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# R&D Cuts and Subsequent Reversals: Meeting or Beating Quarterly Analyst Forecasts

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## Abstract

Among firms that meet or beat earnings expectations, we find that cuts to R&D spending are more prevalent in Q4 relative to other interim quarters. This is consistent with the relative costs of real-activities management (accruals-based earnings management) decreasing (increasing) in Q4 due to the annual audit. More importantly, we find that the subsequent reversal of such R&D cuts is more prevalent

and economically more significant following Q4 cuts relative to the reversals that follow cuts in other interim quarters. Our findings suggest that examination at the

quarterly level (rather than annual level) lends new insights into the current debate regarding the prevalence of potentially value-destroying R&D cuts that managers make. Indeed, our findings suggest that some cuts may merely be temporary deferrals of R&D outlays.

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