

Post - Announcement Effects of Government Contract Award on the Share Price of Moderna Inc.

Abstract

Moderna Inc.(NASDAQ: MRNA) shares rose as much as 21% after the company said the U.S. government has agreed to pay as much as \$483 million for the company to develop and test its Covid-19 vaccine now in an initial clinical trial.

Under the agreement, the Biomedical Advanced Research and Development Authority, part of the U.S. Department of Health and Human Services, would fund development of the vaccine mRNA-1273 up through approval by the U.S. regulators, as well as efforts to scale up manufacturing, Moderna (NASDAQ:MRNA) said in a press release.

An interesting fact is that the news about the deal was posted on the company website on April 16th, 2020 at 5:55 PM EDT. Following the news Moderna's stocks jumped as a result of the news published shortly before 6 PM.

BizPortal's sources, however, retrieve information directly from government agencies on the date on which the contract was published, in the case of April 16 at 3:02 PM before announcing its release.

The contract award announcement was made on 16th of April and TenderAlpha's data feed would have delivered the contract award a part of its daily feed in the morning of the 17th of April.

This study presents overreaction in the financial market and aims to prove that contract award announcements affect the movement of stock prices that may be a part of the same process.

With the help of TenderAlpha's public procurement data we have shown that contract awards that are significant to the business of a company result in positive abnormal stock price movements for at least 3 trading days.

Introduction

The role of government procurement in the global economy is often underestimated, especially in respect to the participation of publicly listed companies as leading contractors in the process.

TenderAlpha (a product by Bizportal) is a global government contracts database product consisting of aggregated government procurement contract awards and the related company information from more than 50 countries worldwide with 10+ years of historical records and various ongoing delivery options. Contract awards information is scraped from different government sources and then aggregated in one single format. In addition to contract awards TenderAlpha also monitors daily contract announcement and provides daily alerts of different government opportunities.

Methodology

Any contract award made directly to a public listed company or a subsidiary is monitored on daily basis and on global level exclusively through TenderAlpha. This allows us to study the effects of a large contract award on the share price in the first 3 days following the award. The effect of the announcement could vary depending on award amount, concentration level of awards, type of contract, location, etc.

Here we focus on analyzing the post-announcement stock price drift effect in the 3 days after the event. We monitor the share price movement of Moderna through its beta coefficient and compare it with its beta and share price fluctuation before the contract announcement. Our hypothesis is that following the contract announcement Moderna's share price will record abnormal return for several days exhibiting share price increase inertia.

Table 1. Valuation Measures by Yahoo Finance

	02/01/2020	16/04/2020	21/04/2020
Market Cap (Intraday)	6.4B	15.4B	16.6B
Share Price (Day High)	19.81	41.55	56.38
Beta coefficient	0.75	4.92	-8.55

Results

The announcement of obtaining a government project worth almost 500 million US dollars has had an enormous impact on the company's stock performance. Throughout the next 5 trading days the share price has registered a 20% increase compared to the first trading day following the news of the awarded contract.

Shares of the company were up 14% to \$46.38 at 10:31 a.m. (April 17, 2020). The earlier 21% gain was the company's biggest intraday rise since March 17, the day after it was announced that human trials of the vaccine had started.

Furthermore, since the contract award Moderna's stock has proven to be an exceptional performer from a market standpoint. Its shares' return overtook the NASDAQ index by 16% for the period of 16.04-27.04. - 18,46% for Moderna vs 2,36% for NASDAQ. Such variation in returns is certainly understandable as the contract is more than 8 times Moderna's total annual revenue for 2019.

The beta coefficient varies from 4.92 in the period 01.04-16.04 to minus -8.55 during the 3-day period after the news announcements - 17th, 20th, 21st. The large fluctuation shows the significant impact of the contract award to Moderna's share price for at least 3 trading days.



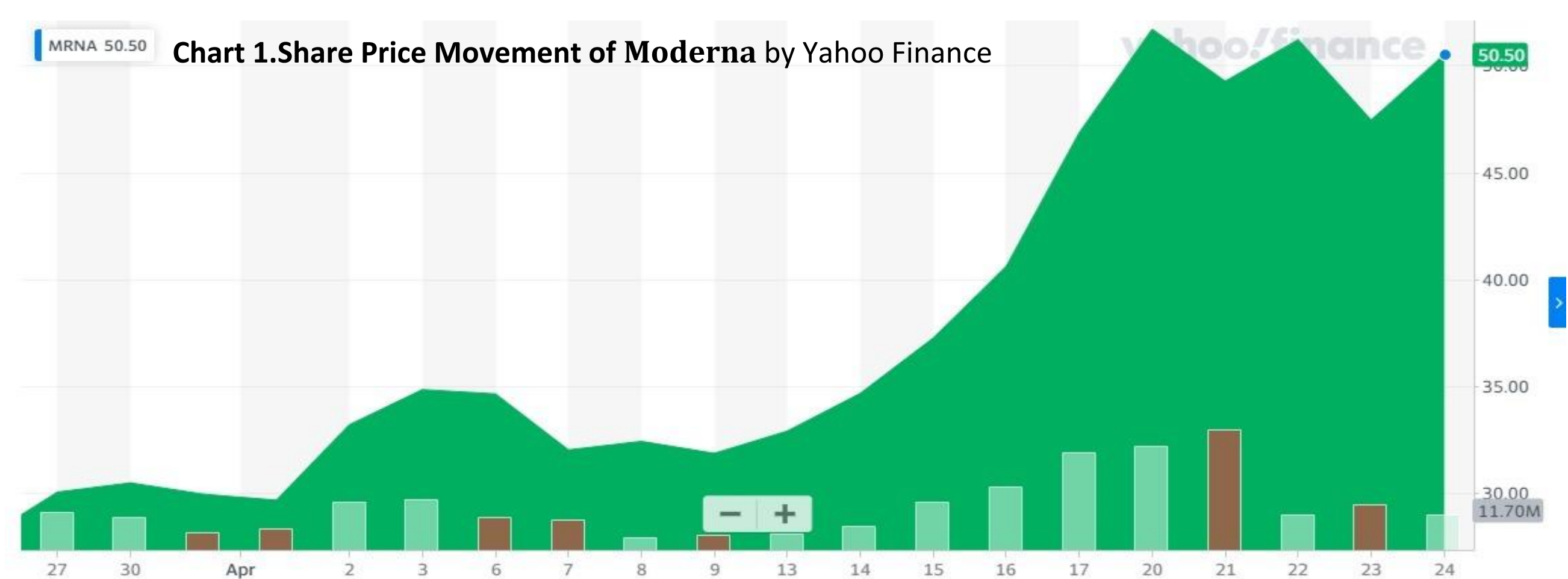
Discussion

Stock prices react continuously to a stream of news about the company and external economic conditions. Each individual event may be seen as important news and/or even a shock to what would otherwise be a steady value for the stock. The market might be modeled as a system that determines stock prices based on a series of events.

Moderna's abnormal share price return for 3 trading days following a large government contract announcement warrants further study into the effects of public tenders to the share price performance of public companies.

This case study shows that significant news are difficult to price right away and can lead to what is known as post-earnings-announcement drift.

TenderAlpha's global government contracts database maps all tender awards to public companies directly and through its subsidiaries. With its help we plan to investigate further the post-announcement drift effect of public contract announcements.



Conclusions

- Real-life case scenarios show strong correlation between public contracts and share prices
- Award-related announcements' influence lasts extensively throughout the next several trading sessions instead of affecting the market only momentarily
- TenderAlpha contract award announcements give the investors an opportunity to take advantage when pricing stocks overreact to market information

Contact

Martin Tsanov | Co-Founder
 TenderAlpha.com by BizPortal.co
 office@bizportal.co
 Tenderalpha.com | bizportal.co