NEW RISK ALERT: (INTU)

Intuit Removes $148 Million in Costs From Segment Operating Results

New language in latest 10-Q also reveals inconsistencies in company's segment accounting treatment.

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This alert compares the language used in the company's latest filing with the period before. Research suggests changes in language, particularly in the risk factor section, is a powerful indicator of future performance. Companies that change filing language, according to research, underperform those that don't by 30-50 basis points per month for the following year.

Intuit Strips Out $148 Million in Costs, Inflating Segment Operating Income

Intuit, a provider of tax, accounting, and financial management software to small businesses and individuals, recently stripped out many of the costs it once included in its segment operating results. In its Q2 FY2021 10-Q, Intuit disclosed it has reorganized certain technology and customer success functions and that:

> *"...certain legal, facility and employee service costs are now managed at the corporate level."*

Instead of including these costs in segment operating results, Intuit now accounts for them as other corporate expenses. In its latest quarterly report, Intuit quantified the costs it has reclassified:

> *"For the three and six months ended January 31, 2020, we reclassified $45 million and $88 million from Small Business & Self-Employed, $28 million and $53 million from Consumer, and $4 million and $7 million from ProConnect to other corporate expenses."*

Though not an uncommon practice, reclassifying $148 million (last 6 months) as corporate expenses distorts segment operating results and margins. If we add back the costs, we calculate Intuit's new presentation overstates segment operating income by:

- Small Business & Self-Employed: 6.5%
- Consumer: 35%
- ProConnect: 4.3%

In total, the $148 million is 10.5% of Intuit's total segment operating income.

Intuit Inconsistent in Its Segment Accounting Treatment

Not only does the reclassification make comparing segments to competitors difficult, it's also harder to compare them with Intuit's fourth segment, Credit Karma, which was acquired in December 2020. Instead of allocating Credit Karma's expenses consistent with other segments, Intuit includes the expenses in Credit Karma's operating results:

> *"Segment operating income for Credit Karma includes all direct expenses related to selling and marketing, product development, and general and administrative, **which is different from our other reportable segments** where we do not fully allocate corporate expenses. Therefore, Credit Karma segment operating income **is not comparable to the segment operating income of our other reportable segments**."*

To further distort segment operating results, Intuit disclosed it excludes the following costs from all four segments:

> *"Unallocated corporate items for all segments include share-based compensation, amortization of acquired technology, amortization of other acquired intangible assets, and goodwill and intangible asset impairment charges."*