Innovation Awards, Product Segmentation, and Stock Returns

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Abstract

Award-return relation: this paper connects technological innovation to product market segmentation using a prestigious award for technology breakthroughs in product inventions: the R&D 100 Award. We argue that award-winning outcomes have asset pricing implications because awarded firms have the growth opportunities to promote their products to high-end markets, which increases revenue pro-cyclical to aggregate consumption and results in higher systematic risks. We find that, compared with their matched industry counterparts, awarded firms are associated with lower product similarity, lower product fluidity, and higher profitability over the future five years. Moreover, these firms outperform their comparable peers by 3% in annual returns and have both significantly higher pro-cyclical of sales growth and market betas. Moreover, the award-return relation is more pronounced in periods of higher aggregate consumption growth and among firms with higher R&D investments.

Economic Story

● Innovation, product segmentation, and stock returns.
  ▪ Innovative products open growth opportunities in high-end markets.
  ▪ High and markets are associated with higher pro-cyclical and higher profitability to aggregate consumption.
  ▪ Firms with innovative products have higher systematic risks and higher expected stock returns.

Conclusions

● Takeaway: market segmentation due to product inventions may affect asset prices.
  ▪ Product inventions change segmentation landscape.
  ▪ We document a positive relation between innovative product awards and future product market performance.

Motivation

● Innovation is under the spotlight.
  ▪ Innovation is the only way for firms to distinguish themselves from product competitors.
  ▪ Award recognition following firms’ product inventions may affect their product segmentation strategies.

R&D 100 Award

● We use R&D 100 Award, known as “Oscar of Innovation”, to measure some firms’ commercialized technologies that help them stand out in product markets.

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