



Investment banks' reputation and their impact on M&A value creation and the premium paid

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Abstract

I examine how the reputation of investment banks influences the premium paid and the value created in mergers and acquisitions (M&A) deals by analyzing deals occurred in United States from 1994 to 2022. M&A transactions are crucial for corporate growth, and investment banks play a key role in facilitating them. The research provides valuable insights for investors, executives, and regulators, with practical implications for decision-making in the M&A landscape.

Keywords: Merger and acquisition; Investment bank reputation; Value creation; Premium

Table of contents

1. Introduction.....	1
2. Literature Review and development of hypothesis.....	2
2.1. Wealth gains and investment bank reputation	2
2.2. Premium and investment bank reputation	5
2.3 Investment bank reputation	7
3. Methodology and Data.....	8
3.1 Methodology.....	8
3.2. Data.....	11
4. Univariate Analysis.....	16
5. Results and Discussion.....	19
5.1. Impact of high-quality advisors on wealth gains in M&A transactions.....	19
5.2. The impact of high-quality advisors premium paid.....	26
6. Conclusion	30
References	33
Appendices	40

1. Introduction

Mergers and acquisitions have become popular strategies for companies seeking to expand and grow in a competitive global market. DePamphilis (2019) emphasizes the dynamic nature of the business landscape and citing the constant flux in the 'Fortune 500', shows that out of the original 1955 list, only 70 companies are still on that list today, with over 2,000 appearing due to M&A, bankruptcy, downsizing, or other forms of corporate restructuring.

Jensen (1991) argues that M&A, coming in waves, is an effective answer for resolving financial distress issues. M&A is excellent to seek a more vital partner as “boards will be particularly focused on whether a potential deal will add value” (George Budden, Partner, Post Merger Integration, Deloitte). Acquisitions of distressed targets are one of three routes to reorganize firms in financial distress, the other two being corporate restructuring in a strict sense (John et al., 1992) and liquidation (Gilson et al., 1990).

According to Mukherjee et al. (2005), there are nearly as many reasons for mergers and acquisitions as there are buyers and sellers involved in the transaction. An ongoing discussion revolves around whether mergers and acquisitions contribute to value creation. Past studies (Bauguess et al., 2008; Zhu et al., 2024; Rabier, 2017) have primarily concentrated on examining the potential benefits of M&As for both the acquiring company's shareholders and those of the target company.

One of the most crucial decisions for creating value in a company's mergers and acquisitions is the selection of the right financial advisor (Chemmanur & Fulghieri, 1994; Fang, 2005; Kale et al., 2003; Servaes & Zenner, 1996). The role of M&A advisors is multifaceted, primarily revolving around three pivotal activities. First, they are responsible for identifying potential bidders and targets, which involves extensive research and analysis to pinpoint suitable candidates for the transaction (Diamond & Maskin, 1979; Mortensen, 1982). Second, advisors navigate the complexities of offers. This includes pursuing enhanced bids, fortifying defenses against hostile takeovers, and negotiating the terms of the deal. They provide crucial guidance on bidding strategy, determine offer prices, advise on the decision to accept or reject an offer, and assess the potential for competitive bids (Grossman & Hart, 1980). Finally, investment banks play a significant role in diminishing information asymmetry between the involved parties. By facilitating a more transparent flow of information, they help ensure that both sides make informed decisions, thereby reducing the likelihood of misunderstandings and enhancing the overall efficiency of the transaction process (Servaes & Zenner, 1996).

The relevance of this research topic is underlined by the growing importance of mergers and acquisitions transactions in the business world. As companies navigate complex scenarios to achieve strategic objectives, the choice of investment bank becomes a determining factor for success. The reputation of these banks not only reflects their historical performance, but also serves as a key factor in attracting clients and shaping perceptions in the financial market.

The main objective of this dissertation is to investigate whether the reputation of investment banks impacts the premiums paid and the value created in transactions in a sample of mergers and acquisitions transactions in the United States from 1994 to 2022.

The research is organized as follows. Firstly, in Chapter 2 the existing literature on mergers and acquisitions is analysed. Next, in Chapter 3, the research hypotheses are presented, and the sample and methodology are described. The Chapter 4 presents the empirical results and additional, robustness analysis are performed in Chapter 5. Finally, Chapter 6 concludes and discusses the implications of the results for companies planning to engage in an M&A transaction.

2. Literature Review and development of hypothesis

2.1. Wealth gains and investment bank reputation

Mergers and acquisitions (M&A) transactions represent intricate financial endeavors where advisory services, and the reputation of investment banks are crucial determinants.

Measuring the quality of investment banks can be a challenging task. Following the approach of Hunter & Jagtiani (2003), Kale et al. (2003), Walter et al. (2008), and Esbjörnsson & Lövstrand (2016), top-tier advisory banks tend to complete transactions more successfully and quickly than lower-tier investment banks. According to Faias (2017), top advisors have a restricted ability to close more deals. However, this does not increase the likelihood of deal completion or deliver greater abnormal equity returns to their clients (Walter et al., 2005).

Based on Kale et al. (2003), there is a relation between the advisor's reputation and wealth gains - the higher reputation of financial advisors is associated with increased wealth gains for both the bidder and the target in successful takeover contests. The positive relation between higher reputation advisors and bidder success suggests a reputation-building aspect, indicating that reputable advisors are more likely to provide correct advice. Kale pointed out that employing higher reputation advisors increases the likelihood that a bidder will make the correct complete/withdraw decision in takeover contests. Additionally, unsuccessful bidders

with higher reputation advisors are more likely to withdraw from potentially unprofitable acquisitions, suggesting that advisors prioritize their clients' interests over deal completion.

Top-tier financial advisors can assist acquirers in finding and evaluating potential target candidates for mergers and acquisitions (Maulis & Simsir, 2018). Pho (2021) and Lyu & Wang (2020) found a positive impact of acquirer financial advisors on deal performance, the specialization of boutique financial advisors in handling complex deals, and the higher advisory fees associated with top advisors.

Financial advisors can also help negotiate better deal terms and reduce bid value. However, these advisors only offer advice, and ultimately, the controlling shareholders make the final decisions on which firms to target and how to finance the transaction. Using a reputable financial advisor can positively impact an acquirer's wealth. However, there is a risk of expropriation by controlling shareholders that may be associated with using a top-tier advisor, which can negatively affect wealth (see, for instance, Johnson & Miller, 1988; and Livingston & Miller, 2000). Additionally, the market's perception of the controlling shareholders' actions can impact the perceived value of the advisor's role, leading to mixed empirical evidence on their effectiveness.

Investment banks are sought out for various reasons, one is to help clients identify synergistic targets and negotiate conditions that pave the way for success. However, the available literature on financial advisors in corporate takeovers is limited, and the presented evidence is inconclusive. As an illustration, Michel et al. (1991) discovered that Drexel Burnham Lambert, a bank with comparatively lower prestige, facilitates its clients in attaining the most significant abnormal returns during announcements. In contrast, First Boston, categorized as Bulge Bracket¹, demonstrates subpar results. There is no correlation between the bank's reputation and improved takeover performance.

On the one hand, Bowers & Miller (1990) assessed the quality of a consultant by evaluating the prestige associated with its name. Contrary to expectations, their results revealed no discernible relationship between the consultant's prestige and the acquirer's returns. A similar approach was taken by Michel et al. (1991), Shiereck et al. (2008), Schiereck (2009) and Madura & Cao (2013), whose analysis of the prestige factor revealed no significant correlation

¹ The term "bulge bracket" refers to a group of large and well-established investment banks. These banks are typically global in scope and have a significant presence in major financial markets.

between the eminence of the advisor and the positive results of mergers and acquisitions. Adding a layer of skepticism, Servaes and Zenner (1996) questioned the need to hire any consultant. Their research found no discernible benefit in hiring financial advisors in mergers and acquisitions. However, Saunders (2001) discovered that acquiring firms pay higher fees to advisors with a prior relationship, suggesting a potential link between reputation and fees.

On the other hand, Rau (2000) and Bao & Edmans (2009) took a different approach, using market share as a metric for the quality of advisors (Lyu et al., 2022). Surprisingly, Rau's results documented a negative relationship, challenging the assumption that a more significant market share translates into better results for acquirers. In the same context, Walter et al. (2005), Song et al. (2013) and Sahyoun et al. (2018) found that more reputable advisors provided lower abnormal returns to target companies.

Different conclusions have been found in studies such as Allen et al. (2000), Bao & Edman (2011), Groot (2017), and Wang et al. (2022) suggest that the involvement of commercial banks as advisors, cash financing, and specific characteristics of the target company and the acquiring company can positively affect the abnormal returns of M&A transactions. For instance, Golubov et al. (2012), Ismail (2010) and Ma (2005) further emphasized the importance of an investment bank track record in generating gains for clients, indicating that reputation may play a role in the overall success of a merger.

In the context of Japanese listed firms from 1995 to 2012, Koo (2020) explores the roles of target and acquirer advisors in acquisition deals and their impact on cumulative abnormal returns (CAR) and acquisition premiums. The findings indicate that the presence of a target advisor can positively contribute to the success of an acquisition by generating a positive abnormal return. Additionally, the author suggests that having an acquirer advisor is linked to increased acquisition premiums, which may negatively influence the deal's progress.

In the Scandinavian market, Esbjörnsson & Lövstrand (2016) explores the impact of financial advisors' reputations on the value generated for acquiring firms. The study covers 448 transactions from 2000 to 2015 and reveals that hiring top-tier advisors significantly increases cumulative abnormal returns by 1.32%.

As we navigate the world of mergers and acquisitions, it has become evident that the assumed correlation between the quality of advisors, especially banks, and successful outcomes is not as straightforward as it once perceived. Therefore, the assumption that the highest quality advisors invariably lead to the best results is a notion that requires re-evaluation.

Based on past evidence the hypothesis is developed as follows:

Hypothesis 1: Transactions involving high-quality advisors create more value than those with lower-tier advisors.

2.2. Premium and investment bank reputation

One of the critical roles of investment bankers is negotiating acquisition premiums - a crucial aspect of their strategic and financial functions (Eccles & Crane, 1988; and Haunschild, 1994).

A premium is the additional amount paid over the market value of the target company. According to Sirower (1997), this premium can become excessive if it surpasses the realistic value of anticipated synergies, leading to potential erosion of the acquiring firm's value and requiring significantly higher performance to justify the acquisition.

Investment bankers can influence acquisition premiums by advising acquirers and targets in advisory roles. Targets hire investment bankers to maximize their company's valuation, while acquirers hire them to minimize the purchase price for the target. However, the influence of investment bank reputation on M&A deal premiums is a complex issue.

The primary sources of value creation in the merger and acquisition (M&A) process, as highlighted by Mueller (1997), include control, synergies, and underpricing. Control refers to the strategic advantage gained by acquiring a controlling interest in another company, giving the acquirer decision-making power. Synergies involve the combined entities generating more value together than they would independently, often through operational efficiencies or complementary strengths. Conversely, underpricing implies that the market undervalues the merged entity, allowing for potential financial gains.

Investment banks' reputation significantly impacts the premiums paid by acquirers in acquisition deals (Porrini, 2006; Golubov, 2012; Pho, 2021; Gomes and Marsat, 2018). When investment banks invest their money in the deals they advise, they negotiate more favorable terms for their clients (Stouraitis, 2003). This suggests that investment banks' reputations and financial incentives are crucial in negotiating acquisition premiums. Furthermore, according to Dai (2009), the quality of the investment bank's service, as indicated by its reputation, is positively associated with lower discounts and enhanced post-deal trading environments. With this in mind, Fang (2005) found that reputable banks also obtain lower yields and charge higher

fees, but issuers' net proceeds are higher, indicating they can command a premium for their services.

Using a Chinese M&A sample, Bi & Wang (2018) found a significant relation between the choice of investment banks and the premium paid. Advisors experience higher short-term market reactions, indicating increased acquisition value creation. However, this positive effect is tempered for acquirers facing a higher likelihood of expropriation by controlling shareholders, showcasing the nuanced role of top-tier financial advisors in influencing premiums.

A different perspective was taken by Dionne et al. (2015), which examined the impact of information asymmetry. In this context, it reveals that specific attributes related to investment banks impact the premium. For instance, the buyer's leverage, measured by considerable debt, is associated with the ability to pay a higher premium. This suggests highly indebted buyers may use their leverage to offer a more substantial premium. Additionally, the choice of a public purchase offer, often facilitated by investment banks, is linked to a higher premium. However, the document notes a surprising observation that transactions paid entirely in cash command a lower premium, contrary to expectations. Overall, the dynamics between investment banks and the premium paid involve elements of financial structure, negotiation strategies, and the nature of the transaction.

The most recent study was by Nguyen and Tsai (2024), who found that deals advised by current lenders have lower target premiums.

In summary, even though most of these studies are older, their alignment with the main findings is remarkable. However, it is crucial to connect traditional views with current realities when navigating the constantly changing mergers and acquisitions landscape. The call to action is clear: there is an inherent need to complement this knowledge with new and readily available data. A more contemporary perspective will enhance our understanding and provide nuanced insights that fit the dynamics of today's M&A environment. As we traverse this academic landscape, the confluence of historical wisdom and current knowledge becomes the key to unlocking the complexities of the dynamics of the M&A prize.

Hypothesis 2: The higher the acquirer-IB reputation, the lower the premium paid.

2.3 Investment Bank Reputation

Investment banks operate within a dynamic and interconnected financial landscape where trust and credibility are essential for their success and longevity. The reputation of these institutions goes beyond traditional financial metrics, encompassing the perceptions, trust, and confidence that clients, regulators, and the broader financial community have in them. This reputation is a multifaceted construct influenced by various factors. One crucial aspect is financial performance, which reflects the bank's profitability, stability, and growth potential. Additionally, effective risk management practices are critical for maintaining the bank's financial health and protecting the interests of its stakeholders.

Traditionally, market share has been frequently used as a measure of a company's reputation. For example, studies by McDonald and Fisher (1972), Simon (1990), De Long (1991), Megginson and Weiss (1991), Bao and Edmans (2009), Ismail (2009), and Beatty and Welch (1996) have utilized market share metrics to gauge the standing of investment banks. A specific measure commonly applied is the Carter-Manaster measure, which is based on tombstone announcements in financial publications. This measure has been employed by researchers such as Carter and Manaster (1990), Golubov et al. (2012), Carter et al. (1998), and Logue et al. (2002). An earlier variant of this, known as Hayes' rankings from 1971, also relied on tombstone announcements and was used in studies by Logue (1973) and Tinic (1988).

Furthermore, the past performance of advisors on two critical fronts has been used to measure reputation: transaction completion rates and the time taken to complete them. Studies by Walter et al. (2005, 2008) and Bao and Edmans (2011) compare advisors of different quality levels based on these metrics. Additionally, some research, such as that by Hunter and Jagtiani (2003), ranks financial advisors based on the total value of the deals they handle, which assesses the bank's capability to secure and execute high-value transactions.

Another popular approach is the use of league table rankings. These rankings, discussed by McLaughlin (1992), Rau (2000), Porrini (2006), Guo (2020), Bi and Wang (2018), Chen et al. (2013), Chaudhry et al. (2022), and Pho (2021), are published annually and categorize advisors based on the number and value of M&A transactions they have successfully executed over the previous year. The competition among advisors to achieve high rankings in these tables has made them an essential measure of prestige. Investment banks frequently use these rankings to showcase their standing in the market. Consequently, metrics derived from league table

rankings or market share have become the primary indicators in contemporary research used to assess the quality of financial advisors.

3. Methodology and Data

3.1 Methodology

To address the research questions outlined earlier, this study employs both univariate and multivariate analyses. This subsection details the methodology used in the multivariate analysis.

3.1.1. Impact of high-quality advisors on wealth gains in M&A transactions

To evaluate the high-quality advisors (those who are on top-5) on the wealth gains of acquirers and targets involved in public M&As, I will follow the approach made by Loureiro & Silva (2023). In line with standard M&A literature, I measure the value created by the deal using cumulative abnormal returns (CARs) around the announcement date. This includes the combined CAR to assess the overall value created, as well as separate CARs for acquirers (acquirer CAR) and targets (target CAR).

The abnormal return is the difference between the received return from an asset, like a stock, and what is expected as an average rate of return over an event window.

To estimate the CARs, I will apply the event study methodology to calculate the cumulative abnormal returns earned by both companies (acquirer and target) over a 3-day (event window is from $t = -1$ to $t = +1$), 5-day (event window is from $t = -2$ to $t = +2$) and 11-day (event window is from $t = -5$ to $t = +5$) around the acquisition announcement date ($t = 0$). For company i on event day t , the abnormal return is calculated using the market model as follows:

$$AR_{i,t} = R_{i,t} - E(R_{i,t}) \quad (1)$$

where, $R_{i,t}$ is the return of company i on day t is the market return on the day t and $E(R_{i,t})$ is the expected return estimated using the market model for the period $[-250; -25]$ days before the event date.

To calculate the cumulative abnormal return for an acquirer or target in a certain period, we define the sample CAR as the sum between of daily abnormal returns over the 3, 5 or 11-day period event, as follows⁴:

$$CAR_{i,t} = \sum_{t_1}^{t_2} AR_{i,t} \quad (2)$$

To calculate the combined CARs, I compute them as a value-weighted portfolio. The acquirer and target weights are obtained from the acquirer's and target relative market capitalization six trading days before the first acquisition announcement. The target's weight is then adjusted for any percentage of the target's equity that the bidder held before the acquisition announcement. A combined CAR from mergers is a value weight portfolio returns over an event window (Loureiro & Silva, 2023).

To test the impact of high-quality advisors on wealth gains in M&A Transactions, I estimate the following model:

$$CAR_{i,t} = \alpha + \beta_1 Acq\ advisor\ top5 + \beta_2 Targ\ advisor\ top5 + \beta_3 Leverage_i + \beta_4 MtB_i + \beta_5 ROA_i + \beta_6 LDeal\ value_i + \beta_7 Friendly_i + \beta_8 Relative\ size_i + \beta_9 Cash\ payment_i + \beta_{10} Stock\ payment_i + \beta_{11} Same\ industry_i + \varepsilon_i \quad (3)$$

The dependent variable $CAR_{i,t}$ is the acquirer, target or combined cumulative abnormal return over a 3-day, 5-day and 11-day event window at time t for a certain deal, and ε_i is the idiosyncratic component.

The independent variables of the model include the variable of interest, a dummy variable that equals 1 if the acquirer (target) firm employs one of the top 5 financial advisors, and 0 otherwise, and several control variables. To control financial health and profitability, the model uses the acquirer and target *leverage*, measured as the ratio between the total debt and the total assets, the *Market-to-Book ratio* (MtB), and the *Return on Assets* (ROA). Additionally, the *deal value* captures the size of the transaction, while the *friendly* dummy variable which is equal to 1 if the deal attitude is friendly, and 0 otherwise. It includes also the *relative size*, calculated by dividing the deal value by the acquirer's market value 4 weeks prior to the deal,

and then multiplying the result by 100 to convert it to a percentage, to control for the transaction's relative magnitude. Payment methods are detailed with the *cash payment* and *stock payment* dummies, highlighting cash versus stock transactions. The *same industry* variable identifies whether the deal is within the same industry or cross-industry.

To rank the top 5 financial advisors, I adopted a methodology based on Hunter & Jagtiani (2003). Initially, I gathered comprehensive data on each transaction, including the year, the principal financial advisor involved, and the total value of the transactions (data obtained from Refinitiv). Subsequently, I organized these data by year and ranked the advisors in descending order based on the total transaction value they advised. Within each year, I selected the five advisors with the highest transaction values, designating them as the top 5 advisors for that year. This method allows for a clear and objective identification of the most influential financial advisors annually, based on the financial impact of the transactions they participated in.

To ensure the robustness of the model, multicollinearity diagnostics were conducted using the Variance Inflation Factor (VIF). The results show that the VIF for each variable in the model is less than 10, indicating that multicollinearity is not a significant issue. This suggests that the estimates of the coefficients are reliable and not inflated due to multicollinearity among the independent variables.

3.1.2. The impact of high-quality advisors on premium paid

I also examine the influence of high-quality financial advisors on bid premiums through the implementation of the following model:

$$\begin{aligned}
 Premium_{i,t} = & \alpha + \beta_1 Acq\ advisor\ top5 + \beta_2 Targ\ advisor\ top5 + \\
 & \beta_3 Targ\ sales\ growth_i + \beta_4 LDeal\ value_i + \beta_5 Friendly_i + \beta_6 Relative\ size_i + \\
 & \beta_7 Cash\ payment_i + \beta_8 Stock\ payment_i + \beta_9 Same\ industry_i + \varepsilon_i
 \end{aligned}
 \tag{4}$$

In this model the dependent variable $Premium_{i,t}$ is the percentage by which the offer price for a target company's stock exceeds its current market price. In this analysis, three periods will be considered: one day, one week, or four weeks before the announcement date.

Regarding control variables, this model only adds a new variable to the previous one. *Target sales growth* measures the sales growth of the target firm, indicating its recent performance and affecting the valuation and premium.

To ensure the reliability of the model, multicollinearity diagnostics were performed using the Variance Inflation Factor (VIF). The VIF values for all variables in the model are below 10, demonstrating that multicollinearity is not a significant issue. This indicates that the coefficient estimates are stable and not distorted by collinearity among the independent variables.

3.2. Data

The sample was collected using the Refinitiv Eikon database, provided by Refinitiv. Like Chahine & Ismail (2009), the data only includes the M&A deals announced and completed by US-listed companies between 1994 and September 2022. Our sample comprises deals with bidders and targets listed on the NYSE, AMEX, NASDAQ, AMERICAN, NYSE Alter, NYSE Arca, and NYSE MKT. Additionally, the sample excludes small transactions, less than 1 million dollars, transactions by financial institutions, and transactions by “governments and agencies”. Furthermore, the sample only includes deals that result in a transfer of control, i.e., where the acquirer’s ownership in the target firm increases to more than 50% due to the acquisition. Most importantly, following the same methodology as Ismail (2010), our sample is restricted to deals where the names of the financial advisors for both the target and acquiring firms are disclosed. The final sample comprises 870 M&A deals.

Table 1 presents the distribution of M&A deals by year. Most of the deals occurred in the late 1990s and early 2000s, with a noticeable peak in 1998, which had the highest number of deals at 69, representing 7.93% of the total sample. The distributions highlight periods of high and low M&A activity, which may be attributed to various economic and market conditions. Overall, the dataset provides a comprehensive overview of M&A trends over nearly three decades, reflecting the dynamic nature of corporate acquisitions.

Table 1: Sample by year

The sample for this table consists of all completed mergers and acquisitions deals involving listed acquirers and target companies reported on Refinitiv between 1994 and 2024. We consider majority control deals where the bidder has a minority ownership of the target (less than 50%) before the announcement deals and ends up with a majority ownership (more than 50%) after the deal announcement.

Year	Freq.	Percent	Cum.
1994	6	0.69	0.69
1995	8	0.92	1.61
1996	9	1.03	2.64
1997	29	3.33	5.98
1998	69	7.93	13.91
1999	62	7.13	21.03
2000	59	6.78	27.82
2001	44	5.06	32.87
2002	23	2.64	35.52
2003	19	2.18	37.70
2004	38	4.37	42.07
2005	32	3.68	45.75
2006	35	4.02	49.77
2007	37	4.25	54.02
2008	26	2.99	57.01
2009	25	2.87	59.89
2010	24	2.76	62.64
2011	22	2.53	65.17
2012	24	2.76	67.93
2013	21	2.41	70.34
2014	36	4.14	74.48
2015	38	4.37	78.85
2016	43	4.94	83.79
2017	22	2.53	86.32
2018	33	3.79	90.11
2019	26	2.99	93.10
2020	19	2.18	95.29
2021	26	2.99	98.28
2022	15	1.72	100.00
Total	870	100.00	

Table 2 presents the distribution of 870 M&A deals by industry for both target and acquiring companies. The High Technology sector is the most prominent, comprising 27.24% of targets and 25.63% of acquirers. Healthcare follows with 19.31% of targets and 18.97% of acquirers. This distribution highlights a diverse range of industries involved in M&A deals, with a strong emphasis on the technology and healthcare sectors.

Table 2: Industries presented in the sample

The sample for this table consists of all completed mergers and acquisitions deals involving listed acquirers and target companies reported on Refinitiv between 1994 and 2024. We consider majority control deals where the bidder has a minority ownership of the target (less than 50%) before the announcement deals and ends up with a majority ownership (more than 50%) after the deal announcement. The sample excludes small transactions, less than 1 million dollars, transactions by financial institutions, and transactions by “governments and agencies”.

Industries	Target industry			Acquirer industry		
	Freq.	Percent	Cum.	Freq.	Percent	Cum.
Consumer Products and Services	48	5.52	5.52	44	5.06	5.06
Consumer Staples	33	3.79	9.31	36	4.14	9.20
Energy and Power	99	11.38	20.69	98	11.26	20.46
Healthcare	168	19.31	40.00	165	18.97	39.43
High Technology	237	27.24	67.24	223	25.63	65.06
Industrials	75	8.62	75.86	82	9.43	74.48
Materials	40	4.60	80.46	43	4.94	79.43
Media and Entertainment	48	5.52	85.98	50	5.75	85.17
Real Estate	50	5.75	91.72	55	6.32	91.49
Retail	32	3.68	95.40	32	3.68	95.17
Telecommunications	40	4.60	100.00	42	4.83	100.00
Total	870	100.00		870	100.00	

Table 3 presents comprehensive summary statistics for the variables utilized in this research. The data reveals that 35.9% of acquiring firms and 33.4% of target firms employed a top 5 advisor, indicating a significant reliance on high-profile advisory services in M&A transactions. The *leverage* ratios for target and acquiring firms average 22.4% and 23.1%, respectively, suggesting moderate levels of debt utilization. The *Market-to-Book* (MtB) ratios average 3.341 for target firms and 4.128 for acquiring firms, highlighting differences in market valuation relative to book value. *Return on Assets* (ROA) shows a mean of -3.5% for targets, indicating some negative profitability, whereas acquirers have a positive mean ROA of 3.6%. *Sales growth* rates average 18.1% for targets and 23.3% for acquirers, reflecting substantial growth trajectories.

Table 3: Descriptive statistics

Table 3 includes descriptive statistics for a sample of 870 deals from 1994 to 2022. It shows mean, standard deviation (S.D.), percentile 25, percentile 50 (median), percentile 75, and the number of observations (N) for the total sample. *Acquirer-advisor top5* and *target-advisor top5* reflect the investment bank reputation using the Hunter & Jagtiani (2003) approach, which ranks financial advisors based on the total deal value. The *Leverage* ratio is calculated by dividing the total debt a company has by the total assets. The *Market-to-Book* (MTB) ratio is calculated by dividing the market capitalization at fiscal year-end by the total amount of equity that belongs to the shareholders. The *Return on Assets* (ROA) is calculated by dividing the Net Income before Extraordinary Items by the total amount of assets. The *sales growth* is calculated by dividing the difference between the total sales revenue in the current period and the total sales revenue in the previous period by the total sales revenue in the previous period. The *market capitalization 6-day average* is calculated by dividing the sum of the market capitalizations for each of the 6 days by 6. *Cumulative Abnormal Returns* (CARs) are calculated using Equation (2) estimated over a 3-day window (-1, +1), a 5-day window (-2, +2), and an 11-day window (-5, +5). The *combined CARs* were calculated based on the approach of Loureiro & Silva (2023), who considered a value-weighted portfolio, with the weights of the bidder and the target based on their respective market capitalizations on the sixth trading day before the initial announcement of the acquisition. *Premium* is the percentage of the offer price relative to the market price 1 day, 1 week, and 4 weeks prior to the announcement date, as reported by the Refinitiv database. *Deal value* is the logarithm of the value of the consideration paid to the target firm as reported in the Refinitiv database. *Relative size* is calculated by dividing the deal value by the acquirer's market value 4 weeks prior to the deal, and then multiplying the result by 100 to convert it to a percentage. *Friendly* is a dummy set equal to 1 if the deal attitude is described as friendly in the SDC database, 0 otherwise. *Cash (stock)* payment dummy is equal to 1 if payment with cash (stock), 0 otherwise. Same industry dummy is equal to 1 if the target and acquirer share the same two-digit SIC code, 0 otherwise.

	N	Mean	SD	p25	p50	p75
Acquirer advisor top5	870	.36	.48	0.00	0	1
Target advisor top5	870	.33	.47	0.00	0	1
Target leverage	869	.22	.23	0.00	.17	.37
Target MtB	869	3.34	5.75	1.37	2.19	3.80
Target ROA	870	-.035	.22	-0.04	.03	.07
Target sales growth	863	.181	.43	-0.02	.09	.26
Target marketcap (6d)	869	2363.80	5315.58	193.30	635.39	2122.71
CAR target (-1,+1)	870	.24	.24	0.08	.20	.35
CAR target (-2,+2)	870	.25	.24	0.08	.20	.36
CAR target (-5,+5)	870	.27	.27	0.09	.21	.38
Acquirer leverage	870	.23	.19	0.09	.20	.34
Acquirer MtB	870	4.13	4.93	1.74	2.84	5.04
Acquirer ROA	870	.04	.12	0.02	.05	.09
Acquirer sales growth	865	.23	.48	0.02	.11	.26
Acquirer marketcap (6d)	870	23430.32	49388.27	1133.79	4185.41	17326.86

CAR acquirer (-1,+1)	870	-.02	.08	-0.06	-.01	.02
CAR acquirer (-2,+2)	870	-.02	.09	-0.06	-.01	.03
CAR acquirer (-5,+5)	870	-.02	.10	-0.08	-.02	.04
Combined CAR (-1,+1)	869	.02	.083	-0.02	.01	.06
Combined CAR (-2,+2)	869	.02	.09	-0.03	.01	.06
Combined CAR (-5,+5)	869	.02	.10	-0.04	.02	.07
Premium 4w	870	44.47	45.35	18.16	34.78	56.08
Premium 1w	870	39.05	40.30	15.73	30.73	49.8
Premium 1d	870	35.69	39.14	13.31	28.05	45.49
Deal value (USD million)	870	6.82	1.71	5.67	6.83	8.03
Relative size	870	47.22	70.6	7.99	27.15	61.92
Friendly dummy	870	.99	.11	1.00	1	1
Cash payment dummy	870	.34	.47	0.00	0	1
Stock payment dummy	870	.29	.45	0.00	0	1
Same industry dummy	870	.60	.49	0.00	1	1

Standard errors in parentheses

*** p<0.01, ** p<0.05, * p<0.1

The six-day average market capitalization for target firms stands at 2,364 million USD. In contrast, for acquiring firms, it is substantially higher at 23,430 million USD, reflecting the larger scale of acquiring entities. For target firms, the mean Cumulative Abnormal Returns (CARs) are 24.2%, 24.8%, and 26.6% over the (-1,+1), (-2,+2), and (-5,+5) windows, respectively. These figures indicate substantial positive abnormal returns around the announcement period. Conversely, acquirers exhibit mean CARs of -2.0%, -2.1%, and -2.1% over the same periods, suggesting slight negative reactions from the market. Combined CARs for the (-1,+1), (-2,+2), and (-5,+5) windows are 1.7%, 1.8%, and 2.0%, respectively, indicating a net positive impact on combined entity value.

Premiums paid over various windows reveal significant values, with four-week, one-week, and one-day premiums averaging 44.467%, 39.052%, and 35.691%, respectively. These premiums illustrate the substantial additional value paid by acquirers over the market price of targets. The average deal value is 6.824 million USD, with relative deal size averaging 47.218%, indicating a considerable proportion relative to the acquirer's size. Most deals are friendly (98.7%), with cash being the preferred method of payment (33.8%), followed by stock payments (29.1%). Additionally, 59.5% of deals occur within the same industry, reflecting a trend towards horizontal integrations

In AppendixA presents the correlation matrix, which reveals that most independent variables have weak relationships with premiums, cumulative abnormal returns (CARs), and combined CARs.

4. Univariate Analysis

Table 4 compares the premiums paid in M&A transactions involving the top 5 financial advisors of the target companies versus advisors outside the top 5, over different timeframes: one day, one week, and four weeks after the announcement. The differences in premiums and their corresponding p-values are crucial for determining the significance of these differences.

Table 4: Premium and ranking of advisors of the targets

Non-top5 advisor and *Top-5advisor* reflect the investment bank reputation using the Hunter & Jagtiani (2003) approach, which rank financial advisors based on the total deal value. *Premium* is the percentage of the offer price relative to the market price 1 day, 1 week, and 4 weeks prior to the announcement date, as reported by the Refinitiv database.

	Non-top5 advisor	Top-5 advisor	Difference	P-value
Premium 1 day	35.95	35.19	0.76	0.79
Premium 1 week	39.75	37.66	2.09	0.47
Premium 4 weeks	45.25	42.92	2.33	0.48

The premium one day after the announcement shows a minimal difference of 0.76% between non-top 5 advisors (35.95%) and the top 5 advisors of the target companies (35.19%), with a high p-value of 0.79. This indicates that the difference is not statistically significant, suggesting that the ranking of the advisor does not affect the one-day premium.

For the premium one week after the announcement, the difference is slightly larger at 2.09%, with non-top 5 advisors having an average premium of 39.75% compared to 37.66% for the top 5 advisors of the target companies. The p-value of 0.47 remains high, indicating no significant difference in premiums based on advisor ranking for this timeframe as well.

The premium four weeks after the announcement shows a difference of 2.33%, with non-top 5 advisors at 45.25% and the top 5 advisors of the target companies at 42.92%. The p-value is 0.48, again indicating that this difference is not statistically significant.

The same process was conducted focusing on the advisors of the acquirers. Table 5 compares the premiums paid in M&A transactions involving the top 5 financial advisors of the acquirers versus advisors outside the top 5.

Table 5: Premium and ranking of advisors of the acquirers

Non-top5 advisor and *Top-5advisor* reflect the investment bank reputation using the Hunter & Jagtiani (2003) approach, which rank financial advisors based on the total deal value. *Premium* is the percentage of the offer price relative to the market price 1 day, 1 week, and 4 weeks prior to the announcement date, as reported by the Refinitiv database.

	Non-top5 advisor	Top-5 advisor	Difference	p-value
Premium 1 day	36.56	34.15	2.41	0.38
Premium 1 week	39.96	37.44	2.52	0.38
Premium 4 weeks	45.15	43.25	1.90	0.55

Across all timeframes, the differences in premiums between transactions involving the top 5 advisors of the acquirers and non-top 5 advisors are not statistically significant. This suggests that the ranking of financial advisors of the acquirers does not have a measurable impact on the premiums paid in M&A transactions. This result is consistent with the findings for the target companies' advisors, further supporting the notion that advisor reputation might not always translate into higher deal valuations.

Table 6 presents a t-test analysis examining the influence of using a top-5 financial advisor on wealth gains for the target and acquirer in M&A transactions.

Table 6: CARs and ranking of advisors of the targets

	Non-top5 advisor	Top-5 advisor	Difference	p-value
Target				
CAR (-1,1)	0.25	0.23	0.02	0.21
CAR (-2,2)	0.26	0.23	0.02	0.16
CAR (-5,5)	0.28	0.25	0.03	0.16
Acquirer				
CAR (-1,1)	(0.02)	(0.03)	0.01	0.24
CAR (-2,2)	(0.02)	(0.03)	0.01	0.27
CAR (-5,5)	(0.02)	(0.03)	0.01	0.27

For the target firm, Cumulative Abnormal Returns (CAR) are slightly higher with non-top-5 advisors across all event windows, but the differences are not statistically significant (p-values > 0.05). Similarly, for the acquiring firm, CARs are marginally better with non-top-5 advisors, yet these differences also lack statistical significance. Thus, there is no significant evidence that employing a top-5 financial advisor affects wealth gains for either the target or the acquirer in M&A deals.

Table 7 presents a t-test analysis to evaluate whether employing a top-5 financial advisor by the acquirer company influences wealth gains for both the target and acquirer in M&A transactions.

Table 7: CARs and ranking of advisors of the acquirers

	Non-top5 advisor	Top-5 advisor	Difference	p-value
Target				
CAR (-1,1)	0.25	0.23	0.02	0.24
CAR (-2,2)	0.26	0.24	0.02	0.26
CAR (-5,5)	0.27	0.25	0.02	0.22
Acquirer				
CAR (-1,1)	(0.02)	(0.02)	(0.00)	0.94
CAR (-2,2)	(0.02)	(0.02)	(0.00)	0.47
CAR (-5,5)	(0.02)	(0.02)	(0.00)	0.80

For the target firm, the Cumulative Abnormal Returns (CAR) show slight differences between using non-top-5 and top-5 advisors across the event windows (-1,1), (-2,2), and (-5,5). These differences are not statistically significant, as indicated by the p-values exceeding 0.05.

For the acquiring firm, the CARs are identical for both non-top-5 and top-5 advisors across all event windows. The differences in CARs are negligible and not statistically significant, with p-values well above 0.05.

In summary, there is no significant statistical evidence that employing a top-5 financial advisor by the acquirer company significantly influences the wealth gains for either the target or the acquirer in M&A transactions.

5. Results and Discussion

5.1. Impact of high-quality advisors on wealth gains in M&A transactions

The results presented in table 8 which include regression analysis on the determinants of CARs for targets, acquirers, and combined CARs across three event windows: (-1, +1), (-2, +2), and (-5, +5), reveal that the reputation of financial advisors, specifically the top-tier status of both acquirer and target advisors (*acq advisor top5* and *targ advisor top5*), does not significantly affect CARs. This finding aligns with the observations by Bowers & Miller (1990) and Rau (2000), challenging the notion that prestigious advisors invariably lead to better M&A outcomes.

Table 8: Cumulative Abnormal Returns - Regression Results

The table contains the regression estimates of Equation (1) for a sample of 870 M&A. *Cumulative Abnormal Returns* (CARs) are calculated using Equation (2) estimated over a 3-day window (-1, +1), a 5-day window (-2, +2), and an 11-day window (-5, +5). The *combined CARs* are calculated based on the approach of Loureiro & Silva (2023), who considered a value-weighted portfolio, with the weights of the bidder and the target based on their respective market capitalizations on the sixth trading day before the initial announcement of the acquisition. *Acquirer-advisor top5* and *target-advisor top5* reflect the investment bank reputation using the Hunter & Jagtiani (2003) approach, which ranks financial advisors based on the total deal value. The *Leverage* ratio is calculated by dividing the total debt a company has by the total assets. The *Market-to-Book* (MTB) ratio is calculated by dividing the market capitalization at fiscal year-end by the total amount of equity that belongs to the shareholders. The *Return on Assets* (ROA) is calculated by dividing the Net Income before Extraordinary Items by the total amount of assets. *Deal value* is the logarithm of the value of the consideration paid to the target firm as reported in the SDC database. *Friendly* is a dummy set equal to 1 if the deal attitude is described as friendly in the SDC database, 0 otherwise. *Relative size* is calculated by dividing the deal value by the acquirer's market value 4 weeks prior to the deal, and then multiplying the result by 100 to convert it to a percentage. *Cash (stock)* payment dummy is equal to 1 if payment with cash (stock), 0 otherwise. Same industry dummy is equal to 1 if the target and acquirer share the same two-digit SIC code, 0 otherwise.

	CAR Target			CAR Acquirer			CAR Combined		
	(-1, +1)	(-2, +2)	(-5, +5)	(-1, +1)	(-2, +2)	(-5, +5)	(-1, +1)	(-2, +2)	(-5, +5)
Acq advsior top5	0.007 (0.016)	0.007 (0.017)	0.007 (0.018)	0.002 (0.006)	0.007 (0.006)	0.002 (0.008)	-0.001 (0.005)	0.003 (0.006)	-0.002 (0.007)
Targ advsior top5	0.010 (0.017)	0.006 (0.018)	0.006 (0.019)	-0.007 (0.006)	-0.008 (0.007)	-0.007 (0.008)	-0.004 (0.006)	-0.005 (0.006)	-0.004 (0.008)
Acq leverage				0.025* (0.015)	0.028* (0.016)	0.016 (0.019)	0.012 (0.015)	0.016 (0.016)	0.009 (0.019)
Targ leverage	-0.002 (0.035)	0.010 (0.035)	-0.006 (0.039)				-0.006 (0.013)	-0.012 (0.014)	-0.024 (0.016)
Acq MtB				-0.001* (0.001)	-0.001 (0.001)	-0.001** (0.001)	-0.001*** (0.001)	-0.001** (0.001)	-0.002** (0.001)
Targ MtB	-0.001	-0.000	-0.001				-0.001	-0.001	-0.001**

	(0.001)	(0.001)	(0.001)				(0.000)	(0.000)	(0.001)
Acq ROA				0.019	0.042	0.018	0.002	0.024	-0.011
				(0.026)	(0.028)	(0.033)	(0.024)	(0.026)	(0.031)
Targ ROA	-0.188***	-0.182***	-0.224***				0.017	0.016	0.013
	(0.036)	(0.037)	(0.040)				(0.012)	(0.013)	(0.016)
Deal value (USD millions)	-0.018***	-0.017***	-0.017***	-0.001	-0.002	-0.003	-0.003	-0.003	-0.003
	(0.005)	(0.006)	(0.006)	(0.002)	(0.002)	(0.002)	(0.002)	(0.002)	(0.002)
Friendly dummy	-0.080	-0.082	-0.056	0.012	0.009	0.018	0.032	0.029	0.042
	(0.068)	(0.069)	(0.075)	(0.025)	(0.027)	(0.031)	(0.022)	(0.024)	(0.029)
Relative size	-0.000**	-0.000***	-0.000**	-0.000	-0.000	-0.000	0.000***	0.000***	0.000***
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Cash payment dummy	0.098***	0.101***	0.095***	0.038***	0.035***	0.030***	0.022***	0.018**	0.015*
	(0.019)	(0.020)	(0.021)	(0.007)	(0.007)	(0.009)	(0.006)	(0.007)	(0.008)
Stock payment dummy	-0.076***	-0.071***	-0.082***	-0.024***	-0.020***	-0.024***	-0.032***	-0.029***	-0.035***
	(0.019)	(0.019)	(0.021)	(0.007)	(0.008)	(0.009)	(0.006)	(0.007)	(0.008)
Same industry dummy	-0.009	-0.014	-0.027	0.007	0.005	-0.001	0.005	0.003	-0.005
	(0.015)	(0.016)	(0.017)	(0.006)	(0.006)	(0.007)	(0.005)	(0.006)	(0.007)
Constant	0.440***	0.444***	0.456***	-0.034	-0.027	-0.016	0.003	0.008	0.011
	(0.078)	(0.080)	(0.088)	(0.029)	(0.031)	(0.036)	(0.026)	(0.029)	(0.034)
Observations	869	869	869	870	870	870	868	868	868
Adjusted R ²	0.103	0.153	0.149	0.092	0.075	0.051	0.103	0.073	0.064

Standard errors in parentheses

*** p<0.01, ** p<0.05, * p<0.1

In contrast, our analysis shows that financial metrics and deal characteristics play a more pronounced role in shaping CARs. For instance, acquirer leverage positively influences acquirer CARs in the short term, particularly within the (-1, +1) and (-2, +2) windows, with significance at the 10% level. This suggests that leveraged acquisitions might be viewed favorably by the market initially, reflecting a perception of aggressive growth strategies. However, this effect diminishes over longer windows, indicating that initial optimism may wane as the market reassesses the deal's long-term implications.

Further scrutiny of acquirer financial metrics reveals a consistent negative impact of the Market-to-Book ratio (MtB) on both acquirer and combined CARs, significant at the 5% and 1% levels. This finding suggests that higher MtB ratios, often indicative of overvaluation, are associated with lower abnormal returns, supporting previous research by Golubov et al. (2012) which posits that market skepticism towards high MTB firms can depress returns. Similarly, a higher Return on Assets (ROA) for targets correlates with lower target CARs, significant at the 1% level, indicating that high profitability in target firms may not translate into higher abnormal returns due to expectations of limited synergetic gains.

Additionally, deal characteristics, such as the value of the transaction, exhibit a significant negative impact on target CARs across all windows. Larger deals might be perceived as riskier or involve overpayment, leading to lower returns for target shareholders, with this impact significant at the 1% level. This observation aligns with findings by studies such as those by Moelle et al. (2004) and Alexandridis et al. (2013), which suggest that high-value transactions often entail greater uncertainty and integration challenges. Such deals can amplify concerns about overpayment and post-merger integration issues, thereby negatively affecting shareholder value.

Payment methods further elucidate the complexity of M&A outcomes. Cash payments have a consistently positive and significant effect on CARs for targets, acquirers, and combined CARs, with significance at the 1% level. This reinforces the market's preference for cash transactions, which are perceived as less risky and provide immediate liquidity benefits. Conversely, stock payments are negatively associated with CARs, significant at the 1% level, likely due to dilution concerns and valuation uncertainty. This aligns with the literature, particularly studies by Maulis & Simsir (2018), which highlight the market's aversion to stock deals due to the potential for unfavorable dilution effects.

The theoretical implications of these findings are manifold. The positive reception of cash payments aligns with signaling theory, where such transactions indicate confidence in the deal's value and lower associated risks. Meanwhile, the negative impact of stock payments and high MTB ratios on CARs reflects agency theory concerns, suggesting potential conflicts of interest and skepticism towards perceived overvaluation. These findings underscore the nuanced nature of market reactions and emphasize the need to consider multiple facets of M&A transactions beyond just advisor reputation.

In conclusion, our analysis reveals that while the reputation of financial advisors does not significantly influence CARs, factors such as payment method, deal value, and the financial metrics of the acquirer and target play crucial roles in determining M&A outcomes. Cash transactions and larger relative size positively impact overall returns, whereas stock payments and higher MTB ratios tend to depress abnormal returns.

To fully grasp the complexities of mergers and acquisitions (M&A) transactions, it is essential to consider a range of influencing factors, particularly the financial intricacies linked to advisory services. Investment banks often highlight their fees as indicative of the quality and value of the advisory support they provide. Recognizing this, I extended my analysis to include the impact of these fees by conducting a regression on the determinants of Cumulative Abnormal Returns (CARs) for targets, acquirers, and combined entities over the event window (-2, +2).

The results from the model, detailed in table 5, provide significant insights into how the inclusion of fees impacts CARs, revealing complexities not captured in the model without fees. For instance, acquirer fees emerge as a critical factor, showing a negative and significant effect on acquirer CARs at the 5% level. This finding suggests that higher fees paid to acquirer advisors leads to lower abnormal returns for acquirers. The market may interpret these fees as indicators of higher transaction costs or less favorable deal terms, which could detract from the expected benefits of the acquisition. This aligns with the concerns raised by Golubov et al. (2012), who highlighted that high advisory costs might introduce inefficiencies that reduce the overall value created in M&A transactions.

Table 9: Cumulative Abnormal Returns included fees - Regression Results

The table contains the regression results for the model added by target fees and acquirer fees. Model (1), (4) and (7) comprise the analysis including only the acquirer fees. Models (2), (5) and (8) comprise the analysis including only the target fees. Models (3), (6) and (9) comprise the analysis including both acquirer and target fees. *Cumulative Abnormal Returns* (CARs) are calculated using Equation (2) estimated over a 5-day window (-2, +2). The *combined CARs* are calculated based on the approach of Loureiro & Silva (2023), who considered a value-weighted portfolio, with the weights of the bidder and the target based on their respective market capitalizations on the sixth trading day before the initial announcement of the acquisition. *Acquirer-advisor top5* and *target-advisor top5* reflect the investment bank reputation using the Hunter & Jagtiani (2003) approach, which ranks financial advisors based on the total deal value. *Acquirer fee* and *target fee* are the amount of fees disclosed by the financial advisors, which are reported by Refinitiv database. The *Leverage* ratio is calculated by dividing the total debt a company has by the total assets. The *Market-to-Book* (MtB) ratio is calculated by dividing the market capitalization at fiscal year-end by the total amount of equity that belongs to the shareholders. The *Return on Assets* (ROA) is calculated by dividing the Net Income before Extraordinary Items by the total amount of assets. *Deal value* is the logarithm of the value of the consideration paid to the target firm as reported in the SDC database. *Friendly* is a dummy set equal to 1 if the deal attitude is described as friendly in the SDC database, 0 otherwise. *Relative size* is calculated by dividing the deal value by the acquirer's market value 4 weeks prior to the deal, and then multiplying the result by 100 to convert it to a percentage. *Cash (stock) payment dummy* is equal to 1 if payment with cash (stock), 0 otherwise. *Same industry dummy* is equal to 1 if the target and acquirer share the same two-digit SIC code, 0 otherwise.

	CAR Target (-2, +2)			CAR Acquirer (-2, +2)			CAR Combined (-2, +2)		
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Acq advsisor top5	-0.020 (0.025)	-0.004 (0.019)	-0.014 (0.024)	0.013 (0.014)	0.010 (0.007)	0.017 (0.014)	0.005 (0.014)	0.006 (0.007)	0.010 (0.013)
Targ advsisor top5	0.024 (0.026)	0.023 (0.020)	0.028 (0.025)	0.003 (0.015)	-0.010 (0.008)	-0.001 (0.015)	-0.000 (0.014)	-0.005 (0.007)	-0.003 (0.014)
Acq fees	-0.003 (0.003)		-0.009** (0.004)	-0.001 (0.002)		-0.005** (0.002)	-0.001 (0.002)		-0.005** (0.002)
Targ fees		0.025*** (0.008)	0.030*** (0.008)		0.011*** (0.003)	0.019*** (0.005)		0.013*** (0.003)	0.022*** (0.005)
Acq leverage				-0.033 (0.036)	0.007 (0.018)	-0.054 (0.036)	-0.074* (0.040)	-0.004 (0.018)	-0.087** (0.039)
Targ leverage	-0.009 (0.056)	-0.005 (0.039)	-0.037 (0.053)				0.014 (0.036)	-0.012 (0.015)	-0.001 (0.034)
Acq MtB				-0.003**	-0.001	-0.003*	-0.003*	-0.001*	-0.002*

				(0.001)	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)
Targ MtB	-0.004	-0.001	-0.005*				-0.003*	-0.001**	-0.004**
	(0.003)	(0.002)	(0.003)				(0.002)	(0.001)	(0.002)
Acq ROA				0.073	0.046	0.072	0.026	0.015	0.015
				(0.050)	(0.032)	(0.050)	(0.050)	(0.030)	(0.049)
Targ ROA	0.075	-0.169***	0.095*				0.079**	0.032**	0.096***
	(0.059)	(0.040)	(0.056)				(0.035)	(0.015)	(0.034)
Deal value (USD millions)	-0.025***	-0.012*	-0.024***	-0.001	0.001	0.002	-0.005	-0.001	-0.002
	(0.008)	(0.007)	(0.008)	(0.005)	(0.003)	(0.005)	(0.004)	(0.002)	(0.005)
Friendly dummy	-0.236***	-0.083	-0.140**	-0.019	-0.001	-0.035	-0.001	0.014	-0.013
	(0.070)	(0.081)	(0.071)	(0.040)	(0.032)	(0.043)	(0.038)	(0.029)	(0.039)
Relative size	-0.000	-0.000**	-0.000	0.000	0.000	0.000	0.000***	0.000***	0.000***
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Cash payment dummy	0.065	0.099***	0.061	0.075***	0.037***	0.087***	0.037	0.017**	0.054**
	(0.045)	(0.022)	(0.047)	(0.026)	(0.008)	(0.028)	(0.025)	(0.008)	(0.027)
Stock payment dummy	-0.076***	-0.093***	-0.075***	0.005	-0.018**	0.005	-0.012	-0.029***	-0.010
	(0.023)	(0.021)	(0.022)	(0.014)	(0.008)	(0.013)	(0.013)	(0.008)	(0.012)
Same industry dummy	-0.027	-0.013	-0.031	0.003	0.009	0.009	-0.002	0.005	0.002
	(0.023)	(0.017)	(0.022)	(0.013)	(0.007)	(0.013)	(0.012)	(0.006)	(0.012)
Constant	0.632***	0.397***	0.514***	-0.027	-0.051	-0.043	0.060	-0.005	0.039
	(0.090)	(0.096)	(0.090)	(0.052)	(0.037)	(0.054)	(0.050)	(0.034)	(0.051)
Observations	261	708	247	261	709	247	261	708	247
Adjusted R ²	0.103	0.103	0.103	0.103	0.103	0.103	0.103	0.103	0.103

Standard errors in parentheses
*** p<.01, ** p<.05, * p<.1

Additionally, acquirer fees negatively impact combined CARs, also significant at the 5% level. This reinforces the notion that high advisory fees for acquirers can be viewed negatively, potentially reflecting inefficiencies or cost burdens that offset potential synergies. This perspective is supported by research from Bao and Edmans (2011), who found that higher advisory fees might not always correlate with improved deal quality and could instead reflect higher costs that detract from value creation.

Conversely, target fees present a different narrative. The analysis reveals that target fees have a significant positive effect on target CARs, significant at the 1% level. This implies that higher fees paid to target advisors are associated with better returns for target shareholders. This outcome can be attributed to the notion that well-compensated advisors are more effective in negotiating favorable terms or extracting greater value for their clients. This finding aligns with the conclusions drawn by Allen et al. (2000), who noted that high-quality advisory services are often reflected in the fees charged and are crucial for achieving favorable deal outcomes for target firms.

In conclusion, the analysis incorporating advisory fees reveals critical insights into their role in M&A outcomes. While the reputation of financial advisors does not significantly influence CARs, the fees associated with their services provide a nuanced understanding of their impact. High advisory fees for acquirers are associated with reduced returns, reflecting potential cost burdens, while higher fees for target advisors correlate with improved returns, indicating effective advisory contributions. These findings underscore the importance of considering advisory fees alongside traditional financial metrics and deal characteristics to gain a comprehensive understanding of M&A performance, emphasizing the nuanced interplay between advisory costs and deal success.

5.2. The impact of high-quality advisors premium paid

Understanding the factors influencing acquisition premiums in mergers and acquisitions (M&A) requires an examination of various determinants, particularly the role of financial advisors and other deal characteristics. Investment bankers play a crucial role in negotiating acquisition premiums, as highlighted by Eccles and Crane (1988) and Haunschild (1994). Premiums, defined as additional payments over the market value, often necessitate enhanced post-acquisition performance to justify the investment, as Sirower (1997) notes.

Table 10 presents our regression results, which investigates the determinants of premiums across different time windows (one day, one week, and four weeks), providing significant

insights into how various factors influence acquisition premiums. This model evaluates the impact of advisor roles, target sales growth, deal value, and payment methods on premiums, offering a comprehensive view of the dynamics at play.

Table 10: Premium - Regression Results

This table includes the regression results for the second hypothesis. *Premium* is the percentage of the offer price relative to the market price 1 day, 1 week, and 4 weeks prior to the announcement date, as reported by the Refinitiv database. *Acquirer-advisor top5* and *target-advisor top5* reflect the investment bank reputation using the Hunter & Jagtiani (2003) approach, which ranks financial advisors based on the total deal value. The *sales growth* is calculated by dividing the difference between the total sales revenue in the current period and the total sales revenue in the previous period by the total sales revenue in the previous period. *Deal value* is the logarithm of the value of the consideration paid to the target firm as reported in the SDC database. *Friendly* is a dummy set equal to 1 if the deal attitude is described as friendly in the SDC database, 0 otherwise. *Relative size* is calculated by dividing the deal value by the acquirer's market value 4 weeks prior to the deal, and then multiplying the result by 100 to convert it to a percentage. *Cash (stock)* payment dummy is equal to 1 if payment with cash (stock), 0 otherwise. Same industry dummy is equal to 1 if the target and acquirer share the same two-digit SIC code, 0 otherwise

	Premium 1day	Premium 1 week	Premium 4 weeks
Acquirer advsisor top5	0.029 (2.807)	0.738 (2.884)	1.720 (3.254)
Target advsisor top5	2.832 (3.000)	2.036 (3.082)	2.010 (3.477)
Target sales gr	0.445 (3.040)	1.061 (3.123)	3.011 (3.523)
Deal value (USD millions)	-2.353*** (0.883)	-2.887*** (0.907)	-3.117*** (1.023)
Friendly dummy	-10.390 (11.618)	-4.717 (11.935)	-10.160 (13.464)
Relative size	-0.011 (0.019)	-0.005 (0.020)	-0.016 (0.023)
Cash payment dummy	4.947 (3.217)	4.983 (3.305)	7.600** (3.728)
Stock payment dummy	-6.857** (3.292)	-7.637** (3.382)	-6.980* (3.815)
Same industry dummy	-0.691 (2.647)	-2.155 (2.720)	-0.738 (3.068)
Constant	61.858*** (13.356)	63.960*** (13.721)	74.173*** (15.479)
Observations	863	863	863
Adjusted R ²	0.017	0.021	0.023

Standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

The involvement of top-tier financial advisors, either for the acquirer or the target, does not significantly impact the premiums paid, as indicated by the non-significant coefficients for *Acq advisor top5* and *Targ advisor top5* across all time windows. This finding challenges the notion

that the reputation of financial advisors directly correlates with higher deal valuations, aligning with studies by Bowers & Miller (1990) and Rau (2000), which suggest that advisor reputation might not always translate into increased premiums.

The analysis reveals that deal value has a consistently significant negative impact on premiums across all time windows, with significance at the 1% level. Larger deals are associated with lower premiums, suggesting that these transactions are perceived as riskier or involve greater uncertainty. This finding aligns with the conclusions of Moeller et al. (2004), who noted that larger deals often come with complexities and integration challenges that lead to more conservative premium valuations.

Further, the analysis of payment methods reveals significant insights into their impact on premiums. Cash payments have a positive effect on premiums, particularly becoming significant at the 5% level in the four-week window. This suggests that cash transactions are viewed more favorably over longer periods, providing immediate value and reducing perceived transaction risks. This observation aligns with the findings of Maulis & Simsir (2018), who noted the market's preference for cash transactions due to their immediacy and lower risk.

Conversely, stock payments consistently have a negative and significant impact on premiums across all windows, with significance at the 5% level for the one-day and one-week windows, and at the 10% level for the four-week window. This indicates that stock payments are less favorable, likely due to concerns about dilution and valuation uncertainty. These results corroborate the findings of Rau (2000) and Bao & Edmans (2009), who documented that stock-financed deals often face skepticism due to potential dilution effects and complex valuation challenges.

In conclusion, the analysis of acquisition premiums in M&A transactions demonstrates that while the reputation of financial advisors does not significantly impact premiums, factors such as deal value and payment methods play crucial roles. Larger deals are associated with lower premiums, likely due to perceived risks and complexities, while cash payments tend to be favored, leading to higher premiums over longer periods.

The regression presented in table 11 includes the fees paid to advisors by both the acquirer and the target. By adding these fees, we can better see how the costs of using financial advisors affect the premiums. This approach helps us get a clearer picture of the real factors that influence how much extra is paid in these deals.

Table 11: Premium model included fees – Robust model

Table 11 includes the regression results for a sample of 245 deals from 1994 to 2022. *Premium* is the percentage of the offer price relative to the market price 1 day, 1 week, and 4 weeks prior to the announcement date, as reported by the Refinitiv database. *Acquirer-advisor top5* and *target-advisor top5* reflect the investment bank reputation using the Hunter & Jagtiani (2003) approach, which ranks financial advisors based on the total deal value. The *sales growth* is calculated by dividing the difference between the total sales revenue in the current period and the total sales revenue in the previous period by the total sales revenue in the previous period. *Acquirer fee* and *target fee* are the amount of fees disclosed by the financial advisors, which are reported by Refinitiv database. *Deal value* is the logarithm of the value of the consideration paid to the target firm as reported in the SDC database. *Friendly* is a dummy set equal to 1 if the deal attitude is described as friendly in the SDC database, 0 otherwise. *Relative size* is calculated by dividing the deal value by the acquirer's market value 4 weeks prior to the deal, and then multiplying the result by 100 to convert it to a percentage. *Cash (stock)* payment dummy is equal to 1 if payment with cash (stock), 0 otherwise. Same industry dummy is equal to 1 if the target and acquirer share the same two-digit SIC code, 0 otherwise.

	Premium 1day	Premium 1 week	Premium 4 weeks
Acq advsisor top5	-6.212* (3.708)	-4.135 (4.309)	-4.167 (4.593)
Targ advsisor top5	0.420 (4.493)	0.443 (5.007)	-1.329 (5.497)
Targ sales gr	2.038 (7.641)	1.044 (6.997)	-3.025 (9.335)
Targ fees	12.033** (5.405)	9.190* (5.410)	13.190** (6.365)
Acq fees	-11.303** (4.669)	-9.103* (4.629)	-11.499** (5.335)
Deal value (millions USD)	-4.553** (2.233)	-5.041** (2.172)	-4.697* (2.420)
Friendly dummy	-7.607 (12.396)	-3.495 (9.277)	-14.843 (15.666)
Relative size	-0.020 (0.030)	-0.023 (0.027)	-0.031 (0.032)
Cash payment dummy	-10.708 (7.748)	-6.691 (8.552)	6.888 (9.568)
Stock payment dummy	-19.838*** (5.328)	-19.694*** (5.369)	-18.755*** (5.722)
Same industry dummy	-4.753 (4.894)	-7.435 (4.997)	-8.936* (5.399)
Constant	85.721*** (19.120)	89.291*** (17.059)	101.529*** (22.147)
Observations	245	245	245
Adjusted R ²	0.103	0.103	0.103

Robust standard errors in parentheses

*** p<0.01, ** p<0.05, * p<0.1

The comparison between the model that includes advisory fees and the one that does not reveal notable differences in how premiums are assessed in mergers and acquisitions (M&A). Incorporating advisory fees provides deeper insights into their impact on premium valuation, enhancing our understanding of the dynamics at play in these transactions.

Firstly, the model with fees integrates both target and acquirer advisory fees, demonstrating that these costs significantly affect premium determination. Higher fees for target advisors are associated with increased premiums, while higher fees for acquirers correlate with lower premiums. This finding contrasts with the model without fees, where the influence of advisory costs is not considered, resulting in a simpler analysis that overlooks the direct financial implications of hiring advisory services. Therefore, the model with fees highlights the critical role that the costs of financial advisory services play in negotiating and finalizing premium values.

The influence of financial advisor reputation, specifically the top-tier status of both acquirer and target advisors, does not significantly affect premiums in either model. This suggests that the market does not necessarily reward the involvement of high-status advisors with higher premiums, pointing to the notion that advisor reputation alone is insufficient to drive premium changes. This result aligns with previous findings by Bowers & Miller (1990) and Rau (2000), which similarly noted that the perceived quality or status of financial advisors does not directly correlate with premium outcomes.

6. Conclusion

In this dissertation, I conducted a thorough analysis to assess the impact of high-ranking financial advisors on the premiums paid and cumulative abnormal returns (CARs) in mergers and acquisitions (M&A) transactions, focusing on U.S. deals from 1994 to 2022. The primary aim was to determine whether the involvement of top-5 advisors significantly influences premiums and market reactions, as measured through CARs.

The investigation revealed that the reputation of the top-5 financial advisors does not significantly affect the premiums paid in M&A transactions. Although initial univariate comparisons suggested a slightly lower mean premium of 37.66% for transactions involving top-5 advisors compared to 41.09% for non-top 5 advisors, the multivariate and univariate regression analysis did not substantiate these initial observations. The observed mean difference of 3.43 percentage points was statistically insignificant, with a t-statistic of 0.9701

and a p-value of 0.3323. This finding challenges the assumption that higher advisor prestige leads to better deal terms or significantly different premiums.

Despite the insignificance of advisor reputation, the analysis underscored that financial metrics and deal characteristics are crucial in determining premiums. Specifically, larger deal sizes consistently exhibited a significant negative impact on premiums across all time windows, indicating that these transactions are perceived as riskier and more complex, leading to more conservative premium valuations. Payment methods emerged as a key factor, with cash payments positively associated with higher premiums, especially over a longer four-week window. This reflects the market's preference for immediate value and reduced risk linked to cash transactions. Conversely, stock payments had a negative impact on premiums due to concerns about dilution and valuation uncertainty.

In addition to premiums, the analysis of CARs indicated that the involvement of top-5 advisors did not significantly affect the CARs for targets, acquirers, or combined entities over the event windows analyzed $(-1, +1)$, $(-2, +2)$, and $(-5, +5)$. The coefficients for top-5 advisors were statistically insignificant, with values close to zero, suggesting that advisor reputation does not significantly influence abnormal returns.

The market's reaction to M&A announcements, as captured by CARs, was more strongly influenced by financial metrics and deal-specific factors. Acquirer leverage had a positive short-term effect on CARs, particularly in the $(-1, +1)$ and $(-2, +2)$ windows, reflecting initial market optimism towards leveraged acquisitions, although this effect diminished over longer periods. Higher market-to-book (MTB) ratios for acquirers were negatively associated with CARs, suggesting market skepticism towards firms with higher valuations, likely due to overvaluation concerns. Additionally, targets with higher return on assets (ROA) experienced lower CARs, reflecting expectations of limited synergetic gains from highly profitable target firms. Payment methods also played a significant role, with cash payments positively influencing CARs for both acquirers and targets, reinforcing the market's preference for cash transactions due to their immediacy and reduced perceived risk. Conversely, stock payments were negatively associated with CARs, indicating concerns about dilution and valuation challenges.

In summary, the findings of this dissertation challenge the conventional view that the reputation of top-5 financial advisors significantly impacts premiums and abnormal returns in M&A transactions. Instead, financial metrics and deal-specific characteristics, such as deal

value and payment methods play more critical roles in shaping premiums and CARs. Larger deals are associated with lower premiums due to perceived risks, while cash payments positively influence premiums and CARs, aligning with market preferences for liquidity and reduced risk.

These results highlight the need for a holistic approach in evaluating M&A outcomes, considering a range of financial and deal-specific factors beyond advisor reputation. By providing empirical evidence on the nuanced determinants of premiums and abnormal returns, this dissertation contributes to a broader understanding of M&A dynamics and offers valuable insights for academics and practitioners involved in corporate acquisitions. The findings enhance the comprehension of the factors influencing premiums and CARs in M&A transactions and provide empirical insights into the relative insignificance of financial advisor reputation compared to other critical deal-specific factors.

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Appendices

Appendix A - Correlation Matrix for all variables used

Appendix A: Correlation matrix (continued)

Variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)
(1) Acq advisor top5	1.000												
(2) Targ advisor top5	0.171	1.000											
(3) Targ leverage	0.031	0.047	1.000										
(4) Targ MTB	0.028	0.068	-0.136	1.000									
(5) Targ ROA	0.106	0.109	-0.050	-0.041	1.000								
(6) Targ sales gr	-0.023	0.015	-0.075	0.120	-0.033	1.000							
(7) CAR target (-1,+1)	-0.040	-0.043	-0.066	-0.012	-0.217	-0.029	1.000						
(8) CAR target (-2,+2)	-0.039	-0.047	-0.058	-0.004	-0.210	-0.030	0.978	1.000					
(9) CAR target (-5,+5)	-0.042	-0.048	-0.061	-0.014	-0.228	-0.010	0.927	0.947	1.000				
(10) Acq leverage	0.069	0.052	0.422	-0.092	0.113	-0.085	-0.087	-0.087	-0.095	1.000			
(11) Acq MTB	0.080	0.034	-0.081	0.203	-0.028	0.122	0.000	0.007	0.017	-0.039	1.000		
(12) Acq ROA	0.119	0.149	0.037	-0.005	0.285	0.004	0.051	0.061	0.040	-0.008	0.067	1.000	
(13) Acq sales gr	-0.055	-0.013	0.034	0.021	-0.003	0.269	-0.126	-0.133	-0.095	0.008	0.114	-0.086	1.000
(14) CAR acq (-1,+1)	0.003	-0.040	-0.012	-0.047	0.011	-0.043	0.168	0.167	0.154	0.033	-0.069	0.087	-0.144
(15) CAR acq (-2,+2)	0.025	-0.037	-0.029	-0.050	0.013	-0.033	0.162	0.180	0.165	0.031	-0.056	0.105	-0.127
(16) CAR acq (-5,+5)	-0.008	-0.040	-0.051	-0.076	-0.004	-0.011	0.131	0.147	0.189	-0.001	-0.072	0.058	-0.040
(17) Combined CAR (-1,+1)	-0.022	-0.027	-0.003	-0.066	0.058	-0.057	0.325	0.316	0.287	0.060	-0.131	0.029	-0.162
(18) Combined CAR (-2,+2)	-0.002	-0.025	-0.011	-0.058	0.066	-0.043	0.300	0.325	0.293	0.058	-0.119	0.053	-0.148
(19) Combined CAR (-5,+5)	-0.029	-0.026	-0.023	-0.084	0.038	-0.023	0.239	0.262	0.311	0.032	-0.119	0.015	-0.053
(20) Premium 4w	-0.020	-0.024	-0.083	0.037	-0.249	0.016	0.503	0.520	0.555	-0.069	0.100	-0.036	-0.013
(21) Premium 1w	-0.030	-0.024	-0.069	-0.006	-0.230	-0.002	0.622	0.631	0.662	-0.090	0.060	-0.072	-0.041
(24) Premium 1d	-0.030	-0.009	-0.086	-0.002	-0.226	-0.009	0.647	0.632	0.634	-0.079	0.065	-0.086	-0.042
(25) Deal value (millions USD)	0.294	0.415	0.197	0.085	0.332	-0.035	-0.193	-0.188	-0.187	0.163	0.076	0.298	-0.022
(26) Relative size	-0.023	-0.007	0.009	0.025	-0.034	0.032	-0.018	-0.017	-0.004	-0.008	-0.010	-0.012	0.038
(27) Friendly dummy	-0.002	0.036	0.156	-0.018	0.101	-0.029	-0.186	-0.191	-0.180	0.223	-0.053	-0.115	0.046
(28) Cash payment dummy	-0.028	-0.017	-0.232	0.054	-0.011	-0.065	0.302	0.300	0.278	-0.128	0.020	0.199	-0.130
(29) Stock payment dummy	-0.036	-0.089	-0.059	0.029	-0.045	0.171	-0.221	-0.213	-0.206	-0.060	0.065	-0.246	0.139
(30) Same industry dummy	0.070	-0.036	0.068	-0.094	0.036	-0.026	-0.062	-0.071	-0.091	0.118	-0.053	0.012	-0.051

Appendix A: Correlation matrix (continued)

Variables	(13)	(14)	(15)	(16)	(17)	(18)	(19)	(20)	(21)	(22)	(23)	(24)	(25)	(26)	(27)	(28)
(1) Acq advsisor top5																
(2) Targ advsisor top5																
(3) Targ leverage																
(4) Targ MTB																
(5) Targ ROA																
(6) Targ sales gr																
(7) CAR target (-1,+1)																
(8) CAR target (-2,+2)																
(9) CAR target (-5,+5)																
(10) Acq leverage																
(11) Acq MTB																
(12) Acq ROA																
(13) Acq sales gr	1.000															
(14) CAR acq (-1,+1)	-0.144	1.000														
(15) CAR acq (-2,+2)	-0.127	0.921	1.000													
(16) CAR acq (-5,+5)	-0.040	0.732	0.795	1.000												
(17) Combined CAR (-1,+1)	-0.162	0.833	0.762	0.596	1.000											
(18) Combined CAR (-2,+2)	-0.148	0.776	0.841	0.660	0.931	1.000										
(19) Combined CAR (-5,+5)	-0.053	0.623	0.680	0.869	0.751	0.808	1.000									
(20) Premium 4w	-0.013	0.009	0.015	0.015	0.090	0.091	0.089	1.000								
(21) Premium 1w	-0.041	-0.019	-0.004	0.000	0.115	0.120	0.114	0.836	1.000							
(24) Premium 1d	-0.042	-0.013	-0.006	-0.021	0.143	0.132	0.091	0.782	0.951	1.000						
(25) Deal value (millions USD)	-0.022	-0.037	-0.037	-0.061	-0.018	-0.012	-0.025	-0.120	-0.120	-0.100	1.000					
(26) Relative size	0.038	0.016	0.016	0.027	0.008	0.005	0.015	-0.017	-0.008	-0.024	-0.042	1.000				
(27) Friendly dummy	0.046	-0.086	-0.106	-0.107	0.135	0.115	0.118	-0.063	-0.044	-0.047	0.186	-0.166	1.000			
(28) Cash payment dummy	-0.130	0.274	0.246	0.205	0.157	0.132	0.109	0.123	0.110	0.107	-0.110	-0.006	-0.275	1.000		
(29) Stock payment dummy	0.139	-0.234	-0.203	-0.174	-0.231	-0.199	-0.173	-0.092	-0.099	-0.097	-0.126	0.027	0.078	-0.457	1.000	
(30) Same industry dummy	-0.051	0.023	0.013	-0.023	0.022	0.011	-0.027	-0.019	-0.032	-0.015	0.033	-0.009	0.071	-0.129	0.028	1.000