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The economic value of the R&D intangible asset

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Abstract

This study utilizes firm-specific time-series data to estimate the economic value of the research ... sset to the firm. The ... the persiste... res that represen... of that asset. Th... ook values of equi... firm-specific estin... nation procedu... cific sub-samples ... vo-digit SIC code ind... of the paramet... pitalization paramet... m, R&D intensity and the concentration of the industry. Differences in the persistence of

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earnings are related to the concentration ratio. Finally, differences in the estimated economic value of the R&D asset are associated with the profitability of the company as measured by its return on assets. We further compare the associations between the three different estimates of the R&D asset and subsequent stock returns, as well as the contemporaneous difference between the market and book value of companies. Results indicate that the time-series estimates of the R&D asset show stronger associations with both variables, followed by the intra-industry and the cross-industry cross-sectional estimates. Overall, our results provide evidence that market participants behave as if R&D expenditures have significant future economic benefits to the firm, and show that the cross-sectional and time-series approaches followed when assessing its economic value provide significantly different estimates.

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Notes

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[2] An exce ... ecific R&D
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expe ... tising and
R&D

[3] The ass ... n of
estimati ... e in the life
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[4] We thank an anonymous reviewer for drawing our attention to capital expenditures besides drilling expenses.

[5] The model in this paper assumes a world without taxes, just like the Ohlson (1995) model.

[6] In a prior version of this paper, we repeated the analysis with quarterly data. Parameter estimates and further analyses were very similar to those reported for the annual results.

[7] We also used market values three months after the fiscal year-end with very similar results to those reported in the text.

[8] One must bear in mind that the companies in Panel C are not representative of the entire Compustat population; they are selected to the sample if they disclose R&D expenditures for at least ten years between 1985 and 2001. Thus, R&D is likely to be an important concern for these firms which have also survived for a long time. Our sample selection criteria may have different implications for size and growth opportunities in these companies than in the rest of the population.

[9] A note of caution should be interjected here. The comparison above is necessarily based only on firms that have sufficient history data to estimate the time-series model. These firms may have been more successful at deploying their R&D expenditures, and more reliant on it. Thus, the impact of R&D on the difference between market and book value and future returns may be more closely estimated from the time-series model.

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The capitalization, amortization, and value-relevance of R&D
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