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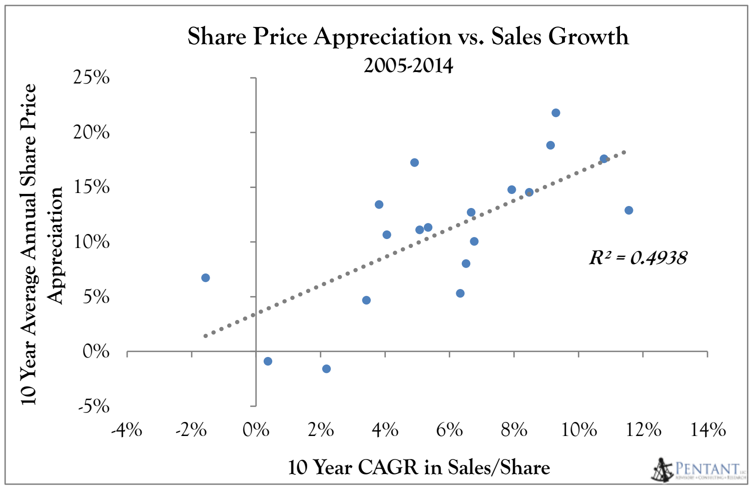
Researching Research

Executive Summary

Chemical industry stock performance has shown a positive correlation to revenue growth over time. This makes sense since as a company grows its sales it typically also grows its gross profits, expands its margins from operating leverage and increases its cash flows. These are all factors that are viewed favorably by investors.

So if healthier revenue growth can result in better stock price appreciation, and we accept the notion that CEOs are focused on creating shareholder value as measured by a company's stock price, then it stands to reason that making decisions that improve sales performance per share would be a top priority. To that end, there are several levers managements can pull to attempt to improve a company's sales per share:



- Increase capacity-driven capital expenditures
- Raise prices
- Buy back shares
- Acquire businesses
- Spend more on R&D as a means to drive new sales through innovation

In this article, we focus on the relationship between R&D spending and sales growth. We test the assumption that more R&D will result in superior top-line performance by increasing the likelihood of new product introductions or the development of new end market applications. What we have found, however, is that there has not been a noticeable link between R&D spending and sales growth and, relatedly, companies that spend more on R&D have not demonstrated a better track record of share price appreciation.

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Sources:

All of the data shown in the charts in this report and mentioned through the text were obtained from publicly available sources and corporate reports, much of it aggregated through Capital IQ. We also use Bloomberg, IHS and government data bases.

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