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## Roles of Acquirer Financial Advisors in M&A Deal Completion

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## For South Carolina Honors College

**Table of Contents**

1. Abstract	3
2. Introduction and Thesis Statement	3
3. Hypothesis	6
4. Data and Description Statistic	
4.1. Research methodology	7
4.2. Data: All M&A deals in the U.S. from 2012 to 2015	8
4.3. Data: Acquirer Financial Advisors, from 2012 to 2015	9
4.4. Data: Specific Advisors and Deal Completion	18
4.5. Data: Multiple Advisors and Deal Completion	19
4.6. Data: Acquirer Types, Activities and Premiums	20
4.7. Data: Acquirer and Advisory Fees	22
5. Findings	25
6. Conclusion	26
7. References	28
8. Appendix	
8.1. Regression Result on Deal Completion of Deals with and without Acquirer Financial Advisors	31
8.2. Regression Result on Top Advisor and Non-top Advisor Impact on Deal Completion	32
8.3. Regression Result on Factors of Advisory Fees	33



## **1. Abstract**

The central theme that this thesis addresses is the role of valuation by investment banks who act as financial advisors to M&A buyers by answering two questions relating to the process. The first question is if buyers should hire investment banks for a higher chance of success of deals. For the second question, I will examine buyers who hire investment banks for some certain characteristics of deals. This study focuses on M&A deals that happened between 2012 and 2015, especially between advisor and non-advisor, successful and failed deals. The conclusion presented in this thesis will be contributable to the understanding of the relationship between acquirer financial advisory role and deal completion. This thesis would add values for the most impacted by involving financial advisory as the third party.

## **2. Introduction and Thesis Statement**

Corporates seek growth through Mergers & Acquisition (M&A) deals to improve their performances and intensify competitiveness in an inorganic way. These activities are major strategic decisions of both firms involved. Since 1985, the United States has seen over 325,000 transactions that have been announced. In 2014, a new M&A wave started with relatively stable and impressive data. The value of transactions peaked in 2015 (\$2,400 billion), and the number of deals peaked in 2019 (18,000+ deals) (United States - M&A Statistics, 2021). In the post-COVID-19 period, M&A activities have bright outlooks. American dealmakers are optimistic about the return to the pre-pandemic level of M&As within the next 12 months (PwC United States, 2020; and Deloitte, 2020). The previous data reinforces the importance of M&As for corporation growth over time.

Financial analyst is one of the most important stages in a deal process. Financial advisor will perform their analyses including valuation, which is calculations of the seller's company and synergy between two businesses. A precise valuation may be a key indicator of deals' success, for "price too low" is one of the failure reasons (Malmendier et al, 2016). This is when both parties cannot agree on the transaction price.

Meanwhile, overpriced with too much optimism of synergies, is one of the causes that would lead to a post-deal failure of buyers (Weston et al., 1998). Furthermore, only buyers can determine the right price because the deal value depends on the purposes that the acquisition will serve (Christensen et al, 2011). However, synergy valuation processes must be conducted by people who are well-experienced in accounting, finance, and management (Fiorentino and Garzella, 2013). Hence, due to the complexity of this strategic move, buyers hire financial advisors, usually happening to be investment banks, to conduct analyses and then give financial advice. From the points above, the success or failure of the deals may indicate whether the acquirer financial advisor that works on the deals provides helpful or poor advice based on their analyses.

In hiring financial advisors, two main questions warrant further exploration. (1) Do the advisors matter for deal completion? (2) What are reasons for considering financial advisors to hire from the buyer perspectives?

To answer the first question, there are previous research about of financial advisors' matter for the buyer returns. Research by Bao and Edmans (2011) shows that investment banks do make a positive impact on M&A returns, with a full-sample average return of 0.72% and the interquartile range of bank fixed effects of 1.26%. These results remain valid after controlling for the component of return and are ultimately contributable to the acquirers. Also, average bank returns are persistent and predictable

while clients do not chase the performance of past returns, which is in the question of efficiency. More particularly, another article written by Golubov, Petmezas and Travlos (2012) shows that top-tier financial advisors deliver higher bidder returns, in comparison with non-top-tier ones, but only in public acquisition. In contrast, Sahyoun et al. (2018) show that without hiring financial advisors, acquiring firms consistently have had higher abnormal returns, compared with hiring top-tier advisors with lower abnormal returns. At this point, it is still not clear if investment banks matter and add value to M&As.

For the second question, to gain assistance and experience in the M&A industry, CEOs of acquiring firms hire financial advisor on deals. Factors that firms have for considerations include reputation and past performance, rankings of banks (tier 1, tier 2, tier 3), size, and buyer willingness to pay for advisory fees.

As of 2021, the top three of the global M&A Advisor Ranking are Goldman Sachs, JP Morgan, and Morgan Stanley in both value and number of transactions (WSJ, 2021). The market share of the M&A industry is based on bank reputation--in other words, their past performance (Ismail, 2009). This result contradicts the previous result in Bao and Edmans research (2011) that clients do not chase past performance. Regarding rankings, Hunter and Jagtiani (2003) conclude that tier-1 advisors, with higher advisory fees, are more capable of completing deals with higher post-merger gains relating to tier-2 and tier-3. This may be because top-tier bankers are much more reputational and skilled (Golubov, Petmezas, and Travlos, 2012). Regarding size, boutique investment banks are in favor of more complex deals (Song, Wei, and Zhou, 2013).

Speaking of buyer willingness to pay, in 13% of mergers with relatively large value gains for buying firms, acquirers might be willing to pay high advisory fees and higher

premiums (Chahine and Ismail, 2009). These implied financial advisory roles work for acquirers in high-value cases. From all criteria above (reputation and past performance, rankings, and client willingness to pay for advisory fees), we can see that based on situations, buyers have different criteria choosing an advisor. However, there is still no clear conclusion on the impact of financial advisors on deal return from the buyer perspective.

### **3. Hypothesis**

Considering the above points, this thesis will be testing three hypotheses. The first hypothesis is to answer the first question of this thesis, acquirer financial advisors matter and boost the completion rate in M&A deals. Secondly, an individual financial advisor has a great impact on deal completion. Lastly, top advisors have higher advisory fees. In general, it will be drawing conclusions on the role of financial advisor and its impact on deal success. From 2012 to 2015 M&A transactions, I will gather data of financial advisor/non-financial advisor with fees and deal status (success or fail). Given the ideas from previous papers, I will examine acquirer trends in decisions of hiring a specific financial advisor and their willingness to pay advisory fees.

The reason that I chose to analyze acquirer financial advisor, but not sellers, is that I want to defend that the bank offers to the buyers, who do not know all information of the target, but still want to buy the company. Therefore, their analyses are based on the estimation of benefits they would gain from the transaction. That comes from their assumptions and projection for their future and consideration of their competition in the market. Also, the acquirer has more responsibility on the success or failure of the

transaction, compared with the target. Therefore, the buyer should have a conservative but competitive judgement towards the target company.

## **4. Data and Description Statistic**

### **4.1. Research methodology**

For this study with a focus on deals between 2012 and 2015, I will highlight the deals with advisors, the success rate, premiums, and the advisor fees to see if acquirers should hire advisors. To answer the other question of what reasons that acquires choose specific advisors to hire, I would do the research on the market shares in the M&A advisory service industry, the type of buyers and rankings of advisors in the market. From that information, I could draw conclusions with insights from deals in the market.

The reason that I chose this period is that 2012 is four years after the recession in 2008. I want to see if the economy recovers from it. The deal value peaked in 2015 would give me more insights about the market. It is three years before the peak which should show a growth of this type of transactions. The data is gathered from Bloomberg Terminal. I get data from all M&A transactions happened between 01 January 2012 to 31 December 2015. All the acquirers are within the United State. Percentages sought is more than 30%. Other than that, financial advisor data are the ones that acquirers hire. From the data extracted, I filtered the blank values and use the result for analyses.



#### 4.2. Data: All deals in the U.S. from 2012 to 2015

This section is to answer the questions of how M&A deals worked in the United States from 2012 to 2015. Especially after the recession in 2008, our economy may have recovered or may not, and consequently, it would impact the recovery of M&A deals. Therefore, I have collected data relating to all deals with their acquirers who are in the United States.

Overall, from Bloomberg Terminal, the U.S. economy shows a first step towards recovery after the recession when M&A transactions were active and rose again. The number of all M&A deals with acquirers in the U.S. between 2012 to 2015 is 95,539. In those deals, there are 84,688 (89%) completed, 2,018 (2%) terminated, and 2,381 (2%) withdrawn. Statistically, the U.S. economy recovered from the recession in 2014, indicated by the M&A deals. From 2010 to 2013, the numbers of deals are less than half of itself individually in 2007 and are not as high as those in 2008. Statistically speaking, the M&A market saw a strong recovery in 2014 and followed up with a peak in 2015. However, the premium was never reach to its peak (33.87%) in 2009, even up to now.

**Table 1 :** Deal summary, deals with at least 30% sought, 2012 to 2015

USD			
Deal Status	# of Deals	Volume (\$trillion)	Percent (%)
Completed	9,962	\$ 5.00	93.16%
Terminated	249	\$ 0.96	2.33%
Withdrawn	230	\$ 0.88	2.15%
Pending	253	\$ 0.03	2.37%
Total	10,694	\$ 6.88	
Avg Deal Size	\$	0.64 billion	

In 10,694 deals M&A deals with more than 30% sought in table 1, there are 9,962 (93%) deals completed, 249 (2.33%) terminated, 230 (2.15%) withdrawn and 253 (2.37%) pending. Target companies that are in North America has \$5.5 trillion in value, while the rest are from Europe, Asian Pacific, and a smaller percentage are from Latin America and Caribbean and Middle East & Africa. Their top five industries are listed as consumer cynical, communications, financial, energy, and consumer cyclicals.

With at least 30% sought, the numbers of deals drop dramatically from more than 95,500 deals to more than 10,600 deals. It indicated that there are at least 85,000 deals that buyers seeking less than 30%. Also, the more percentage sought from deals, the higher chance of deal completion with 93% compared with 89% with all deals. From this, we may include that there is more effort and commitment of completing a bigger deal than a smaller one.

#### **4.3. Data: Acquirer Financial Advisor, 2012 to 2015**

In this section, I will examine the importance of acquirer financial advisors for deal completion. When a buyer decides to hire a financial advisor, they must consider conditions of the hiring process, and the types of advisors for each deal. In the introduction of this thesis, I outlined the three main reasons why acquirers choose their financial advisor partner(s): reputation and past performance, rankings, and client willingness to pay for advisory fees. This section will show the reputation of financial advisors in the M&A market and their rankings during the period with their total deal value, average deal value, numbers of deals and market shares.

I collected the information of acquirer financial advisors who were working on these deals at the time. Then, in Table 2, I regrouped the deals with advisors with its status to

see the impact of advisors on deals. Table 3 is the list of top investment banks serving as acquirer financial advisors of deals. While their reputations are well-known to people in the financial services industry, I will examine their rankings with the number of deals that they partnered with acquirers, the total and average amount of deal values to see their businesses from different aspects in Table 4 and 6. With the dominating groups of investment banks in Group 4, I would like to see the difference in their market share between all deals and buy-side deals only. From all the information of the six tables, I will then have a conclusion of my comprehension of acquirer financial advisors, their markets and their performance over the time.

**Table 2:** *Deal status with financial advisor summary, 2012 to 2015*

USD				
Deal Status	# of Deals	Volume (\$trillion)		Percent (%)
Completed	2,669	\$	3.70	94.54%
Terminated	112	\$	0.90	3.97%
Withdrawn	18	\$	0.40	0.64%
Pending	24	\$	0.01	0.85%
Total	2,823	\$	5.01	
Avg Deal Size	\$	1.77	billion	

From the deals in Table 1, I filtered the deals with acquirer financial advisors only. There were 2,823 deals in the United States. Regarding deal status, 2,669 (95%) were completed, 112 deals terminated (3.97%), 18 (0.64%) withdrawn and 24 (0.85%) pending.

During this period, the target region has 80% of deal values in North America. The European countries saw a 740.5 billion out of 4.4 trillion of deal value. Those sellers are

within five industries: consumer cynical, communications, energy, financial, and technology, which appears to be the same as the top five of total deals. The ten biggest deals are listed, with five deals completed, three terminated, and three withdrawals.

Compared with the rate of all deals (Table 1), it can indicate that financial advisors do make a positive impact on the completion of deals, which drives the rate from 93% completed of all deals to 95% with advisors. However, the total percentages of failed deals, including terminated and withdrawn deals slightly equal. While terminated rate with advisors is higher, withdrawn rate is lower. The pending rate is lower in this case.

For the data does not show an obvious difference between all deals and buy-side deals that indicate the role of acquirer financial advisors in deal completion, I run regression to see the factors that impacts deal completion between deals with and without acquirer financial advisors. The data is in the regression result below with independent variable is Deal Completion (Completed = 1, Withdrawn or Terminated = 0).

**Regression 1:** *Acquirer Financial Advisor and Deal Completion*

	<i>Coefficients</i>	<i>Standard Error</i>	<i>t Stat</i>	<i>P-value</i>	<i>Lower 95%</i>	<i>Upper 95%</i>
Intercept	0.92	0.00	191.87	-	0.91	0.93
Total Value (mil.)	(0.00)	0.00	(14.25)	0.00	(0.00)	(0.00)
Advisor	0.05	0.01	7.07	0.00	0.04	0.07

The result is:

$$\text{Deal Completion} = 0.92 + (0.00) * \text{Total Value} + 0.05 * \text{Advisor}$$

With p-value is 0.00 for both dependent variables, total value (or total deal value) and Advisor (Yes = 1, No = 0), with a 95% level of confidence, total value does not have any impact on the deal completion rate or may be a very slightly negative coefficient. However, the performances of acquirer financial advisors have a slight positive

influence on deal completion. Therefore, we can conclude from here that acquirers hiring financial advisors help increase the deal completion rate.

For the belief that hiring financial advisors have a positive impact on deal performance. Financial advisory services are very active in the M&A industry. With the number of deals going on and continuing to increase, the need for advisors who provide financial support seems to be growing. Therefore, we need to do research on the market to see the top advisors and non-top advisors, as well as their impacts on deal completion and their performance for their acquirers. There are 608 active financial advisors offering services in the period for all deals with more than 30% sought, however, there are only 354 acquirer financial advisors working during the period. However, the top 20 advisors were dominating the market with their market shares ranked from around 2% to 17%, listed in Table 3. The table includes individual market share (%), total deal (value) in million USD, average deal (value), and the total number of deals that they have had.

**Table 3:** Financial advisor summary

<b>Advisor</b>	<b>Market Share (%)</b>	<b>Total Deal Value (\$million)</b>	<b>Avg Deal Value (\$million)</b>	<b># of Deals</b>
BofA Securities	17.12	\$ 859,895	\$ 3,839	224
JP Morgan	16.26	\$ 816,732	\$ 3,853	212
Barclays	14.70	\$ 738,478	\$ 3,602	205
Morgan Stanley	12.25	\$ 615,220	\$ 3,016	204
Goldman Sachs	11.13	\$ 559,327	\$ 2,839	197
Lazard Ltd	10.38	\$ 521,187	\$ 5,604	93
Citi	10.28	\$ 516,347	\$ 3,129	165
Credit Suisse	10.22	\$ 513,171	\$ 3,311	155
Deutsche Bank	7.18	\$ 360,536	\$ 2,752	131
Guggenheim Capital	4.73	\$ 237,805	\$ 21,619	11
UBS	4.22	\$ 212,000	\$ 2,494	85
LionTree Advisors LLC	3.95	\$ 198,537	\$ 18,049	11
Evercore Partners Inc	3.70	\$ 185,880	\$ 1,859	100
RBC Capital Markets	3.49	\$ 175,405	\$ 1,720	102
PJT Partners Inc	2.82	\$ 141,571	\$ 35,393	4
Wells Fargo	2.76	\$ 138,459	\$ 1,897	73
Greenhill & Co	2.57	\$ 129,007	\$ 4,449	29
Centerview Partners LLC	2.33	\$ 117,278	\$ 3,258	36
Moelis & Co	2.31	\$ 116,112	\$ 2,277	51
Rothschild & Co	1.78	\$ 89,647	\$ 1,868	48
<b>Max</b>	17.12	\$ 859,895.44	\$ 35,392.86	224
<b>Min</b>	1.78	\$ 89,647.06	\$ 1,719.66	4
<b>Average</b>	7.21	\$ 362,129.71	\$ 6,341.26	107
<b>Median</b>	4.48	\$ 224,902.11	\$ 3,193.55	97

From the top 20 advisors above, we can see that BofA Securities is leading the market as acquirer financial advisors with the same market shares of 17%, while the lowest market share in the top 20 is 1.78%. It is a great gap between the max and min number. More than that, only eight of them have more than 10%. It indicates the market competition and the dominance of the top investment banks. Regarding of total deal values, the data of the min and max deal values range from \$89,647 to \$859,895, nearly

10 times different. It happens the same to the number of deals that it sees a big difference between the highest number of 224 deals, and the lowest is 4 deals. From that, we can see that the M&A financial advisory market is dominated by the group of big investment banks above. Although it is not a monopoly situation, its Herfindahl-Hirschman Index (HHI) is 1,547, which is moderately concentrated market.

**Table 4:** *Top advisor summary, ranked by total deal value and deal count*

While gathering top advisors ranked by average deal value and ranking by numbers of deals, the top ten of each data set that is very overlapping, so I have twelve of them. BofA Securities, JP Morgan, Goldman Sachs, and Barclays, Morgan Stanley always are in the top five of the two groups, dominating the . The table below is with ranking with the total deal values and then the number of deals.

Adviser	Rank in Mkt Share	Market Share (%)	Total Deal Value (\$million)	Avg Deal Value (\$million)	# of Deals
BofA Securities	1	17.12	\$ 859,895	\$ 3,839	224
JP Morgan	2	16.26	\$ 816,732	\$ 3,853	212
Barclays	3	14.70	\$ 738,478	\$ 3,602	205
Morgan Stanley	4	12.25	\$ 615,220	\$ 3,016	204
Goldman Sachs	5	11.13	\$ 559,327	\$ 2,839	197
Lazard Ltd	6	10.38	\$ 521,187	\$ 5,604	93
Citi	7	10.28	\$ 516,347	\$ 3,129	165
Credit Suisse	8	10.22	\$ 513,171	\$ 3,311	155
Deutsche Bank	9	7.18	\$ 360,536	\$ 2,752	131
RBC Capital Markets	14	3.49	\$ 175,405	\$ 1,720	102
Stifel	37	0.36	\$ 18,325	\$ 158	116
Guggenheim Capital	10	4.73	\$ 237,805	\$ 21,619	11

As expected, the most popular and biggest banks are leading the financial advisory services market. Overall, the eight biggest investment banks and two top boutiques, Lazard Ltd and Guggenheim Capital, led the leaderboard of financial advisors to acquirers. BofA Securities led the group with the highest number of deals and total deal

value of more than \$859,000 million. Stifel is an outstanding case of this board while having less than one percent of the market share, ranked 37<sup>th</sup>, but has 116 deals with 18,325 million in total. However, Guiggeheim Capital with only 11 deals but having \$237,000 million in total deal values. This would be an interesting case for the next table 6, ranking by average deal value.

Due to the dominance of the top five acquirer financial advisors in table 4, there is a need to analyze their market share differences between all deals and buy-side deals only to find some insights of specialization.

**Table 5:** *Top advisor, market shares between buy-side deals and all deals*

<b>Advisor</b>	<b>All deals (%)</b>	<b>Buy-side Deals (%)</b>	<b>Difference (%)</b>
BofA Securities	19.87	17.12	2.76
JP Morgan	21.58	16.26	5.32
Barclays	15.54	14.70	0.84
Morgan Stanley	18.13	12.25	5.89
Goldman Sachs	24.25	11.13	13.12
Lazard Ltd	11.20	10.38	0.82
Citi	14.45	10.28	4.18
Credit Suisse	11.61	10.22	1.39
Deutsche Bank	8.30	7.18	1.13
RBC Capital Markets	4.15	3.49	0.66
Stifel	0.66	0.36	0.30
Guggenheim Capital	4.28	4.73	(0.45)

Regarding the comparison between market share of all deals and only acquirer deals, the table shows that all top advisors have percentages in all deals, and lower percentages in buy-side deals. However, the differences vary among banks. While JP Morgan, Morgan Stanley, Goldman Sachs, Citi saw from 4% to 50% difference, the other banks experienced a slightly higher percentages with all deals. It may indicate the specialization or preferences of banks on sides of deals. However, the value of



Herfindahl-Hirschman Index (HHI) for all deals is 2,841. This is a highly concentrated market. Compared with the HHI for buy-side deals only, there is less room for financial advisors to work for all deals than for buy-side deals only. Therefore, it would explain that boutique financial advisors, who do not have as many choices of deals as big investment banks, have a more balance between all deal and buy-side deal market shares.

On the other hand, while ranking the list based on top average deal values, we have Table 6 below. It demonstrates another perspective of the M&A market dynamics. Then, we want to see which financial advisors get the biggest deals.

**Table 6:** *Top Financial advisors, ranked by average deal*

Advisor	Rank in Mkt Share	Market Share (%)	Total Deal Value (\$million)	Avg Deal Value (\$million)	# of Deals
PJT Partners Inc	15	2.82	\$ 141,571	\$ 35,393	4
M Klein & Co LLC	23	1.33	\$ 67,003	\$ 33,502	2
VTB Capital	31	0.56	\$ 28,000	\$ 28,000	1
Guggenheim Capital	10	4.73	\$ 237,805	\$ 21,619	11
LionTree Advisors LLC	12	3.95	\$ 198,537	\$ 18,049	11
Worldwide Finance Securities Ltd	41	0.30	\$ 15,159	\$ 15,159	1
Simon Robertson Associates LLP	52	0.20	\$ 10,026	\$ 10,026	1
INFOR Financial Group Inc	62	0.14	\$ 6,900	\$ 6,900	1
Loop Capital Markets LLC	45	0.24	\$ 12,247	\$ 6,123	2
ABN Amro Bank NV	47	0.23	\$ 11,710	\$ 5,855	2
<b>Max</b>	62	4.73	\$ 237,805	\$ 35,393	11
<b>Min</b>	10	0.14	\$ 6,900	\$ 5,855	1
<b>Average</b>	34	1.45	\$ 72,896	\$ 18,062	4
<b>Median</b>	36	0.43	\$ 21,579	\$ 16,604	2

The average deal ranking gives us another view of how acquirers seek financial advisors. In other words, we can say that Table 6 gives us insights of which banks handle greater deal size. Guggenheim Capital is the only financial advisor that appears

again in this table from Table 4. All ten acquirer financial advisors are boutique who are more focused on niche areas of investment banking. For example, mergers and acquisitions, restructuring or leveraged buyouts. Their rankings in the market share range from 10 to 60, which means their market shares are low from 0.14% to 4.73%. The highest deal value is \$35,393 million, ten times higher than number 1 ranking, BofA Securities, at \$3,839 million. It may indicate that the bigger deal acquirers are not necessarily looking for the top financial advisors. It also can be inferred that top investment banks have the advantage of handling a higher quantity rather than complex ones.

From the introduction, the boutique banks usually handle difficult and complex deals. While PJT Partners Inc. as a part of Blackstone with 750 employees, much lesser than Goldman Sachs or any other top investment banks, handling some of the most complex deals in the market. Another example is M Klein & Co LLC. According to Reuters, with the lead of Mr. Klein, who is known for being a one-man show, his focus is on a big deal then turns it to be a successful deal (Oran, 2016). Compared with the second-biggest average, it is still a double number. At the same time, the lowest average deal value in this group is still higher than the highest average deal of JP Morgan. Therefore, it is comprehensible to see banks that handled higher value deals are boutique ones who has their specializations and abilities to solve complex deal.

#### **4.4. Regression: Specific Advisors and Deal Completion**

While acknowledging that financial advisors would drive a higher success rate of deal completion and the top ones would get more deals, we may need to deepen the research to see if any of them have a specific impact on the deal completion. This part is to

examine if any individual top investment banks have a stronger positive relationship with deal completion, or how non-top advisors affect the completion. From Regression 1, we may see the performance of individual banks and should acquirers hire any specific financial advisors to work on their deals based on their performances.

**Regression 2:** *Deal Status and Top Investment Banks and Non-top Advisors*

	<i>Coefficients</i>	<i>Standard Error</i>	<i>t Stat</i>	<i>P-value</i>	<i>Lower 95%</i>	<i>Upper 95%</i>
Intercept	0.92	0.04	23.35	0.00	0.84	1.00
JP Morgan	(0.03)	0.05	(0.64)	0.52	(0.14)	0.07
BofA	0.05	0.05	1.02	0.31	(0.04)	0.14
Goldman Sachs	(0.12)	0.05	(2.41)	0.02	(0.22)	(0.02)
Barclays	(0.10)	0.05	(1.91)	0.06	(0.19)	0.00
Lazard Ltd	(0.01)	0.07	(0.18)	0.86	(0.15)	0.12
Credit Suisse	0.01	0.06	0.12	0.90	(0.11)	0.13
Citi	(0.02)	0.06	(0.28)	0.78	(0.13)	0.10
Morgan Stanley	(0.04)	0.05	(0.65)	0.51	(0.14)	0.07
Deutsche Bank	0.01	0.06	0.09	0.93	(0.12)	0.13
Evercore Partners Inc	0.10	0.08	1.18	0.24	(0.07)	0.26
RBC Capital Markets	(0.14)	0.09	(1.45)	0.15	(0.32)	0.05
Stifel	0.09	0.16	0.55	0.58	(0.23)	0.41
Non-top Advisor	(0.01)	0.05	(0.27)	0.79	(0.11)	0.08

For Regression 1, data is drawn from the investment bank dataset with their deal status. The independent variable is Deal Status (Completed = 1, Terminated or Withdrawn = 0). Pending deals are eliminated from this list. This would help to focus on the ability of completing a deal instead of the differences between terminated and withdrawn deals. The dependent variables are 12 top financial advisors respectively, and non-top advisors. Their involvement in each deal is clarified as Yes = 1 and No = 0.

The result is:

Deal status = 0.92 + (0.03)\*JP Morgan + 0.05\*BofA + (0.12)\*Goldman Sachs + (0.10)\*Barclays + (0.01)\*Lazard Ltd + 0.01\*Credit Suisse + (0.02)\*Citi +

$(0.04)*\text{Morgan Stanley} + 0.01*\text{Deutsche Bank} + 0.10*\text{Evercore Partners} + (0.14)*\text{RBC Capital} + 0.09*\text{Stifel} + (0.01)*\text{Non-top Advisors}$

From the result above, an individual investment bank does not have a considerable impact on the deal completion. Since the highest absolute coefficient of the deal completion with all the financial advisors both top and non-top is 0.14. However, there is still a gap among banks with their performance. For example, instead of choosing RBC Capital Market with the lowest efficiency with deal completion, acquirers can consider Evercore Partner instead with 0.10. However, statistically, it is 95% confidence that Goldman Sachs involvement has a slightly negative impact (-0.12) on deal completion. Within 90% confidence, Barclays contributes another slightly negative impact but better than Goldman Sachs at (-0.10) to deal completion.

RBC Capital Market, Goldman Sachs, and Barclays have negative relationships with the status deals (non-completed, either terminated, withdrawn, or pending). On the other hand, Evercore Partners has the highest positive coefficient with completed deals (0.10), then Stifel (0.09). Non-top advisors have a slightly negative impact on completed deals. There are 119 deals with non-top advisors. In these deals, 106 were completed without top advisors, counting for 89% of success.

#### **4.5. Data: Multiple Advisors and Deal Completion**

Multiple advisors and deal completion is another interesting finding in this paper. It shows that acquirers do not necessarily choose only one advisor working for their deals. In contrast, they could hire multiple of them and let them work on the deal together. It would give the deal more perspectives and combine the strengths of different banks. The previous paper review does not mention the involvement of multiple financial advisors

in one deal. In fact, from my dataset, it happens quite common. The combination of advisors in deals is various, some with all top advisors while some with a mixed team of both top and non-top advisory members. Therefore, I will examine the deal completion rate with the numbers of deals of more than one advisor. Table 7 will help indicating the teamwork results of having different advisors in a deal.

**Table 7:** *Multiple Advisors, Success versus Failure Deals, 2012 to 2015*

<i>USD</i>						
<b>Deal Status</b>	<b># of Deals</b>	<b>Percent (%)</b>	<b>Total Values (\$million)</b>	<b>Avg Value (\$million)</b>	<b>Multiple Advisor # of Deals</b>	<b>Percent (%)</b>
Completed	379	88.34%	\$ 1,434,818	\$ 3,786	134	35.36%
Pending	2	0.47%	\$ 62	\$ 31	0	0.00%
Terminated	42	9.79%	\$ 704,368	\$ 16,771	21	50.00%
Withdrawn	6	1.40%	\$ 291,518	\$ 48,586	3	50.00%
<b>Total</b>	<b>429</b>				<b>158</b>	

In the group of 421 completed deals with advisors, there are 155 deals, 37%, that acquirers hire multiple advisors for financial advising. While for both withdrawn and terminated deals, half of them have multiple advisors, higher percentages in comparison with completed deals. It could lead to a question of conflicts among different advisors while working on the same deals that has a negative impact on the overall result.

#### **4.6. Data: Acquirer Types, Activities and Premiums**

Acquirers play a central role in this research because they need financial advisory support and make hiring decisions. Therefore, this part will respond to the types of acquirers who need financial advisors, and how much they want to complete the deals via their willingness to pay for advisory fees for a higher chance of success and a more generous premium. There are two types of buyers who hire financial advisors: financial

and strategic. These two would have different purposes when joining an M&A deal. Also, some of them are more active than others and engage in more than one deal during the period. Therefore, the summary has two groups of all deals and buy-side deals only, then it has two sub-groups of buyers with total deal values, average (deal) size, and average premium that buyers are willing to pay for each deal.

**Table 8:** *Acquirer summary, 2012 to 2015*

							USD
	Buyer Types	# of Buyers	# of Deals	Total Value (\$billion)	Avg Size (\$billion)	Avg Premium (%)	
<b>All Deals</b>	Financial	525	1,075	\$ 742	\$ 0.7	26.40%	
	Strategic	4,965	9,295	\$ 6,000	\$ 0.6	37.10%	
	<b>Total</b>	<b>5,490</b>					
<b>Buy-side Deals</b>	Financial	69	327	\$ 512	\$ 1.4	27.00%	
	Strategic	565	1,123	\$ 4,700	\$ 1.9	34.90%	
	<b>Total</b>	<b>634</b>					

With the transactions given, 5,490 buyers for all deals and 634 buyers hire financial advisors for their more than 30% transactions. At both cases, financial buyers are around one tenth of total buyers. Therefore, it leads to a great gap in number of deals and total value. However, the average sizes between these two are not much different from each other.

Top five strategic buyers are Apollo Global Management Inc and TPG Capital LP/US (Investing Management/Advising Service), Goldman Sachs (Diversified Banking Institutions), Canada Pension Plan Investment Board (Investing Management/Advising Service), and Allergan Ltd/Ireland (Medical-Drugs). It seems that the buyers in the investment and financial services industry were dominating the M&A fields as strategic buyers. Furthermore, in the top 50 acquirers ranked by their total deal counts, financial counts for half of them. This indicated the activeness of financial acquirers in the

market. Meanwhile, strategic advisors are usually in the bottom of the list of all buyers with a lot of them appearing with only one transaction for three years.

The activeness of each type for all deals are opposite with buy-side deals. With all deals, the data shows that strategic buyers are more active in M&A market, meaning that they have more deals. For the buy-side deals, with the support from the financial advisors, the financial buyers seem to be more active. It could tell that financial advisor's performance would make the process faster, more effectively and efficient for financial buyers. Therefore, they can buy more companies in the market.

Regarding premium, for all deals, the financial buyers have 26.4% of average premiums while strategic one has 37.1%. We can see that in the deals with acquirer financial advisors, financial buyers saw a slightly higher premium than all deals, while in contrast, strategic acquirers with financial advisor saw three percentages lower compared to all deals. This shows that acquirers with financial advisors may be more conservative in premium. This conservativeness in pricing may reduce the overpricing problems that M&A buyers usually have in their transactions. Connecting with the higher activeness of financial buyers with acquirer advisors, the slightly higher average premium does not lead to any considerable conclusion.

#### **4.7. Data: Acquirer and Advisory Fees**

Another topic when hiring financial advisors to work on the deal is how acquirers are willing to pay advisory fees. We gather data to know the percentage of fees to its deal values. Then, we see the differences between top advisors' fees and non-top advisors' charges. We could see how much acquirers are paying them, given their performances to the transaction.

**Table 9:** *Advisor Fee Summary*

<i>USD</i>					
<b>Advisory Types</b>	<b>Deal Value (\$million)</b>	<b>Avg Deal (\$million)</b>	<b>Total Fees (\$million)</b>	<b>Avg Fees (\$million)</b>	<b>Percent (%)</b>
Top Advisors	\$ 232,110.45	\$ 8,003.81	\$ 426.37	\$ 14.70	0.45%
Non-top Advisor	\$ 3,437.12	\$ 572.85	\$ 15.35	\$ 2.56	0.98%

Only 125 transactions have disclosed their fees and these deals were all completed.

The highest amount is \$41.5 million, 0.23%, relating to two financial advisors, Centerview and Goldman Sachs, in the transaction with Newell Brands Inc buying Jarden Corp. The lowest amount of fee is \$1 million, 0.07%. From the percentage perspective, acquirers can pay up to 2.52% and the lowest is 0.02%. On average, buyers pay 0.45% for top financial advisors and they pay 0.98% for non-top advisors. This infers those non-top advisors have a higher percentage of average fee percentage compared with the top one. However, top advisors get a higher average and total amount of fees than the others. It confirms that top advisors usually handle more deals than non-top. Therefore, they have a higher amount of fees. On the other hand, the non-top advisors may handle more complicated deals. That is the reason that they ask for a higher percentage as an incentive.

To determine advisory fees factors, we test the relationships between the fees and some possible factors that could drive the fees higher or lower. The multivariable regression shows correlations among different criteria. With this multivariable regression, the independent variable is Advisor Fees. The dependent ones are Deal Value (\$millions), Numbers of Advisors (advisors), and Top Advisors (Yes = 1, No = 0).

The formula of this regression is:

Advisor Fees = 6.75 + 0\*Deal Value + (2.89)\*Numbers of Advisors + 11.92\*Top advisors



**Regression Result 3: Factors of Advisory Fees**

	<i>Coefficients</i>	<i>Standard Error</i>	<i>t Stat</i>	<i>P-value</i>	<i>L95%</i>	<i>U95%</i>
Intercept	6.75	4.04	1.67	0.10	(1.48)	14.98
Deal Value	0.00	0.00	1.59	0.12	(0.00)	0.00
Numbers of Advisors	(2.89)	1.66	(1.74)	0.09	(6.27)	0.49
Top advisors	11.92	3.75	3.18	0.00	4.27	19.57

From the regression result, while the deal value has no coefficient with the fees, the number of advisors has a negative one, while top advisors have a positive relationship with higher fees with more than 95% level of confidence statistically, based on its p-value of 0.00. It indicates that the deal value may not have a significant impact on the advisory fees. In contrast, the top advisors ask for higher amounts thanks to their reputation, efficiency, and deal experiences relative to other financial advisors.

## 5. Findings

The analyses above confirm much information in the literature review. However, some insights arose. Firstly, the participation of multiple advisors for the deals would be an interesting topic to further research. The multiple advisory participants on an individual transaction, which turned out non-completed, may show some conflicts among advisors. However, the teamwork between big and boutique investment banks could offer acquirers more specialization on different perspectives of a deal. This offer gives the advisors more options while seeking advisory roles and potentially combine strengths and weaknesses of various advisors from different perspectives.

Secondly, the specialization of financial advisors in M&A industry would produce some changes in the market share dynamics in the next few years. While it is commonly accepted that top advisors have more deals and were dominating the M&A markets. However, individually, they barely have a significant impact on the deal completion. Regarding boutique investment banking, with the strength of handling more complex deals, even when they do not have many deals, they are still contributing to the market. This would help them stay in the market longer. Then, their strength could lead them to an increase in their market shares, or at least they could handle more complex deals with their reputation of this specialization. Furthermore, the differences between market shares in all deals and acquirer financial advisors only could indicate some other specialization and preference of deals that banks usually get to work on.

## 6. Conclusion

For this paper mainly working on two questions and three hypotheses. The first question is also the first hypothesis. It is “Do the advisors matter for deal completion?” Secondly, what are reasons for considering financial advisors to hire from the buyer perspectives? The second hypothesis is that an individual financial advisor has a great impact on deal completion. Lastly, top advisors have higher advisory fees.

This thesis aims to find implications of the role of financial advisory for acquirers in M&A deal completion. From the data and regression result 1, the conclusion drawn is that acquirer financial advisors have a positive impact on deal performance. Firstly, there is a supporting number that the deals with acquirer financial advisors have a higher completion rate and positive relationship with deal completion rate. Secondly, the importance and trustworthiness of financial advisors could be seen from the number of deals and the amount of deal value they handle. Thirdly, the willingness to pay advisory fees, even higher percentages for non-top advisors, could show the dedication of acquirers in the deals.

The second question relates to hiring criteria in the very concentrated market like M&A. Like previous research, top advisors have better reputations and are more well-known. Therefore, they have a higher number of deals but smaller average deal values. On the other hand, non-top advisors have smaller deal counts while working on more complex deals. This shows their specialization and their indispensable role in the market

For the next hypothesis, the regression result 2 proves that no individual banks have a significant impact on deal completion. However, it is statistically confident that Goldman Sachs had a negative impact on deal completion during the period. At the

same time, non-top advisors experienced a slightly positive impact over the successful deals. Lastly, from the regression result 3, advisory fees are highly positive correlated with top advisors. It shows that top advisors could ask for a higher amount of fees thanks to their productivity and efficiency in working on deals and its reputation in the market.

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## 8. Appendix

### 8.1. Regression Result on Deal Completion of Deals with and without Acquirer Financial Advisors

SUMMARY OUTPUT								
<i>Regression Statistics</i>								
Multiple R	0.21051327							
R Square	0.04431584							
Adjusted R Square	0.04392806							
Standard Error	0.25339376							
Observations	4932							
ANOVA								
	<i>df</i>	<i>SS</i>	<i>MS</i>	<i>F</i>	<i>Significance F</i>			
Regression	2	14.67557739	7.33778869	114.280829	0			
Residual	4929	316.4831817	0.0642084					
Total	4931	331.1587591						
	<i>Coefficients</i>	<i>Standard Error</i>	<i>t Stat</i>	<i>P-value</i>	<i>Lower 95%</i>	<i>Upper 95%</i>	<i>Lower 95.0%</i>	<i>Upper 95.0%</i>
Intercept	0.92	0.00	191.87	-	0.91	0.93	0.91	0.93
Total Value (mil.)	(0.00)	0.00	(14.25)	0.00	(0.00)	(0.00)	(0.00)	(0.00)
Advisor	0.05	0.01	7.07	0.00	0.04	0.07	0.04	0.07



## 8.2. Regression Result on Top Advisor and Non-top Advisor Impact on Deal Completion

SUMMARY OUTPUT								
<i>Regression Statistics</i>								
Multiple R	0.19619136							
R Square	0.03849105							
Adjusted R Square	0.00829874							
Standard Error	0.31744775							
Observations	428							
<i>ANOVA</i>								
	<i>df</i>	<i>SS</i>	<i>MS</i>	<i>F</i>	<i>Significance F</i>			
Regression	13	1.670133853	0.12847183	1.2748627	0.224948			
Residual	414	41.72005306	0.10077308					
Total	427	43.39018692						
	<i>Coefficients</i>	<i>Standard Error</i>	<i>t Stat</i>	<i>P-value</i>	<i>Lower 95%</i>	<i>Upper 95%</i>	<i>Lower 95.0%</i>	<i>Upper 95.0%</i>
Intercept	0.92	0.04	23.35	0.00	0.84	1.00	0.84	1.00
JP Morgan	(0.03)	0.05	(0.64)	0.52	(0.14)	0.07	(0.14)	0.07
BofA	0.05	0.05	1.02	0.31	(0.04)	0.14	(0.04)	0.14
Goldman Sachs	(0.12)	0.05	(2.41)	0.02	(0.22)	(0.02)	(0.22)	(0.02)
Barclays	(0.10)	0.05	(1.91)	0.06	(0.19)	0.00	(0.19)	0.00
Lazard Ltd	(0.01)	0.07	(0.18)	0.86	(0.15)	0.12	(0.15)	0.12
Credit Suisse	0.01	0.06	0.12	0.90	(0.11)	0.13	(0.11)	0.13
Citi	(0.02)	0.06	(0.28)	0.78	(0.13)	0.10	(0.13)	0.10
Morgan Stanley	(0.04)	0.05	(0.65)	0.51	(0.14)	0.07	(0.14)	0.07
Deutsche Bank	0.01	0.06	0.09	0.93	(0.12)	0.13	(0.12)	0.13
Evercore Partners Inc	0.10	0.08	1.18	0.24	(0.07)	0.26	(0.07)	0.26
RBC Capital Markets	(0.14)	0.09	(1.45)	0.15	(0.32)	0.05	(0.32)	0.05
Stifel	0.09	0.16	0.55	0.58	(0.23)	0.41	(0.23)	0.41
Non-top Advisor	(0.01)	0.05	(0.27)	0.79	(0.11)	0.08	(0.11)	0.08

### 8.3. Regression Result on Factors of Advisory Fees

<i>Regression Statistics</i>								
Multiple R	0.5959487							
R Square	0.3551548							
Adjusted R Square	0.2927505							
Standard Error	7.8040665							
Observations	35							
ANOVA								
	<i>df</i>	<i>SS</i>	<i>MS</i>	<i>F</i>	<i>Significance F</i>			
Regression	3	1039.8385	346.61283	5.6911851	0.0031762			
Residual	31	1888.00709	60.903455					
Total	34	2927.84559						
	<i>Coefficients</i>	<i>Standard Error</i>	<i>t Stat</i>	<i>P-value</i>	<i>Lower 95%</i>	<i>Upper 95%</i>	<i>Lower 95.0%</i>	<i>Upper 95.0%</i>
Intercept	6.75	4.04	1.67	0.10	(1.48)	14.98	(1.48)	14.98
Deal Value	0.00	0.00	1.59	0.12	(0.00)	0.00	(0.00)	0.00
Numbers of Advisor	(2.89)	1.66	(1.74)	0.0910	(6.27)	0.49	(6.27)	0.49
Top advisors	11.92	3.75	3.18	0.0033	4.27	19.57	4.27	19.57