

## ABSTRACT

Boeing Corp. (NYSE:BA) was selected on 27th of September, 2018 by the AirForce to build the U.S. Air Force's next training jet in a contract worth up to USD 9.2 bn over the life of the program. Through the TenderAlpha's IDV feed, the users received the contract by the morning of the 28th of September.

Boeing shares edged higher after the news, to close up 0.6% at USD 367.38, while shares of Korea Aerospace fell more than 24% in Seoul.

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



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## 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.com](http://TenderAlpha.com) (a product by [Bizportal.co](http://Bizportal.co)) provides customized monitoring services of public procurement markets in order to deliver the optimal business opportunities for every stakeholder wishing to benefit from B2G sales. Bizportal.co covers nearly 50 countries worldwide as well as all stateable procurement process. Contract award notices have been a constant part of the data feed on a daily basis. Bizportal.co advanced public procurement alerts & analytics aim to boost government-generated revenue while solidifying the client's sustainable understanding of the procurement market they operate in.

## DISCUSSION

Stock prices react continuously to a stream of news about the company and external economic conditions. In the case of high-level government budgetary announcements and/or long-term contracts such as framework agreements (EU) and IDVs (US) the market is expected to react with a higher level of intensity to such phenomena especially having in mind the larger value and lack of popularity in mainstream media.

In the US case - IDV events serve as the parent of one or a number of contracts. There are also IDVs that actually never develop into actual contract awards but could still represent government intention for significant purchases and therefore turn into a stock price signal.

Many analysts use the information reliability theorem to explain and predict stock price reactions around profit warnings.

Analysts also find that proxies for information reliability can predict the return pattern subsequent to a profit warning to some extent. Due to the similarity between profit warnings and earnings announcement surprises, their findings are in line with the research on post-earnings-announcement drift.

## METHODOLOGY

In the context of the data collected and aggregated by TenderAlpha.com (a product by Bizportal.co) - the immediate effect of long-term budget allocation events and framework contracting announcements should be analyzed as sales surprise type of events and/or a major positive news about future earnings. Any IDV/framework contract award made directly to a public listed company or a subsidiary of such is news that could be monitored on daily basis and on global level exclusively through TenderAlpha. BizPortal's research and available literature on the subject suggests that the effect of IDV/framework contract announcement could be even larger than the regular contract award announcement.

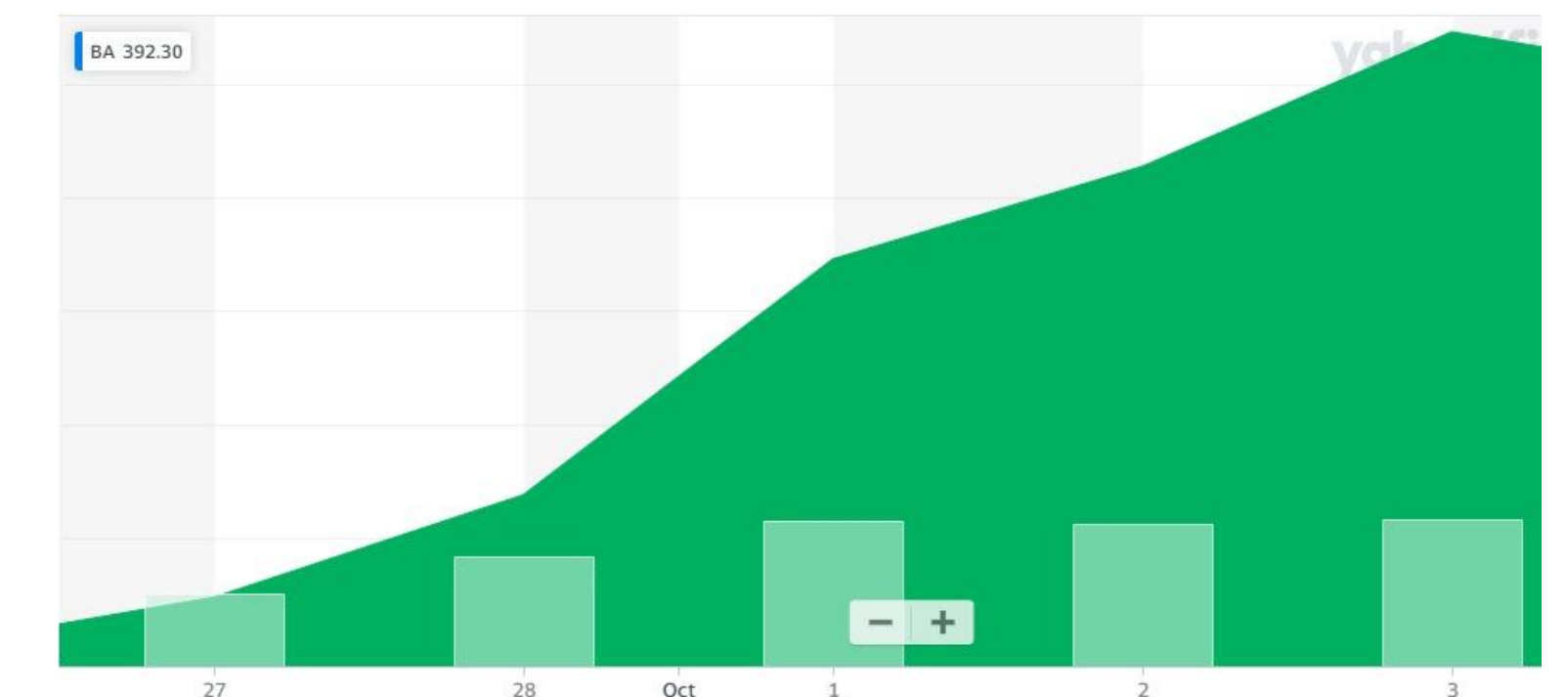
The main indicator of focus in the research process is the beta coefficient of the individual stock and the stock market as a whole. This approach allows for analyzing the post-announcement stock price drift effect in the 3 days after the event.

The effect of the announcement could vary depending on 1) award amount, 2) level of material value as compared to the company's size, 3) concentration level of awards (exposure to procurement as a % capture rate of company's revenue, 4) type of contract.



## RESULTS

The post-announcement drift went on for a few days as Boeing's share price reached USD 394.28 on 3rd of October, 2018. Which is a 6.8% increase for the 5 days between the announcement and the highest point on 3rd of October. The S&P increased with only 2% for the same period thus demonstrating the abnormal returns in the post IDV contract announcement days whereas NYSE:BA 5-year average beta is 1.43 .



Additionally, the price trend in the aforementioned 3-day interval is strongly positive:

- \$368.97 on 27.09.2018
- \$374.22 on 28.09.2018
- \$394.28 on 03.10.2018

Bizportal.co data focus emphasizes not on the immediate market return opportunity, but rather on the concept of post-announcement news effect. Our government sources are the first to report the data event which unquestionably puts our institutional clients ahead of the competition they are facing in the stock markets.

## CONCLUSIONS

- Real-life case scenarios prove the relation between IDV/Framework contracts and share prices;
- The effect of IDV/Framework contract announcement could be even larger than the regular contract award announcement;
- TenderAlpha IDV/Framework events announcements give the investors an opportunity to behave when pricing stocks overreact to market information