



The impact of domestic advisors on M&A transactions

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Abstract

This study analyses the impact of domestic advisors on M&A transactions. The impact of investment banks on M&A transactions has been studied since 1990 and the main discussion has been the impact of advisors' reputation on the Cumulative Abnormal Returns (CARs) of the acquirer.

There is gap in the literature in terms of domestic advisors and the period of analysis of post-financial crisis. This study will attempt to fill this gap by testing the impact of domestic advisors on M&A transactions during the period 2008-2015.

The main findings of this study suggest that domestic advisors on the target side have a positive impact on returns earned by the acquirer. Our findings suggest that an acquirer should be advised by a mixed team with, at least, one domestic advisor and one top-tier advisor, in order to maximise their returns.

The results of our study may be useful for acquiring firms, suggesting that domestic advisors could have relevant and value-added specific expertise in their countries regarding M&A transactions.

Key words: Financial Advisor, Reputation, Gains, Mergers and acquisitions.

JEL classification: G24, G34

Abstract in Portuguese

Este estudo visa analisar o impacto de assessores domésticos nas transacções de fusões e aquisições. O impacto dos bancos de investimento nas fusões e aquisições tem sido alvo de estudo desde 1990 e a principal discussão prende-se com o impacto da reputação dos assessores nos retornos da empresa adquirente.

Existe um *gap* na literatura em termos de assessores domésticos e o período de análise pós-crise. Este estudo irá completar este *gap* testando o impacto dos assessores domésticos nas fusões e aquisições durante o período 2008-2015.

Os principais resultados deste estudo indicam que os assessores domésticos da empresa alvo têm um positivo impacto nos retornos da empresa adquirente. Os nossos resultados sugerem que uma empresa adquirente deve constituir uma equipa de assessores mista com, pelo menos, um assessor doméstico e um assessor *top-tier*, de forma a maximizar os retornos.

Os resultados deste estudo poderão ser úteis para as empresas adquirentes, sugerindo que os assessores domésticos têm um conhecimento especializado no que diz respeito aos seus países que acrescenta valor no domínio das fusões e aquisições.

Palavras chave: Financial Advisor, Reputation, Gains, Mergers and acquisitions.

Classificação JEL: G24, G34

Biographical Note

Nuno Alves was born in 1990 in Portugal. He completed a bachelor's degree in Economics at the University of Minho with one semester exchange programme spent at the University of Economics and Innovation in Lublin, Poland.

After completing the bachelor's degree, he had an internship at Efacec and work experience as a financial consultant at Inovamais. During these work experience periods, he demonstrated a strong interest in corporate finance and decided to pursue his studies in Master in Finance at University of Porto.

As a result of the excellent technical and soft skills acquired during the Master in Finance, he is currently working in Venture Capital, in London.

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1. Introduction

There is a strong interest in the literature regarding advisor reputation and their impact on M&A transactions. The impact on transactions is usually measured by Cumulative Abnormal Returns (CARs) of the acquirer. The first studies (Bowers and Miller, 1990; Micheal *et al.*, 1991; Servaes and Zenner, 1996; Rau, 2000) found no evidence of the impact of advisor reputation, e.g. firms advised by top-tier advisors do not generate greater returns than otherwise. However, Kale *et al.* (2003) changed this paradigm, introducing different methodologies to measure the reputation and returns, and concluded that advisor reputation has an impact on returns.

This study will attempt at filling a gap in the literature in terms of domestic advisors and the period of analysis (post-financial crisis). The recent studies support the results of Kale *et al.* (2003) but they only focus on top-tier advisors, non-top tier advisors, in-house transactions and boutiques. This study will complement the literature with the impact of domestic advisors on M&A transactions during the period 2008-2015 (post-financial crisis). The period of analysis is important because the most recent study covers a period up only until 2009 and there is still a lack of studies that analyse the post-financial crisis.

In order to test the impact of domestic advisors on M&A transactions we used a sample of 481 transactions between listed companies only. We examined our hypothesis using ordinary least squares (OLS) with Cumulative Abnormal Returns as the dependent variable.

The results of this study seem to prove that domestic advisors on the target side have a positive impact on returns earned by the acquirer and suggest that an acquirer should create a mixed team of advisors with, at least, one domestic advisor and one top-tier advisor, in order to maximise their returns.

The remainder of the study is organised as follows: section 2 will present the literature review, which includes theoretical background, main theories, characteristics of previous studies, hypotheses and testable empirical implications. Section 3 will present the data and methodological aspects of our study. The last section of this study includes the results and conclusions where the main findings are summarised.

2. Theoretical background, literature review and hypotheses development

In this section we will cover the previous studies on the relation between advisor reputation and abnormal returns earned by acquirers. This part will conclude with hypotheses development.

2.1. Overview

Mergers and Acquisitions (M&A) is one of the most important activities in corporate finance because it involves vast amounts of money and can have a huge impact on the companies involved and the economy. Lehn and Zhao (2006) argued that a bad acquisition increases the CEO's risk of being fired.

The total M&A deals in 2014 amounted to 3.5 trillion dollars worldwide which represents very significant investments in many different countries.

Investment banks, acting as financial advisors, are important players in the M&A market because they provide relevant services to support the firms' decisions and they also have a significant interest in this market due to the high amounts of advisory fees paid by the companies.

2.2. Theoretical background

The first models with the relationship between reputation, quality, and price were proposed in the classic work of Klein and Leffler (1981), Shapiro (1983), and Allen (1984). These models are based on a scenario in which a producer sells its products in the market. When the quality of the product can only be observed after the purchase, a signal of high quality is assessed with a premium price. Basically, this premium exists to compensate the seller for the resources expended in creating its reputation.

These models are related to product markets but are also applicable to the case of investment banking services. The quality of these services is assessed with the track record and/or performance of each investment bank. The investment banks need to sell their services to the clients and they use this information to improve their chances to

become the advisor for a specific transaction. Chemmanur and Fulghieri (1994) proposed a model in which they estimated this relationship, specifically for the investment banking function, concluding that high-reputation investment banks provide higher-quality services and charge higher fees.

2.3. Main theories –Advisors reputation on M&A transactions

In the literature, the relationship between investment banks and M&A transactions has been studied since 1990 and the aim of each study is to find empirical evidence of advisor reputation on M&A transactions.

The first empirical studies regarding this topic found no evidence between financial advisors' reputation and the returns earned by acquirers. Bowers and Miller (1990) found no evidence between the market value and the choice of investment banks by either acquirer or target. However, their results seem to prove that the total wealth gained from the transaction is greater when both (acquirer and target) employ first-tier investment banks. Michel *et al.* (1991) concluded that Drexel Burnham Lambert, the least prestigious investment bank in their sample, achieves better Cumulative Abnormal Returns (CARs) than the 'bulge bracket' banks¹. With these results they argued that the reputation of investment banks is not related to performance. Servaes and Zenner (1996) had a similar conclusion when they examined the role of investment banks in U.S. transactions, analysing the main determinants to choose an investment bank, over the period 1981 to 1992.

Despite the similar conclusion, Rau (2000) stated that it was important to define the bank market share, one measure of reputation, which he concluded as being positively related to the success fees charged by the bank and the percentage of deals completed in the past. According to this study, the author argued that the bank market share is not related with the performance of acquirers that the bank has advised in the past.

Kale *et al.* (2003) published the first study that found evidence between financial advisor reputation and wealth gains in a corporate takeover context. Their work was

¹ Term used in the literature to describe the most prestigious and profitable investment banks

essential to introduce and discuss different approaches and methodologies for reputation, in which they defined a measure of the relative reputation of the advisor, i.e. the ratio of reputation of the acquirer advisor to reputation of the target advisor. The relative reputation of the advisor takes into account the bargaining effect. They concluded that the absolute and proportional wealth gains are higher when the companies have more prestigious advisors. The second study that found evidence between financial advisor reputation and returns earned by acquirer was published by Ismail (2010). This work showed evidence that the target seems to generate larger gains with tier-one investment banks. Additionally, the author concluded that if a prestigious advisor is at least on one side of an M&A transaction, this results in higher combined wealth gains.

With a different methodology than previous studies, Bao and Edmans (2011) concluded that investment banks matter for M&A outcomes. They identified a significant bank fixed effect on acquirers' returns. Basically, they argued that some banks are better than others at creating value for their clients. The authors criticised the previous studies because these attributed a deal's CAR entirely to the bank but if one does not have a link between financial advisor reputation (market share) and outcomes, it does not mean that banks do not matter for M&A outcomes. In their study, the authors attributed the entire CAR to the role of investment banking (for example, bank-initiated deal/standard client-initiated deal/fixated client deal/passive-execution). Additionally, they argued that clients can predict the positive association between some banks and high returns using past performance.

Andrey *et al.* (2012) studied different types of acquisitions separately because they argued that reputation is not equal among all transactions and "its effect is more pronounced in situations that create relatively larger reputational exposure", e.g. public acquisitions require more skills on the part of the advisors because the transaction between two public firms is more complex (due to regulatory approvals, public information, etc.) than unlisted firms. Based on these arguments, they concluded that advisor reputation is more important in acquisitions of listed firms than unlisted firms.

Finally, in recent years the popularity of "boutique" advisors has grown because they are known for their independence as financial advisors and for their expertise in certain

sectors or industries. Song and Wei (2013) published the first study that compares the characteristics of a deal between boutique advisors and full-service banks². They concluded that the use of boutique advisors tends to be verified in the following three conditions: 1) when the deal is small; 2) when the transaction is hostile; and 3) when it is a stock transaction as opposed to a pure cash offer. In terms of expertise and specialisation in a certain industry, they identified these characteristics in deals advised by a team composed of both advisors (boutique advisors and full-service advisors).

In our study we expect to find evidence of a relationship between domestic advisors and returns earned by acquirers because these advisors know the regulatory requirements in detail, the economy and the business culture of their country, among other factors.

2.4. Characteristics of previous studies

As noted earlier, several authors examined the impact of financial advisor reputation on M&A transactions. The following tables show an overview of characteristics of the previous studies that found evidence about the impact (or no impact) of the reputation on M&A transactions, including the period of analysis, sample size, methods and dependent variables.

Table 1. Previous studies that found no relation between financial advisors reputation and acquirer returns on M&A transactions

Authors and year	Period	Sample	Methods	Dependent Variables
Bowers and Miller (1990)	1981-1986	114 transactions	Multiple regressions	Target Firm (First-Tier or Second-Tier), Bidding firm (First-Tier or Second-Tier), Av. Market value of Equity, Abnormal Returns
Micheal, Shaked and Lee (1991)	1981-1988	112 are acquired firms 81 are acquirers	Multiple regressions	CARs Av. Deal size Investment Banks

²Designation for standard investment banks that have all activities as sales, trading, underwriting, research, and lending (Song and Wei, 2013)

Servaes and Zenner (1996)	1981-1992	198 transactions	Multiple regressions	Type of acquisition, Hostile, Acquirer not first bidder, Cash payment, Deal size, Relative size, Number of prior acquisitions, Related 3-digit, Number of SICs of target, Insider ownership
Rau (2000)	1980-1994	2.683 mergers and 483 tender offers	Multiple regressions	Type of advisor (bulge, major, third-tier, not ranked), CARs, Completed deals, Hostile deals, Challenged deals, Stock financed deals

Table 1 presents the characteristics of the previous studies that found no relation between financial advisors' reputation and acquirer returns on M&A transactions. We use this table to summarise the studies in terms of the period of analysis, the number of observations/sample, the methodologies and all variables included in the model.

Table 2. Previous studies that that found relation between financial advisors' reputation and acquirer returns on M&A transactions

Authors and year	Period	Sample	Methods	Dependent Variables
Jayant R. Kale, Omesh Kini, and Hariey E. Ryan, Jr. (2003)	1981-1994	324 transactions	Multiple regressions	Dollar-denominated wealth gains, Strategic, Complexity, Hostile Target, Offer Includes Stock, Multiple Bidders, Bidder Toehold (%), Target insider, Ownership (%), Bidder Insider, Ownership (%), Target (Bidder) Size, Target Size (\$ m.), Bidder Size (\$ m.), Target Prior Experience, Bidder Prior Experience, Related Business, No. Target SIC codes, No. Bidder SIC codes
Ismail (2010)	1985-2004	6.379 U.S. M&A deals	OLS regression	Abnormal dollar gains, Deal size, Type of advisor (tier-one, tier-two, undisclosed or in-house), Shares or cash, Public or private, Industry relatedness, National, Hostile, Relative size, Toehold
Bao and Edmans (2011)	1980-2007	15.344 deals	Bank fixed effects	CARs, Tobin's Q, Runup, Leverage, FCF, Size (Total assets), Herfindahl, Sellexp (selling expenses over sales), Inst (common shares owned by institutions), Opperf

				(operating performance), Insider ownership, AcqSIC (acquirer SIC code), Repeat acquirer
Andrey, Petmezas, and Travlos (2012)	1996-2009	4.803 deals	OLS Regression	Type of advisor (top-tier or non-top-tier), Size, Book-to-market, Sigma, Runup, Leverage, Cash flows-to-equity, Deal value, Relative size, Public or private deal, Subsidiary deals, Diversifying deals, Hostile deals, Tender Offers, Cash or stocks, Premium

Table 2 presents the characteristics of the previous studies that found relation between financial advisors' reputation and acquirer returns on M&A transactions. We use this table to summarise the studies in terms of the period of analysis, the number of observations/sample, the methodologies and all variables included in the model.

2.5. Hypotheses and testable empirical implications

As stated in the literature review, recent studies found evidence about the importance of the financial advisors' reputation on each transaction. However, in order to fill the gap in the literature regarding the domestic advisors, it is important to test the impact of these advisors based on different hypotheses. Our hypotheses are defined as follows:

H1. M&A transactions with domestic advisors generate greater acquirer returns

H2. M&A transactions between related businesses and advised by domestic advisors generate greater acquirer returns

H3. M&A transactions with domestic and top-tier advisors generate greater acquirer returns

3. Data and methodology

This section presents a description of the data collection, including the criteria for our sample and the source of our data, and describes the methodological aspects of our study.

3.1. Data

For our study, we have used a sample of M&A completed transactions worldwide in the period 2008-2015, with a total of 1,906 observations. We have chosen this period because the most recent study covered the period 1996-2009 and we do not have any study after the financial crisis 2007-09. The financial crisis had an impact on the economies worldwide and the M&A market was no exception with companies often selling part of their business in order to get more cash. During the period of global financial crisis, these companies were willing to negotiate deals at market value or below across all sectors but the buyers were also limited (Grave *et al.*, 2012).

To be included in our sample, the transactions must meet the following criteria:

- Acquisitions that result in a transfer of control where the acquirer's ownership in the target firm increase above 50% after the acquisition (as in Kale *et al.*, 2003; Ismail, 2010; Bao and Edmans, 2011)
- Deal size with at least \$1 million (as in Rau, 2000; Ismail, 2010)
- Bidder and target are listed companies and have share price data (as in Kale *et al.*, 2003; Ismail, 2010; Bao and Edmans, 2011)
- The financial advisors for acquirer and target are publicly disclosed (as in Ismail, 2010)
- Transactions not completed and partial sales (less than 50%) are not considered for our sample (Michel *et al.*, 1991; Rau, 2000; Kale *et al.*, 2003; Ismail, 2010)

We identified 481 transactions from 2008-2015 that satisfy the above selection criteria.

The data was collected from Zephyr, Google Finance, Yahoo Finance and Thomson Reuters. In the Zephyr database we obtained all details about M&A transactions,

including the deal size, type of payment, financial advisors, date of announcement, completed date, countries of acquirer and target, ownership, target sector, acquirer sector and SIC codes. In Google Finance and Yahoo Finance we gathered the historical prices and stock data. In Thomson Reuters we can find the Investment Banking League Tables³ between 2008 and 2015.

3.2. Methodology

We examined our hypotheses using Ordinary Least Squares (OLS). In all regressions, our dependent variable is the acquirer's Cumulative Abnormal Returns (CARs). The regressions were performed using the statistical software Eviews 7.

The returns are based on Cumulative Abnormal Returns (CARs) of the acquirer in the 5-day event window (-2, +2) where 0 is the announcement day⁴. In our study CARs were calculated as the sum of difference between daily returns and the average returns of 90 days prior to the announcement date (as in Ismail, 2010).

Regarding the measure of financial advisors reputation, the earlier studies identified the most prestigious investment banks (top 5) as "Bulge bracket". Rau (2000) changed this paradigm and computed the first-tier, second-tier and third-tier with market share. Other authors' approaches differ with the number of banks that are classified as first-tier (8 or 10). For our study, the advisors are divided by top-tier, non-top-tier and domestic. The top-tier advisors include the best eight investment banks every year based on the Investment Banking League Tables - Thomson Reuters. The non-top-tier advisors include any other advisor and the domestic advisor includes a non-top-tier advisor that has worked on a transaction in the same country of its headquarters. As noted by Serveas and Zenner (1996), many transaction firms do not hire an advisor because they have in-house expertise. In our sample, it is assumed that in-house advisors were used when the companies were not advised by any investment bank.

The basic model is defined as follows:

³ Investment Banking League Tables summarise the total number and value of deals advised by each bank and are used as the standard for measure of reputation (as in Song and Wei, 2013)

⁴ We use a 5-day window because Fuller *et al.* (2002) found that, after checking the accuracy of the SDC announcement date, for about 92.6% of a random sample of 500 acquisitions the date was accurate

$$\begin{aligned}
CARs_i = & c + \beta_1 Cash_i + \beta_2 Shares_i + \beta_3 Adomestic_i + \beta_4 Atoptier_i \\
& + \beta_5 Anontoptier_i + \beta_6 Ainhouse_i + \beta_7 Tdomestic_i + \beta_8 Ttoptier_i \\
& + \beta_9 Tnontoptier_i + \beta_{10} Tinhouse_i + \beta_{11} Dealsize_i \\
& + \beta_{12} Relatedbusiness_i + \beta_{13} Ownership_i + \mu_{i,t}, i = 1, \dots, 481
\end{aligned}$$

Where:

Cash_i = a dummy variable equal to 1 if the payment was made in cash, and 0 otherwise

Shares_i = a dummy variable equal to 1 if the payment was made in shares, and 0 otherwise

Adomestic_i = a dummy variable equal to 1 if the acquirer was advised by a domestic advisor, and 0 otherwise

Atoptier_i = a dummy variable equal to 1 if the acquirer was advised by a top-tier advisor, and 0 otherwise

Anontoptier_i = a dummy variable equal to 1 if the acquirer was advised by a non-top-tier advisor, and 0 otherwise

Ainhouse_i = a dummy variable equal to 1 if the acquirer was advised by its own resources, and 0 otherwise

Tdomestic_i = a dummy variable equal to 1 if the target was advised by a domestic advisor, and 0 otherwise

Ttoptier_i = a dummy variable equal to 1 if the target was advised by a top-tier advisor, and 0 otherwise

Tnontoptier_i = a dummy variable equal to 1 if the target was advised by a non-top-tier advisor, and 0 otherwise

Tinhouse_i = a dummy variable equal to 1 if the target was advised by its own resources, and 0 otherwise

Dealsize_i = the total transaction value

Relatedbusiness_i = a dummy variable equal to 1 if the transaction was made between related businesses, using SIC 3 digits, and 0 otherwise

Ownership_i = the acquirer ownership before the transaction

3.3. Heteroscedasticity

Before the analysis of our regressions, it is important to verify the presence or absence of heteroscedasticity. Heteroscedasticity is defined as a non-constant variance of the error term, given the explanatory variables (Wooldridge, 2009). In the presence of heteroscedasticity, OLS estimators are not efficient and, in contrast, when the data is homoscedastic, the OLS estimators are unbiased and efficient.

In order to check the presence of heteroscedasticity, we used the White Test. According to the results of the White Test, we reject the null hypothesis at 10% level which means that our data is homoscedastic and OLS estimators are efficient.

4. Results

This section presents the descriptive statistics of our model, the number of transactions and categories of each advisor, and analysis of regression results, including the tests and results of each hypothesis.

4.1. Descriptive statistics

Table 3 reports the descriptive statistics for each of the variables we use in our sample. The data was generated with Eviews as follows:

Table 3. Descriptive statistics

Variable	Symbol	Mean	Maximum	Minimum	Std. Dev.	Observations
Acquirer advised by domestic advisor	Adomestic	0.2869	1.0000	0.0000	0.4528	481
Acquirer without any advisor	Ainhouse	0.1310	1.0000	0.0000	0.3377	481
Acquirer advised by non-top-tier advisor	Anontoptier	0.1809	1.0000	0.0000	0.3853	481
Acquirer advised by top-tier advisor	Atoptier	0.6985	1.0000	0.0000	0.4594	481
Payment in cash	Cash	0.7734	1.0000	0.0000	0.4191	481
Cumulative Abnormal Returns	CAR	-0.0016	0.2518	-0.3320	0.0700	481
Deal size > \$1 million	Dealsize	0.8150	1.0000	0.0000	0.3887	481
Inside ownership	Ownership	0.0708	1.0000	0.0000	0.1855	481
Related Business	Relatedbusiness	0.8420	1.0000	0.0000	0.3651	481
Payment in shares	Shares	0.4740	1.0000	0.0000	0.4998	481
Target without any advisor	Tinhouse	0.1185	1.0000	0.0000	0.3235	481
Target advised by domestic advisor	Tdomestic	0.3368	1.0000	0.0000	0.4731	481
Target advised by non-top-tier advisor	Tnontoptier	0.4553	1.0000	0.0000	0.4985	481
Target advised by top-tier advisor	Ttoptier	0.6445	1.0000	0.0000	0.4792	481

Table 3 presents the summary statistics of our sample. The period of analysis is 2008-2015 and only includes listed firms; transactions where the deal value is at least 1\$ million; transactions where the acquirer's ownership in the target firm increases above 50% after the acquisition; and transactions where the financial advisors for acquirer and target are publicity disclosed.

Table 4 reports the number of transactions advised by top-tier advisors, non-top-tier advisors, domestic advisors, and in-house, over the period 2008-2015.

The table shows the distribution of the merger and acquisitions by year. In 2009 we can see the lowest number of transactions (34) during our period of analysis and, in contrast, in 2015 we can see the highest number of transactions (89). The majority of the transactions were advised by a top-tier advisor; however, most companies were also advised by a mixed advisor team, including top-tier advisors and/or non-top-tier and/or domestic.

Table 4. Number of transactions per year and category of advisors

Year	Number of deals	Deals advised by			
		Top-Tier	Non-top-tier	Domestic	In-house
2008	54	48	27	29	7
2009	34	29	17	11	8
2010	60	51	33	27	13
2011	70	60	34	30	12
2012	51	41	24	28	12
2013	58	46	30	28	15
2014	65	53	41	40	14
2015	89	76	55	46	16

Table 4 presents the number of deals per year and category of advisors. In many transactions the merging firms hire a mixed team that could include top-tier, non-top-tier and domestic advisors.

4.2. Analysis of regression results

The empirical analysis was made using ordinary least squares (OLS) in which Cumulative Abnormal Returns (CARs) was considered as the dependent variable. The results were carried at 10% and 5% significance level. Table 5 presents the results of our model.

Table 5. Estimation output

Variables	CAR
Shares	-0.0137 (1.84)*
Cash	0.0258 (2.95)**

Adomestic	-0.0003 (0.04)
Atoptier	0.0095 (1.00)
Anontoptier	0.0047 (0.54)
Ainhouse	0.0097 (0.73)
Tdomestic	0.0181 (1.70)*
Ttoptier	-0.0121 (1.28)
Tnontoptier	-0.0182 (1.63)*
Tinhouse	-0.0122 (0.87)
Dealsize	0.0208 (2.50)**
Relatedbusiness	0.0202 (2.35)**
Ownership	-0.0038 (0.22)
# obs	481
R ² (%)	8.51
Prob(F-statistic)	0.000

This table reports the ordinary least square regression of the Cumulative Abnormal Returns for the acquirer for transactions completed between January 2008 and December 2015. The independent variables include dummies for the acquirer advisor tier, the target advisor tier, cash, shares, deal size at least \$1 million, related business (three-digit SIC code) and inside ownership. T-statistics are in parentheses under each estimated coefficient. Statistical significance is represented by * significant at 10% and ** significant at 5%.

We consider the model as overall statistically significant because the prob F-statistics value is 0.000. With this value, we reject the null hypothesis of insignificance which means that the variables we use in our regression can jointly have impact in Cumulative Abnormal Returns of the acquirer.

It is important to note the R-squared value is around 8.51% which means that only 8.51% of the model is explained by the independent variables and the remaining 91.49% is attributed to other variables that could be some of reported in the literature. Additionally, it is also important to give attention to the key limitations of R-squared, such as it does not indicate if a regression model is adequate and cannot determine

whether the coefficient estimates are biased. However, if the R-squared value is low but the variables are statistically significant we can reach important conclusions about the impact of domestic advisors in M&A transactions. The low R-squared value of our regression is in line with previous studies (e. g. Bao and Edmans, 2011) which mean that M&A returns are difficult to explain.

H1. Transactions with domestic advisors generate greater returns

Table 6 presents the empirical results of H1 that suggests that the domestic advisors have particular expertise in their countries in different factors, such as certain industries, the business culture, the regulatory requirements and/or laws.

Table 6. Estimation output H1

Variables	CAR
Cash	0,0265 (3.09)**
Shares	-0,0132 (1.81)*
Adomestic*Tdomestic	-0,0235 (1.67)*
Tdomestic	0,0158 (1.97)**
Adomestic	0,0058 (0.65)
Relatedbusiness	0,0197 (2.31)**
Dealsize	0,0214 (2.67)**
R^2 (%)	8.26

This table reports the ordinary least square regression of H1. The dependent variable is the Cumulative Abnormal Returns for the acquirer and the independent variables include cash, shares, deal size at least \$1 million, related business (three-digit SIC code), target advised by domestic advisor, acquirer advised by domestic advisor and a combination of domestic advisor in both sides (acquirer and target). T-statistics are in parentheses under each estimated coefficient. Statistical significance is represented by * significant at 10% and ** significant at 5%.

Based on the Table 6, we can conclude that the combination of domestic advisor in both sides is relevant for the model at 10% significance level and has a negative coefficient.

On the other hand, the coefficient on target domestic advisor individually is positive and significant at a 5% level.

In terms of acquirer domestic advisor individually, the variable is not statistically significant and it is impossible to reach a conclusion about its position or negative impact on CARs.

In M&A transactions, the target advisors attempt to get the highest price and, in contrast, acquirers expect to buy the target at the lowest price (Song and Wei, 2013). Considering the positive impact of domestic advisors on the target side, it could mean that the domestic advisors in the target side are important to support the companies to negotiate the fair value of their businesses during a merger or acquisition.

H2. Transactions between related businesses and advised by domestic advisors generate greater returns

Table 7 reports the empirical results of H2 that implies that the deals between related businesses and advised by domestic advisors generate greater returns than otherwise.

Table 7. Estimation output H2

Variables	CAR
Shares	-0,0137 (1.87)*
Cash	0,0260 (3.02)**
Relatedbusiness*Tdomestic*Adomestic	-0,0254 (1.82)*
Tdomestic	0,0151 (1.99)**
Adomestic	0,0045 (0.55)
Dealsize	0,0213 (2.66)**
Relatedbusiness	0,0234 (2.70)**
R^2 (%)	8.37

This table reports the ordinary least square regression of H2. The dependent variable is the Cumulative Abnormal Returns for the acquirer and the independent variables include cash, shares, deal size at least

\$1 million, related business (three-digit SIC code), target advised by domestic advisor, acquirer advised by domestic advisor and a combination of related business and domestic advisor in both sides (acquirer and target). T-statistics are in parentheses under each estimated coefficient. Statistical significance is represented by * significant at 10% and ** significant at 5%.

According to the results of Table 7, the coefficient of the combination between related businesses and domestic advisors in both sides (acquirer and target) is negative and significant at a 10% level. However, the coefficient of related business individually is positive and significant at 5% level and has a positive impact on CARs. Our result is consistent with literature (Morck *et al.*, 1990; Ismail, 2010), implying that the acquirer returns increases when the target is in a related business and the transactions between companies operating in related business are more favourably received by the market than diversified acquisitions.

H3. Transactions with domestic and top-tier advisors generate greater returns

Table 8 presents the empirical results of H3 that implies that a domestic advisor with a top-tier advisor (as leader) generates better returns than otherwise.

Table 8. Estimation output H3

Variables	CAR
Shares	-0,0143 (1.95)*
Cash	0,0259 (3.01)**
Ttoptier*Tdomestic	-0,0035 (0.32)
Atoptier*Adomestic	0,0214 (1.74)**
Adomestic	-0,0168 (1.62)
Tdomestic	0,0113 (1.35)
Related business	0,0198 (2.32)**
Dealsize	0,0228 (2.79)**
R^2 (%)	8.31

This table reports the ordinary least square regression of H3. The dependent variable is the Cumulative Abnormal Returns for the acquirer and the independent variables include cash, shares, deal size at least \$1 million, related business (three-digit SIC code), target advised by domestic advisor, acquirer advised by domestic advisor, combination of target advised by domestic advisor and top-tier advisor, and combination of acquirer advised by domestic advisor and top-tier advisor. T-statistics are in parentheses under each estimated coefficient. Statistical significance is represented by * significant at 10% and ** significant at 5%.

The results of our regression seem to prove that this hypothesis is true only on the acquirer side because the coefficient of the combination of acquirer advised by domestic advisor and top-tier advisor is positive and significant at a 10% level.

This result suggests that an acquirer should create a mixed team of advisors with, at least, one domestic advisor and one top-tier advisor, in order to maximise their returns.

5. Conclusion

The aim of this study was to find evidence about the impact of domestic advisors on M&A transactions. The data used for our study just includes listed companies during the period 2008-2015. Additionally, this study was also motivated by the presence of a gap in the literature regarding the domestic advisors and the period of analysis because the most recent study about the impact of reputation advisors on M&A transactions was made with the period 1996-2009, and there are no studies that cover the period post-financial crisis.

This study relates to the previous studies regarding the reputation advisors (top-tier and non-top-tier) and the Cumulative Abnormal Returns of acquirer. Until 2003, all studies did not find evidence about the impact of reputation advisors but Kale *et al.* (2003) changed this paradigm and the recent studies have found evidence between reputation advisors and the returns earned by the acquirer.

The results of this study seem to prove that the combination of domestic advisors in both sides (target and acquirer) has a negative impact on returns earned by acquirer which could represent a bargaining effect on these transactions. However, further research is needed to support this conclusion. In terms of domestic advisors individually, a target advised by a domestic advisor has a positive impact on returns which could be justified by the expertise in the market and/or the importance of these advisors to support the firms to get a fair value for their business.

Additionally, the results seem to prove that transactions between related businesses have a positive impact on returns earned by the acquirer. This conclusion is in line with relevant literature (Morck *et al.*, 1990; Ismail, 2010).

One of the main expectations for this study was to test the impact of mixed teams (e.g. top-tier and domestic advisor) on returns. Our results seem to prove that an acquirer should create a mixed team of advisors with, at least, one domestic advisor and one top-tier advisor, in order to maximise their returns.

Our results are also in line with literature in terms of payment suggesting that transactions paid in cash generate higher returns than in shares (as in Ismail, 2010).

Finally, as a suggestion, future research could focus on the post-global crisis period because there is a gap in the literature during this period and most of the firm variables would be different than the pre-crisis period.

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