

Unlocking Alpha in Government Contracts

Summary

Our latest research shows that receivables data, when properly adjusted for contract maturity, provides a moderately strong predictive signal for equity returns. The signal reveals overlooked opportunities, especially among smaller or less-followed companies with longer-term government contracts.

TenderAlpha Forward-Looking Receivables and Backward-Looking Obligations

TenderAlpha's forward-looking receivables dataset captures expected payments tied to government contracts up to 60 months into the future. This level of detail enables investors to identify new or expanding contract activity that may not be fully reflected in standard financial statements. By focusing on receivables maturity profiles, investors can better separate ongoing legacy contracts from genuinely new growth, helping them spot signals that traditional data often misses.

Key Findings

Longer-Term Receivables Matter

Sorting firms by their longer-term receivables (for example, 60-month receivables minus 12-month or 36-month) helps isolate companies with newer or growing contract portfolios. This adjustment distinguishes new business from legacy receivables.

Strong Sharpe Ratios

The signal shows promising Sharpe ratios for equal-weighted portfolios:

- Between **0.77 and 0.88** when scaled by assets
- Up to **1.0** when normalized by sales

Signal Quality

Fig.1 and Fig. 2 illustrate the performance of portfolios sorted by adjusted receivables signals. The first chart shows the results using the 60-month minus 12-month receivables divided by sales, which delivers a **Sharpe ratio of 0.77** for value-weighted portfolios and **0.88 for equal-weighted portfolios**, highlighting stronger performance among smaller, less-followed companies. The second graph uses the 60-month minus 36-month approach, which refines the signal further and produces an even stronger **Sharpe ratio of 1.0** for equal-weighted portfolios.

Both charts demonstrate that isolating newer, longer-term government contracts can uncover underpriced equity opportunities.

Fig. 1 (60-month forward-looking receivables - 12-month forward-looking receivables) / sales

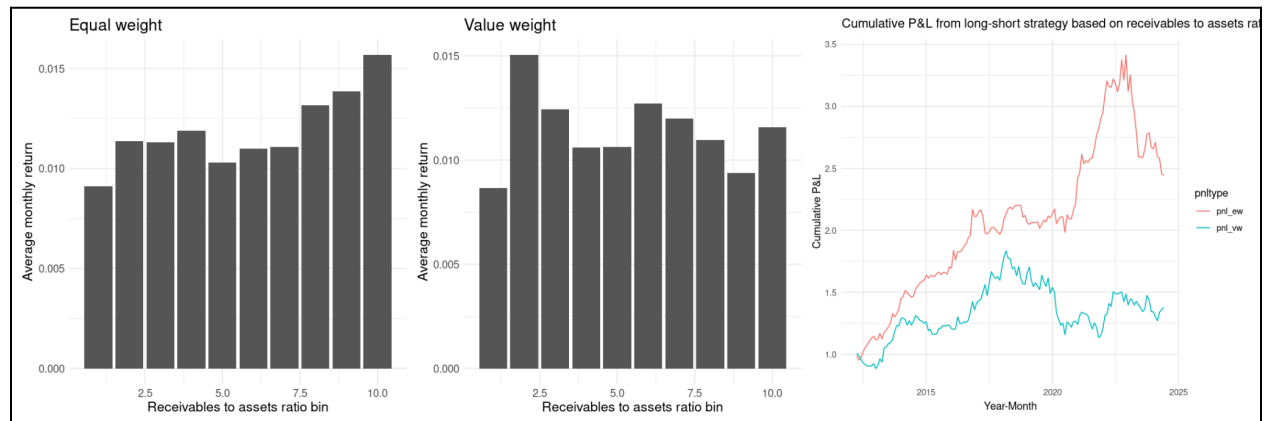
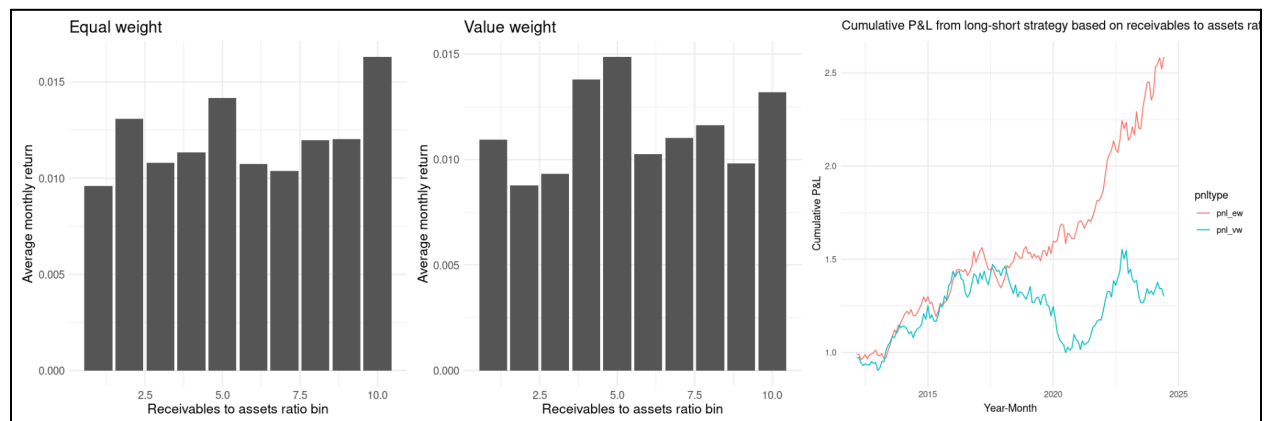


Fig.2 (60-month forward-looking receivables - 36-month forward-looking receivables) / sales



Undervalued Segments

The effect is stronger for small and mid-sized firms, **which aligns with the idea that these companies receive less attention from the market**. Value-weighted portfolios show weaker results, reinforcing the opportunity in smaller-cap names.

Fig. 3 Small-Midsize firms (low-sales): Cumulative P&L from long-short strategy based on receivables to assets ration



Fig. 4 Big companies (2,3 tercile, high-sales): Cumulative P&L from long-short strategy based on receivables to assets ration



Additional Methodology Notes

- **Universe of Stocks Considered:** US liquid stocks, defined as those trading above \$5, with a market capitalization of at least \$100M, and an average daily trading volume above \$1 million.
- **Treatment of Zero or Missing Receivables:** Companies with zero or missing receivables are excluded from the analysis.
- **Strategy Construction:** The long/short strategy shown is long the top bucket and short the bottom bucket of the receivables-based signal.