Intuit Slims Down and Fattens Payout

Personal finance software provider to sell Quicken and other units. In return: a 20% increase in the quarterly dividend.

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Intuit announced plans to become leaner while fattening its quarterly cash returns to shareholders last week. The maker of business-services software is divesting itself of its Demandforce cloud-marketing segment, Quicken personal-finance software unit, and Quickbase custom business-app division. "We're focusing our attention and investments on assets that accelerate our ability to deliver our two strategic goals: first, to be the operating system behind small-business success, and second, to do the nation's taxes," said CEO Brad Smith on a conference call.

The company’s primary remaining businesses are TurboTax and small-business-focused Quickbooks. Intuit (ticker: INTU) is seeking a buyer for Quicken, Intuit’s first software product, launched 32 years ago.

Last week, Intuit also rewarded shareholders with a 20% hike to its quarterly dividend, to 30 cents per common share from 25 cents. Since initiating a 15 cent quarterly payout in August 2011, Intuit has lifted its payout every year. The $1.20 annual rate is worth about $331 million, or 25% of free cash flow that it’s expected to generate in its current fiscal year.

The Mountain View, Calif.—based company reported mixed July-quarter results, posting a five-cent loss on revenue of $696 million. Analysts expected an 11 cent loss and $736 in revenue. The divestment of Demandforce, Quicken, and Quickbase is expected to shave roughly 10 cents off earnings for the company’s fiscal year ending in July 2016. Intuit forecast full-year earnings of $3.40 to $3.45 per share, below the $3.82 consensus estimate. Shares fell 14.5% through Friday as investors were unimpressed with the company’s results and divestment plans. At a recent $90.60, Intuit sports a 1.32% dividend yield.

CIGARETTE GIANT Altria (MO) is lifting its quarterly dividend 9%, to 56.5 cents per share from 52 cents. Altria has now raised its payout 46 times in 49 years and is set to return $4.4 billion in cash to shareholders annually, nearly 78% of the free cash flow it expects to generate this year. At a recent $54.19, shares yield 4.17%.

Brinker International (EAT), operator of the Chili’s Grill and Bar restaurant chain, spiced up its shares last week with a 14% boost to its quarterly cash reward. The company, which also owns the Maggiano’s Little Italy chain, is set to pay out 32 cents per share, up from the previous quarter’s 28 cents. The higher dividend is worth $78.2 million annually, or 30% of the $264 million that analysts expect it to generate in free cash flow in its fiscal year ending in June 2016. Brinker has upped its dividend for six consecutive years.

The company also announced $250 million in share repurchases. Combined with previous authorizations, Brinker now has $567 million available for buybacks. At a recent $54.20, shares yield 2.36%.

THE SAFETY OF A COMPANY’S dividend can be hard to determine. Blunt measures, such as a dividend payout ratio, can give a general idea of a company’s ability to cover its payout but are far from precise.

The Divcon rating, recently launched by exchange-traded fund provider Reality Shares, ranks the safety of payouts of the largest 500 dividend payers. The companies are rated
from one, the riskiest, to five, the safest. The rating is based on seven factors, which include analyst estimates, dividend-increase history, earnings growth, and metrics of balance-sheet health. When Reality Shares back-tested the system from 2001 to 2014, it found that within a year, 29% of the companies with a one rating cut their payout, while 97% of the stocks with a five rating hiked their cash rewards.

Sectors like utilities, energy, and materials dominate the low end of the ranking. Excluding companies that have recently trimmed dividends, Frontier Communications (FTR), Pepco Holdings (POM), Cimarex Energy (XEC), and Marathon Oil (MRO) are most at risk of a cut, based on the ranking.

Stocks whose dividends have been deemed the safest largely have a record of consistent payout hikes. Gilead Sciences (GILD) is rated a four. With the biopharmaceutical company initiating a dividend this year, its main negative is that it lacks a history of increases. With high marks otherwise, Gilead could reward shareholders with consistent payout boosts. The full rating can be found at realitysharesadvisors.com/divcon.

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