the

company's well-positioned to extend its sustainable competitive advantage with data-driven, disruptive innovation afforded by this large and unique database. Intuit refers to this as becoming an 'AI-driven expert platform'. Moreover, the data synergies enabled by the Credit Karma and Mailchimp acquisitions will accelerate Intuit's innovation cadence, as well as increase the attractiveness of Intuit's offering as an end-to-end fintech platform to both consumers and small businesses.

### **Overall Company Growth Options**

The medium to long term growth strategy for both the Consumer Group and Small Business and Self-Employed Group is distilled into '5 big bets': revolutionize speed to benefit, connect people to experts, unlock smart money decisions, be the center of small business growth, and disrupt the small business mid market.

As at FY21, Intuit's growth strategy has three components:

1) Grow the core:

- This is a U.S.-focused strategy;
- Intuit aims to grow subscriber volumes with 'do-it-yourself' products such as QBO-SE (self-employed/'gig economy'), QBO Advanced (mid-market businesses), QBO Commerce (product vs. service businesses) and TurboTax. Despite being the dominant incumbent in the U.S. small business accounting software industry, the vast majority of the market is not on vertical-specific software (instead using Excel/Word/pen and paper). As such, there is large growth potential through increased total addressable market (TAM) penetration; and
- Grow Average Revenue per User (ARPU) by moving up-market (QBO Advanced), and connecting customers to experts within both the Small Business Ecosystem (QBO Live) and Consumer Tax ecosystem (TurboTax Live, which is the primary means of penetrating the 'assisted' category to expand the TAM from the core DIY category).

2) Connect the ecosystem (provide a suite of inter-connected solutions):

- This is also a U.S.-focused strategy;
- Intuit aims to grow ARPU through cross-selling ancillary products in the Quickbooks franchise (e.g. Capital, Payments, Payroll), and third-party applications connected to the small business platform; and
- Intuit is progressively integrating Credit Karma (acquired in 2021) with the Consumer platform to drive new subscriber growth into TurboTax (60% to 65% Credit Karma members don't use TurboTax), cross-sell Credit Karma's consumer finance products to TurboTax customers (aided by AI-driven personalisation and product targeting), and expand the suite of financial products available on the consumer finance platform (including Credit Karma Money bank account, home loans, auto loans and insurance). More products and an improving user experience drives increased frequency of visits and higher conversion rates (which is how Credit Karma generates revenue).
- Intuit's 2021 acquisition of MailChimp extends and improves the SME ecosystem, with Mailchimp's front-office suite for attracting/retaining customers (web-development, automated marketing tools, CRM, analytics) clearly complementary to Intuit's back-office suite (cloud accounting, payroll, payments, SME lending, free bank account, POS, cash flow forecasting etc). INTU describes the combination of Mailchimp's customer data and QBO's purchase data as the end-to-end customer growth platform.

3) Expand globally:

- Intuit's core international markets are Canada, the U.K., Australia, Brazil, India and France;
- The global product focus has so far been confined to QBO and ancillaries, not TurboTax (excluding Canada); and
- As at FY21 global expansion is a longer-term focus (less than 5% of Group revenue is from outside the U.S., international disclosure has been reduced, global offices have been closed, and few U.S. innovations have been released in international markets).

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