

R&D and Performance Persistence: Evidence from the UK

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Abstract

There is compelling evidence from both the US and UK suggesting that R&D expenditure has a positive impact on operating and/or market performance. Nonetheless, there is still debate both about the long-term impact of R&D on company's profitability and the rationale of the apparent positive relation between R&D expenditure and excess stock market returns.

We examine the relation between R&D investment and persistence in operating and market performance using a large dataset of UK companies during the period 1990-2003. Our findings confirm the relation between R&D intensity and consistent growth in sales and gross income but only in the cases when a firm needs to engage in R&D activity because of the industry in which it operates. Moreover, our evidence indicates a positive relation between R&D intensity and subsequent risk-adjusted excess stock returns among firms that engage in R&D. We also show that R&D intensity improves persistence in excess stock returns: the highest R&D intensity firms are found to earn higher risk-adjusted excess returns than the sample median return more consistently, compared to lower R&D intensity firms, as well as firms with no R&D.

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