On the Reliability, Informativeness, and Information Transfers of Recognized Customer-Related Intangibles

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Content:
In recent decades, information technologies have profoundly changed the manner in which firms interact with their customers, resulting in significant increases in customer-related (CR) intangible assets. We study the usefulness of the accounting information about CR intangibles for investors (i.e., the CR intangibles recognized by the acquirer after a merger). We examine i) its reliability in predicting future performance, ii) its informativeness to the acquirer’s stock prices, and iii) its information transfers to the target peers. We document that recognized CR intangibles are significantly associated with the acquirer’s future operating income, indicating the reliability. The acquirer’s stock prices react significantly to the recognized CR intangibles around the filing date of the 10-Q that first reveals the merger price allocation, indicating the informativeness of recognized CR intangibles for the acquirer’s stock prices. The stock prices of the target’s industry peers also react significantly to the CR intangibles recognized by the acquirer, indicating information transfers to target’s industry peers. Finally, the reliability, informativeness, and information transfers of recognized CR intangibles are higher for contractual CR intangibles, consistent with their smaller measurement errors.

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