M&A GAINS TO ACQUIRERS AND ROLE OF FINANCIAL ADVISORS

Evidence from Japan

57161507-0 ZHU WEIFENG

SEMINAR ON EMPIRICAL ANALYSIS OF CORPORATE FINANCE

PROF. SUZUKI KAZUNORI

D.E. PROF. ARIKAWA YASUHIRO D.E. PROF. KAWAMOTO YUKO

Summary

This dissertation looks into the roles of Japanese commercial banking groups and "kanji" (arranger) securities houses as M&A advisors in the Japanese market. Commercial banks or securities houses could gain private information about clients through commercial banking or underwriting activities and therefore be able to advise M&A deals that suit the clients better, which is referred to as a certification effect. In addition, advisors from a Japanese commercial banking group could also take extra care when advising M&A due to a "main yose" phenomenon where Japanese main banks are implicitly assumed to provide life support for borrowers in distress. If a deal is carefully advised and suits an acquirer, it should be rewarded by the market in the form of positive abnormal returns. However, potential conflicts of interest between advisors and acquirers may mitigate or diminish these effects.

To examine the effects brought by commercial banking and "kanji" securities relationships between acquirers and financial advisors, I conduct an event study for 600 M&A deals carried out by Japanese public firms announced between 2012 and 2017. I find acquirers on average experience a significantly positive cumulative abnormal returns of 0.95%. In addition, I find targets hiring acquirers' "kanji" securities houses as M&A advisors to be associated with lower acquirer abnormal returns. This result is moderately significant at the 10% level and shows that Japanese "kanji" securities houses and their clients as acquirers suffer from conflicts of interest when advising M&A. However, I fail to find similar evidence of conflicts of interest for commercial banking groups. I also do not find evidence in support of a net certification effect: "kanji" securities houses and commercial banks who have long-term relationships with acquirers and supposedly know some private information about them do not advise better deals.

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57161507-0 Zhu Weifeng

Seminar on empirical analysis of corporate finance

Prof. Suzuki Kazunori

D.E. Prof. Arikawa Yasuhiro D.E. Prof. Kawamoto Yuko

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Section 1.   INTRODUCTION

This dissertation investigates the roles of commercial banking groups and "kanji" (arranger) securities houses as M&A advisors in the Japanese market. Generally speaking, mergers and acquisitions (M&A) are characterized by information asymmetry between acquiring firms and target firms. In an M&A deal, information asymmetry can often lead to uncertainty in both valuation process and deal execution. To mitigate such problems, financial advisors are often hired by both acquirers and targets. Financial advisors specialize in gathering and processing information. This strength in information gathering and production allows financial advisors to provide valuable advice to both acquirers and targets on the proper transaction prices and the potential synergies, along with the associated risks. In addition, financial advisors also often help both parties negotiate with their counterparties and are therefore able to affect deal outcome.

There are different types of financial advisors in the global M&A market. First, investment banks or securities houses, which include firms like Goldman Sachs, Morgan Stanley and Nomura, have long enjoyed a large share of the market. In addition to corporate finance advisory services that include M&A and securities offerings, investment banks also typically provide other financial services ranging from trading to asset management. In a Japanese context, a securities house is called "kanji" (arranger) for a public firm if it participated in this firm's IPO. Such "kanji" securities houses often continue to offer other services to the firms after IPO. Second, boutique shops, including firms like Lazard, Rothschild & Co, and GCA Savvian, have been playing an increasingly important role in the global M&A market. Boutique financial advisors focus on transactions of particular types or in particular industries. Another important type of advisor actively involved in M&A deals is consulting firms who offer a variety of professional services. There are numerous consulting shops in the world. Among them some are strategic consulting firms like McKinsey & Co and the Boston Consulting Group, some are accounting affiliated consulting shops like Deloitte, KPMG, PwC, and Ernst & Young. M&A deals can

naturally appear in strategic or business solution reports which are created by consulting shops as a quick answer to their clients' problems. Besides, a due diligence process is often required in an M&A deal, therefore consulting firms specializing in accounting, tax, and valuation services are also frequently hired. Last but not least, commercial banks and their affiliated entities also play a significant role in the M&A market. Although not one focused on M&A, a banking study done by Chan, Greenbaum, and Thakor (1986) suggests that private information about a firm gathered and accumulated by a commercial bank during a commercial lending relationship can be reused and transferred. This could potentially allow commercial banks to have an informational advantage over other types of advisors when advising clients with whom they have a prior lending relationship.

When it comes to studying commercial banks as financial advisors, the Japanese M&A market is an especially interesting one for three reasons. First, as the third largest economy in the world, Japan has a large and highly active M&A market. According to a Japanese M&A Review by Thomson Reuters, there were 2,434 M&A deals completed in 2017 with a total deal value of JPY 14.53 trillion, or roughly $145 billion. This huge Japanese M&A market we see today owes its very existence to the Japanese government's deregulation of the market for corporate control in the 1990s which was, according to Hanamura, Inoue, and Suzuki (2008), intended to "promote the consolidation among Japanese companies and help the economy to recover from the prolonged recession".

Second, commercial banks and their affiliated entities have a very strong presence in Japan and are involved not only in lending, but also in M&A advisory. The three so-called "megabank groups", Mitsubishi UFJ Financial Group (MUFG), Sumitomo Mitsui Banking Corporation (SMBC) and Mizuho Financial Group each provides banking and advisory services to a wide range of Japanese firms. For example, according to the official website of Mizuho Financial Group, it covers around 70% of all public companies in Japan. According to each bank's 2017 official filings, Mizuho Financial Group has a total assets of JPY 200 trillion, while MUFG has a total assets of JPY 303 trillion and SMBC 198

trillion. Though the MUFG and SMBC have not disclosed their exact number of company coverage, it is not difficult to say that these three megabanks all have banking relationships with a great deal of Japanese corporate clients.

Third, Japanese commercial banks often work closely with their affiliated securities houses. According to Cargill and Todd (1993), the introduction of the Financial System Reform Law enacted by the Japanese Diet in 1993 allows commercial banks and securities houses to enter the market of each other through the use of subsidiaries. Since then, Japanese financial firms have been expanding the use of the so called "ginsho renkei" model which literally means "the collaboration between banks and securities houses". In fact, all three megabanks discussed above have their own securities houses: MUFG has Mitsubishi UFJ Morgan Stanley Securities, SMBC has SMBC Nikko Securities, and Mizuho Financial Group has Mizuho Securities. Smaller banks, too, have similar entities within their groups. What's more, bankers working in Japanese commercial banking groups often have two business cards: one of the bank and one of the affiliated securities house. Although there does exist a "Chinese wall" between commercial lending departments and M&A departments within a banking group, this kind of close relationship between commercial banking and investment banking potentially allows private information generated and held by a Japanese commercial bank to be, to a degree, transferred to and reused by its advisory department or affiliated securities house. In addition, this transfer also works in the other direction: private information gathered by an affiliated securities house during a securities underwriting or corporate advisory process can potentially be used by its group bank. Last but not least, a Japanese "kanji" securities house who arranged IPO and provides a series of services for an acquirer could also potentially have private information about the acquirer.

Previous researchers have conflicting ideas regarding the involvement of commercial banks in M&A. First of all, there are the certification effects of commercial banks. Commercial banks' ability to mobilize and reuse private information obtained during lending in supplying services such M&A

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advisory are higher than other advisors and should be able to provide better services. The intuition is that commercial banks tend to have a longer relationship, continuously monitor their clients and should thus have a better idea about what targets suit their clients. With a strong market dominance, abundant information obtained through continuous monitoring, and close collaboration within groups, Japanese commercial banking groups can be expected to have high certification effects. Similarly, Japanese "kanji" securities houses could also potentially obtain private information about their clients through securities underwriting and corporate advisory activities and bring certification effects. Besides, as is documented by Ohashi and Singh (2004), there is a "main yose" phenomenon in Japan: main banks functioning as the life-saver for borrowing firms in financial distress. The main banks implicitly have to buy loans from nonmain banks at book value when a borrower' financial position goes wrong. This could cause Japanese main banks and main-bank-affiliated advisors to be more careful when advising M&A deals for clients to whom they lend money. Last but not least, commercial banking groups as well as securities houses, can be faced with complicated conflicts of interest when providing different services including lending, underwriting and M&A advisory, which can bring negative impacts on the deals they advise.

Motivated by these conflicting ideas, in this paper, I study the short-term wealth effects on Japanese acquirers and empirically examine the effects brought by commercial banking groups and "kanji" (arranger) securities houses as advisors in the Japanese M&A market. Along with a set of control variables, I construct four dummy variables which indicate the commercial banking and securities underwriting relationship between acquirers and advisors on both the buying side and target side. Then, I run several regressions to see the effects brought by each dummy variable.

Out of my sample of 600 M&A deals carried out by Japanese public companies over the period from January 2012 to December 2017, there are 210 deals where acquirers hired their own "kanji" securities houses as advisors, 153 deals where acquirers hired their own commercial bank groups as advisors, 96 deals where targets hired acquirers' "kanji" securities houses as advisors, and 111 deals

where targets hired acquirers' commercial banking groups as advisors. In contrast to many U.S. results and the Japanese results by Fatemi, Fooladi, and Garehkoolchian (2017), using this sample, I find an average acquirer cumulative abnormal returns (CAR) of 0.95% that is significantly different from zero at the 1% level.

Having confirmed that multicollinearity is not an issue after checking the correlation matrix and variance inflation factors, I add a number of control variables to rule out the effects caused by certain deal characteristics. Then, I find targets hiring acquirers' "kanji" securities houses as M&A advisors to be associated with lower acquirer *CAR*. Although this result is only moderately significant at the 10% level, it provides evidence for the presence of conflicts of interest for Japanese "kanji" securities houses advising M&A. One possible example for such conflicts of interest is that acquirers' "kanji" securities houses knowing deeply the acquirers' desires and weaknesses can help targets negotiate, set high target valuations, and earn more fees. However, I fail to find similar evidence of conflicts of interest for commercial banking groups. I also do not find evidence in support of a net certification effect. An acquirer's decision regarding whether to hire its own "kanji" securities houses or commercial banks or not does not seem to affect its economic gain upon M&A announcement. Thus it seems "kanji" securities houses and commercial banks who have long-term relationships with acquirers and supposedly know some private information about them do not advise better deals. Last but not least, it is possible to improve my results regarding commercial bank advisors if there is more accurate data indicating banking relationships between acquirers and advisors. This is because the data I have only indicates banking relationships instead of commercial lending relationships where continuous monitoring is required, private information is more likely to be gathered, and conflicts of interest are more likely to emerge.

The rest of the paper proceeds in the following way: Section 2 reviews the relevant literature on mergers and acquisitions. Section 3 talks about the data, its collection process, and my methodology. Section 4 presents my empirical results and concludes.

Section 2.   REVIEW OF RELATED LITERATURE AND THE QUESTION

My research is mainly related to two parts of the corporate finance literature. Firstly, it is related to the literature on whether mergers and acquisitions themselves create any value for shareholders or not. Secondly, there is the literature comparing the role of commercial banks with that of their investment banking counterparties in providing corporate finance advisory services. In this section, I discuss some papers relevant to my research question.

2.1   Do Mergers and Acquisitions Create Value?

A great number of previous research has explored whether mergers and acquisitions create value or not. Based on 14 relevant informal studies and 100 relevant scientific studies conducted from 1971 to 2001, Bruner (2002) concludes that in the aggregate, studies which utilized an event study framework find positive abnormal returns to targets, breakeven returns to buyers, and positive returns to the combination of both sides' shareholders. In addition, based upon a recent set of Japanese data, Fatemi, Fooladi, and Garehkoolchian (2017) find that acquirers experience no significant gains while target reap significant benefits, which is consistent with the general results from the United States. In general, M&A deals, excluding bank mergers, tend to bring positive abnormal returns to target firms while causing acquirers to see zero or negative abnormal returns. This finding has been highly robust in the literature.

There are many hypotheses trying to explain why shareholders receive M&A gains, especially those of target firms. Harris and Raviv (1988), Stulz (1988), Amihud, Lev, and Travlos (1990), and Franks and Mayer (1996) investigate the *corporate control hypothesis* which stipulates that M&A gains

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are due to the reduction in agency costs in the market for corporate control. According to the *market power hypothesis* which is studied by Beatty et al. (1987) and Berger and Humphrey (1992), M&A deals help enhance target's competitive position and thus can bring its shareholders economic gains. In addition, Berkovitch and Narayanan (1993) find synergy to be the primary motive in mergers and acquisitions which lead to positive combined gains. Last but not least, Hubbard and Palia (1999) find that target firms receive synergistic gains when conglomerates' internal capital markets that "were expected to overcome the information deficiencies of the less-developed capital markets" are created.

On the one hand, in order to be approved by its shareholders for an M&A deal, a target firm must receive some expectation of wealth gain. On the other hand, managers of an acquiring firm might carry out deals that provide zero expected gain to their shareholders. Amihud and Lev (1981), Amihud and Kamin (1979), and Lloyd, Hand and Modani (1987) discuss the *managerial risk diversification hypothesis*, which says that managers of acquiring firms carry out M&A deals so that they can lower their undiversifiable human capital investment in their firms. Amihud, Kamin, and Ronen (1983) and Cybo-Ottone and Murgia (2000) are able to find evidence in favor of this hypothesis. The *winner's curse hypothesis* or *hubris hypothesis* postulates that overly confident buyers pay too much for target firms. For instance, Roll (1986) finds that acquirers who overpay targets have a higher deal completion rate, which in turn leads to a decline in the gain to acquirers' shareholders. However, in contrast to the US evidence, Schaik and Steenbeek (2004) find that Japanese bidders receive positive abnormal returns around deal announcement date.

2.2   Commercial Banking Advisors Versus Investment Banking Advisors

2.2.1   Certification Effect

Similar to some previous studies including Puri (1994, 1996), Ang and Richardson (1994), Kroszner and Rajan (1994), Gande, Puri, Saunders, and Walter (1997), Hebb(1999), and Allen, Jagtiani,

Peristiani, and Saunders (2004) , I refer to the ability of a commercial banking group or a securities house to transfer and reuse private information about a client in providing corporate finance services, which includes mergers and acquisitions, as the certification effect. However, instead of looking into these advisors' ability in certifying target value, I choose to investigate their ability of utilizing their knowledge about acquirers to provide better-fitting M&A advisory services which should be taken positively by the stock market. It is not hard to imagine that a commercial bank who has been long enjoying a continuous relationship with its corporate clients would naturally possess some private information about them, since commercial lending requires commercial bankers to carry out ongoing monitoring of the lenders' activities. An investment bank or securities house also has access to clients' private information when underwriting securities, but usually only during discrete and relatively short time period. By contrasting commercial banks with investment banks in this way, Allen et al. (2004) argue that "all else being equal, we would expect that the selection and use of a commercial bank advisor in an M&A transaction provides a higher certification effect than that provided by traditional investment banks." This argument seems to have drawn a clear boundary between commercial banking and investment banking, but it was made in the United States and recent Japan is different from that. First, a Japanese "kanji" securities house who helped a client go public tend to offer other ongoing corporate services to the client as well, which could potentially let it accumulate private information about the client. Second, a financial group in Japan nowadays often has both a commercial bank and a securities house which often work closely with each other. For example, M&As advised by a Japanese securities house can often be financed by an affiliated commercial bank. Also, to carry out a Japanese commercial bank's strategic plans made for its clients, its affiliated securities house can often be hired to work on the actual M&A products. After taking these characteristics of the Japanese market into account, instead of studying commercial banks only, my research focus on the certification effects of both Japanese commercial banking groups and "kanji" securities houses.

2.2.2   Conflicts of Interest

In theory, the certification effect is capable of enhancing the effectiveness of commercial banks and "kanji" securities houses acting as M&A advisors for their long-term clients. However, as is documented in Allen et al. (2004), there could be <u>conflicts of interest</u> which can bring negative impacts to such effectiveness. For example, target could be faced with financial troubles that are hidden deep and known only to its long-term commercial lender. In this case, the commercial bank would have an incentive to advise deals and let this target be bought by other companies, who would help solve its problems and pay its debts. In addition, a commercial banking group might want to advise clients on M&A deals only when they agree to borrow money from it. This "advising-and-lending" type of banking has become particularly popular in Japan, partly due to the Japanese low-interest-rate environment and partly due to the fact that the level of commercial lending is way below the level of deposits made by Japanese savers. Therefore, a commercial banking group could have an incentive to advise its clients to borrow money and buy targets that are not actually beneficial. Besides, Mehrotra, Schaik, Spronk, and Steenbeek (2011) point out that the Japanese market is one "where creditors play an important, perhaps dominant, role in corporate governance" and is much less shareholder focused than the U.S. market. Creditors' strong presence in Japanese corporate governance could further deepen conflicts of interest between commercial banking groups and other stakeholders. In addition, Japanese "kanji" securities houses could also be faced with conflicts of interest. For instance, securities houses could advise clients on poor deals just to make quick fee income. Such problem could be worse in case of "kanji" houses since they could have private information about the clients and thus be better at selling poor deals to the clients. Such conflicts of interest could diminish the certification effects.

2.2.3   Empirical Evidence

Conflicting results have been found surrounding both conflicts of interest and the certification effect. Kroszner and Rajan (1994), Ang and Richardson (1994), and Puri (1996) find that in a before-

Glass-Steagall setting, the debts underwritten by commercial banks were less likely to default compared with those by investment banks, indicating a net certification effect. However, stocks underwritten by commercial banking groups and those by investments banks in the 1920s did not show significant different performance. Puri (1994, 1996) finds evidence of a certification effect for commercial banks who reuse private information gained in commercial banking relationships to enhance their reputations. Post-Glass-Steagall findings on banks' limited debt underwriting powers by Gande, Puri, Saunders, and Walter (1997) and on equity underwriting powers by Hebb (1999) also tend to confirm a net certification effect for commercial banks. However, using a M&A advisory setting, Allen et al. (2004) find evidence supporting the certification effect only for deals where targets' commercial banks act as their advisors. In contrast, for deals where acquirers' commercial banks act as their advisors, conflicts of interests seem to dominate the certification effect. Last but not least, by studying 154 domestic mergers in Japan during 1977 to 1993, Kang, Shivdasani and Yamada (2000) find acquirer abnormal returns to be strongly positively related with the strength of acquirer's relationships with banks.

2.3   The Question

As is discussed above, previous studies regarding the certification effect and conflict of interests are mostly done in the United States and have produced interesting results. Japan is featured with a highly active M&A market, a very strong commercial banking presence, a special presence of "kanji" securities houses, and a potentially close tie between commercial banking and corporate advisory. What's more, Japanese "main yose" phenomenon could make Japanese bank-affiliated advisors to be more careful about advising M&A, especially for acquirers. Therefore after learning the U.S. results, it is natural to ask "What about Japan?" Based upon a set of Japanese data, I extend the literature by examining whether a net certification effect exists for Japanese commercial banks and "kanji" securities houses, or whether conflicts of interests dominate such certification effect.

Section 3.   THE DATA AND THE METHODOLOGY

My analysis utilizes a data set that consists of 600 observations. Descriptive statistics can be found in Table 2 and Table 3. Merger and acquisition information was originally downloaded from the RECOF DATA Corporation database and the Thomson Reuters Datastream Professional database. As the first step, 1,395 completed M&A deals carried out by Japanese public firms or their subsidiaries with a deal value of larger than 500 million JPY during the time period from January 1, 2012 through December 31, 2017 were identified. This period was selected for two reasons. First, this was the most recent period and the most of relevant data could be easily found. Many details, including who the advisors were, of M&A deals before this period could hardly be retrieved from Datastream Professional. Second, this period begins three years after the global financial crisis of 2007-2008 and should have been relieved of the crisis's impact. The criteria of deals with a value larger than 500 million JPY was added due to the fact that smaller deals, which amounted to more than 10,000 and were expected to have relatively small economic impact, would make my data collection and analysis too complicated. For each deal, information about financial advisors and some other details not included in the RECOF database was collected manually from the Thomson Reuters Datastream Professional database.

I then took steps and excluded 795 deals which could not be used in my analysis. Firstly, I excluded 338 deals where no advisors were disclosed and 161 deals with either incomplete or conflicting information. Secondly, 62 deals involving financial firms as either target or acquirer were also excluded. Thirdly, to ensure that deals in my sample resulted in a transfer of control, I further excluded 56 deals where acquirers' ownership in target firms failed to raise above 50% after the deals. Then, 160 deals which had overlapping 250-trading-day event windows were also excluded for robustness purposes. To do this, I marked deals whenever there was an overlap in both acquirer ticker and event window (250 trading days, or 365 natural days) , kept the ones that happened first and excluded the other overlapping

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ones. Last but not least, I excluded 18 observations with toehold larger than 50% since they did not lead to a transfer of corporate control.

3.1   Estimating Abnormal Returns for Acquiring Firms

When it comes to examining the effects brought by mergers and acquisitions, an event study framework is widely used by the academia. I also apply this method and compute cumulative abnormal returns (*CAR*) to acquirers for a three-day window around the deal announcement day and use it as the dependent variable in my models. Unlike many previous researchers, I do not investigate abnormal returns to target firms simply because the majority of targets in my sample are private firms. This three-day window consists of the deal announcement date itself, along with one day before and one day after it. In some cases the advisors are disclosed at the deal announcement, in other cases they are not. However, whether the advisors' names appear at the deal announcement or not, an soundly designed and attractively priced M&A deal that can enhance the fundamental value of an acquirer should be rewarded by the stock market. In other words, a good deal should produce positive impact on the stock price of an acquirer.

The same standardized procedures used in previous event studies including Fama, Fisher, Jensen, and Roll (1969), Bradley, Desai, and Kim (1988), Stulz, Walking and Song (1990), and Allen, Jagtiani, Peristiani, and Saunders (2004), were also followed by me in estimating acquirer abnormal returns. Firstly, I constructed a market model for acquirers using daily returns of a 190-trading-day period that begins 250 days before and ends 60 days before the announcement date of the M&A deal. This step yields 3-day expected returns. Then, by subtracting 3-day actual returns with the expected returns, I obtained an estimation of 3-day abnormal returns for all acquirers in all deals. In all the deals included within my sample, acquirer is a public firm listed on TSE First Section, TSE Second Section, JASDAQ, Mothers, or some other smaller Japanese stock exchanges. In order to estimate abnormal returns, daily closing price after adjusting for stock split and stock dividends for each acquirer over the

period January 1, 2011 through December 31, 2017 was downloaded from the Nikkei NEEDS database. For certain acquirers who had missing price for a day or two, I filled them with the prices one day before. Daily returns, beta, and normal returns were then calculated for all acquirers. The M&A announcement dates downloaded from the Thomson Reuters Datastream Professional database were often the dates using the local time of the United States. To accurately measure the reaction from Japanese market, I manually verified each announcement date according to each acquirer's official news release and filings, and used this date whenever there was a discrepancy.

3.2   Identifying Relationship

Previous studies, such as Allen, Jagtiani, Peristiani, and Saunders (2004), have focused solely on commercial banking relationships between firms and their advisors. Instead, based on the characteristics of the Japanese corporate finance advisory market, I consider both commercial banking relationships and "kanji" securities underwriting relationships. Some previous studies have succeeded in identifying the prior commercial banking relationships between firms and their advisors using a Lexis/Nexis search. This approach would be ideal for U.S. deals. However, in Japan, with limited access to accurate information on prior relationship before M&A deals, I choose to identify a general commercial banking relationship which can be found both on company websites and in the Nikkei ValueSearch database. In addition, a Japanese public firm also usually disclose its so-called "kanji" (arranger) securities houses who have historically helped underwrite its IPO and potentially provide a line of other services, including market making, research coverage, M&A coverage and advisory. Although these "kanji" securities houses do not monitor their clients like commercial banks, they could potentially enjoy a certain level of information advantage when providing M&A services for their clients, compared with many other advisors.

I searched for each acquirer's commercial banks and IPO securities underwriters (so-called "kanji" securities houses) using the Nikkei ValueSearch database. Then, I referred to this information to

determine whether there were prior relationships between acquirers and the financial advisors on both sides. In this process, involvement of securities houses affiliated with commercial banks (e.g., Mitsubishi UFJ Morgan Stanley Securities, SMBC Nikko Securities, and Mizuho Securities) was not only recorded as underwriters, but also as indicating commercial banking relationships with group banks (i.e., MUFG Bank, Sumitomo Mitsui Banking Corporation, and Mizuho Bank). Four dummy variables were then constructed to identify the prior relationship: A_Aad_S takes on the value 1 if acquirer's advisor or its affiliated entities helped underwrite IPO securities for acquirer; A_Aad_B takes on the value 1 if acquirer's advisor or its affiliated entities had commercial banking relationship with acquirer; A_Tad_S takes on the value 1 if target's advisor or its affiliated entities helped underwrite IPO securities for acquirer; A_Tad_B takes on the value 1 if target's advisor or its affiliated entities had commercial banking relationship with acquirer.

3.3   Descriptive Statistics

After taking the steps described above, I reach at a sample which includes 600 deals. Key descriptive statistics regarding acquirers' relationships with financial advisors are displayed in the first part of Table 2. The mean of cumulative abnormal return is significantly different from zero at 0.95%. Therefore, unlike many U.S. observations and consistent with the Japanese results by Kang, Shivdasani, and Yamada (2000) and Schaik and Steenbeek (2004), it seems that the acquirers in Japan are able to capture positive gains by carrying out M&A deals. Using a mean-plus-minus-three-sigma criteria, I am able to identify fourteen deals that can be considered outliers. I then check whether these deals should indeed be considered outliers and find that most of these outlier observations have their economic roots. For instance, the highest acquirer CAR in my sample is 38.84%, which seems unnaturally high. However, this deal is a within-industry consolidation between Kobe Diesel Co. and Mitsubishi Heavy Industries Marine Machinery & Equipment Co. Ltd, and a highly positive reaction from the stock market is not strange. Therefore, outliers like this are not excluded from my analysis to reflect economic reality.

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35.0% of the acquirers hired financial advisors who also had functioned as their "kanji" securities houses and experienced an average CAR of 0.89%, while the rest saw an average CAR of 0.98%. 25.5% of the acquirers hired financial advisors with whom they had commercial banking relationships and saw an average CAR of 1.21%, seemingly larger than the rest who experienced an average CAR of 0.86%. In addition, 16.0% of the acquirers faced target advisors who had functioned as acquirers' own "kanji" securities houses and saw an average CAR of only 0.11%, seemingly much smaller than the rest who experienced an average CAR of 1.11%. Last but not least, 18.5% of the acquirers faced target advisors with whom acquirers had commercial banking relationships and experienced an average CAR of 0.73%, smaller than the rest who saw an average CAR of 1.00%. In addition to sample means, I also calculated and tested the difference between the ones with relationships and those without. To properly test the difference, I first conducted an F-test for each subsample pair to check whether variances are equal or not, then I conducted a T-test respectively. Although I failed to find statistically significant differences between these four pairs, the differences for certain pairs themselves still seem to be economically large. For example, deals advised by advisors who had commercial banking relationships with the acquirers brought on average 0.35% higher abnormal returns than the rest, which is a 40.7% difference. This seems to suggest that commercial banking groups can provide better M&A advisory services for clients with whom they had banking relationships and can be consistent with a certification effect and the "main yose" phenomenon. Further, deals where the targets' advisors had functioned as the acquirers' "kanji" arrangers brought an average CAR of only 0.11%, which is not significantly different from zero, while the rest experienced on average 1.11%, which is significant at 1% level. This 1.00% difference seems to indicate that acquirers' "kanji" securities houses can harm acquirers when advising target firms and supports the existence of conflicts of interest.

3.4   Adding Control Variables

The differences in cumulative abnormal returns could be caused by the certification effect and/or the conflicts of interest which are discussed in Section 2.2. However, there could also be a number of other explanations, such as the differences in relative size between buyer and target and the method of payment. Therefore, in addition to abnormal returns and dummy variables indicating the relationship between acquirers and financial advisors, I incorporate a set of control variables into my analysis to capture the impact resulting from deal characteristics. Many of these control variables are popular among the corporate finance research community. The rationale behind these control variables and how I construct them are discussed in the following subsections. A brief definition of all control variables is available in Table 1, while descriptive statistics for dummy control variables can be found in Table 2 and Table 3.

3.4.1   *Relative Size between Acquirer and Target*

Relative size between acquirer and target is an important factor to consider in M&A and is often included as a control variable in relevant studies. It is intuitive to think that relative size affects the magnitude of acquirer abnormal returns. For example, if a target is very small compared with its acquirer, the impact of their merger should be rather limited since acquirer does not pay much. However, there are different ideas and results when it comes to whether this impact itself is negative or positive. Moeller, Schlingermann, and Stulz (2004) find that acquirer announcement returns are positively related with relative deal size: small acquirers receive roughly 2% higher abnormal returns in their sample. In addition, using a set of Japanese data, Hanamura, Inoue, and Suzuki (2008) also find buyer's abnormal returns to be higher for deals where target's market capitalization is larger relative to buyer's market capitalization. Fuller, Netter, and Stegemoller (2002) find that "the returns to acquirers are more positive the greater the relative size of the target for private targets and subsidiaries and more negative the greater the relative size of the target for public targets." Allen, Jagtiani, Peristiani, and Saunders (2004) expect a

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negative relationship between relative size and abnormal returns because merger with a large target could escalate the internal fight over capital allocation.

To control for the potential effects discussed in the paragraph above, I constructed a *RELA_SIZE* (relative size) variable using the following three steps. First, I collected deal values from two sources: the RECOF database and the Datastream Professional database. The RECOF data uses JPY as the unit for deal values and is preferred in my analysis. However, when the RECOF database failed to provide a deal value, I used the deal values downloaded from Datastream Professional and translated them from U.S. dollar to Japanese yen. Downloaded from investing.com, the exchange rates for this purpose are the monthly exchange rates at the time of deal announcements. Second, daily market capitalization data for all acquirers was downloaded from the Nikkei NEEDS database using closing price. Finally, I calculated *RELA_SIZE* by dividing deal values with market capitalization of acquirers. Although there are conflicting ideas and results regarding the sign condition of *RELA_SIZE*, I choose to follow the Japanese results found by Hanamura, Inoue, and Suzuki (2008) and estimate a positive coefficient for this variable.

3.4.2 *Payment Method*

Variables indicating whether cash medium or stock medium are used have been widely incorporated into M&A gains models. Asquith, Bruner, and Mullins (1990), Huang and Walking (1987), Travlos (1987), and Yook (2000) find significant negative abnormal returns at deal announcement for deals financed with stock. A widely accepted explanation for this result is the adverse selection effect. Acquirers tend to make stock offers when they, with private information about their own value, know that their shares are overvalued by target shareholders. Target shareholders would then put a discount on their estimate of an acquirer's value since they recognize and understand this adverse selection effect. In addition, Hanamura, Inoue, and Suzuki (2008) find that in Japan, targets' abnormal returns tend to be higher when cash is chosen as the method of payment. To indicate whether a deal is an all-cash deal, a

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non-cash deal, or a combination of cash and non-cash, I constructed three variables: *PCT_CASH* (percentage of cash used in deal payment), *TENDER_OFFER* (1 if deal is done using a tender offer, 0 otherwise), *STOCK_SWAP* (1 if deal is done using a stock swap, 0 otherwise) from Datastream Professional for each deal. It is suggested by previous researchers that *PCT_CASH* and *TENDER_OFFER* should have a positive coefficient and *STOCK_SWAP* a negative one.

3.4.3   *Toehold Investments and Final Holdings*

Toehold is defined as an acquirer's ex-ante shareholdings in a target prior to a deal announcement. Researchers have considered toehold investments to be an important issue in M&A deals since they are capable of reducing potential free-riding problems and resistance from target management. Stulz et al (1990) and Betton and Eckbo (2000) find that the gains to target shareholders are negatively related to acquirer's toehold investments.   Mantecon (2009) also finds toehold investments to be associated with larger gains to acquirers in deals where both sides are in the same country. In the spirit of these scholars, I constructed *TOEHOLD* with ex-ante shareholding data downloaded from Datastream Professional. In addition, I utilized the same database and added a *FINAL_HLD* variable to indicate the eventual percentage of shares held by acquirers. The intuition of adding this variable is to rule out the potential effects caused by minority shareholders after M&A. Following previous studies, I estimate a positive coefficient for *TOEHOLD*.

3.4.4   *Diversification or Not*

There are three types of M&A deals when one thinks about the industries which acquiring and target firms are in. First, the target can be in the same industry as the acquirer, which is usually called a horizontal M&A. Such deals are often expected to bring economy of scale and cost reduction. Second, the target can be in the value chain of the acquirer, which constitutes a vertical M&A and, in theory, allows the acquirer to reap more value. Third, a deal can be neither horizontal nor vertical and is called a

conglomerate or diversifying deal. Berger and Ofek (1995) find that during 1986 to 1991 and on average, conglomerate firms suffer from a 13% to 15% value loss due to diversification programs and conclude such loss are caused by overinvestment and cross-subsidization and modestly reduced by tax benefits of diversification. They also find value loss to be "smaller when the segments of the diversified firm are in the same two-digit SIC code". In addition, Comment and Jarrell (1995) find evidence of a negative relation between abnormal returns and several metrics measuring firm diversification. Lang and Stulz (1994) also document a negative relation between Tobin's *q-ratio* and these diversification measures. In order to control for the effects brought by such variations in targets' and acquirers' industries, I used the industry specification data provided by Datastream Professional and constructed a dummy variable called *CROSSIND* (1 if acquirer and target are in different industries and 0 otherwise). I estimate a negative sign condition for this variable following these previous results.

3.4.5   *International Deals*

There are different opinions regarding the effects of M&A deals that cross country borders and corporate multinationalism. Doukas and Travlos (1988) find that shareholders of multinational corporations without operations in the country where target resides see significant positive abnormal returns when international acquisitions are announced. What they find is consistent with the theory of *corporate multinationalism* which predicts that expanding existing international network helps enhance a firm's market value. In addition, Freund et al. (2007), Francis et al. (2008), and Akhigbe and Martin (2000) report positive abnormal returns for acquirers in cross-border deals. What's more, Kang (1993) finds statistically significant wealth gains to both Japanese acquirers and U.S. target firms for Japanese M&A deals happening in the U.S. However, many also have found conflicting evidence. For example, based on a set of 44,288 observations of U.S. firms between 1984 and 1997, Denis et al. (2002) find global diversification to be associated with reduced firm value. Moeller and Schlingemann (2005) report a lower acquirer gains for cross-border deals compared to domestic ones using 4430 observations by U.S.

acquirers from 1985 to 1995. Similar results are also found by Chatterjee and Aw (2004), Eckbo and Thorburn (2000) and Mantecon (2009). In order to control for the effect brought by cross-border deals, I add a dummy variable *CROSS_BORDER* (1 if target's headquarter is located outside Japan and 0 otherwise) to my analysis. Following the Japanese-U.S. evidence by Kang (1993), I estimate a positive sign condition for this variable.

3.4.6   *Reputation of Advisors in M&A deals*

Another important factor considered by the academia when examining the role of advisors in M&A deals is reputation. The papers on reputation give mixed results. On the one hand, some papers show that advisors with good reputation have failed to capture gains for the bidders. The results by Bowers and Miller (1990) indicate that acquisition deals where first-tier investment banks are hired, either by the buyers or targets , bring a larger total incremental wealth gains. Unfortunately, first-tier investment bankers are not found able to produce higher gains for the shareholders of acquirers in their analysis. To measure reputation, some other scholars tried using market share as a proxy. For example, Ismail (2010) defines the ten advisors with the ten largest M&A market share as tier-one. He reports that "acquirers advised by tier-one advisors lost more than $42 billion, while those advised by tier-two advisors gained $13.5 billion at the merger announcement." Still, in his paper, total gains to the combination of both sides are found to have a positive relationship with high reputation but mostly driven by targets' positive returns. Chuang (2014) also reports that hiring tier-one advisors caused bidders to see larger losses but did not impact shareholder wealth for target firms significantly. In addition, Hunter and Jagtiani (2003) show that synergistic gains captured by the bidders became lower when top-tier advisors were hired, although top-tier advisors tended to complete deals both faster and at a higher success rate. On the other hand, some other papers show that employing advisors with good reputation can lift acquirer gain. For example, Golubov, Petmezas and Travlos (2012) specify another eight investment banks as top-tier and considered the rest non-top-tier using market share. Contrary to

prior studies, they find top-tier advisors capable of bringing better returns to acquirers than non-top-tier advisors, which on average led to a $65.83 million dollar gain for acquirer shareholders. However, this only held for public acquisitions "where the advisor reputational exposure and required skills set are relatively larger." In addition, Rau (2000) find that acquirers advised by first-tier advisors saw greater abnormal returns than those who hired non-first-tier advisors in tender offers, but not in mergers. Last but not least, Kale et al. (2003) document that the total absolute gains, along with the percentage of it captured by the bidder exhibit a positive relationship with the reputational gap between the bidder's advisor and that of target.

Therefore, to control for these effects associated with advisor reputation, I constructed three variables: *A_TIER_ONE* which indicates whether acquirer's advisors include at least a tier-one advisor (1 if yes, 0 if not), *T_TIER_ONE* which indicates whether target's advisors include at least a tier-one advisor (1 if yes, 0 if not), and *TIER_ONE* which indicates whether at least one tier-one advisor is involved (1 if yes, 0 if not). In order to construct these three dummy variables, I collected M&A rank value data for the period 2012 through 2017 from *Japanese M&A Review Financial Advisor* published by Thomson Reuters. I then marked the top ten advisors or financial groups, as in terms of total deal value market share in Japanese M&A market over these six years, as the tier-one advisors, while all others were considered tier-two. The resulting top ten tier-one advisors in my analysis are Mitsubishi UFJ Morgan Stanley, Mizuho Financial Group, Nomura, Goldman Sachs, Merrill Lynch, Sumitomo Mitsui Financial Group, J.P. Morgan, Citi, Daiwa, and Deutsche.

3.4.7   Deal Attitude

Deal attitude (friendly, neutral, or hostile) of each deal can be found in the Datastream Professional database. Out of my 600 Japanese observations, I find zero hostile deals and only five deals that were considered neutral, while the rest 595 deals are all friendly. This is no surprise since hostile takeover is a very rare practice for Japanese managers. However, deal attitude is an important variable

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often included in studies done in other countries and has influences on deal outcomes. For example, Cotter and Zenner (1994) report lower abnormal returns for hostile takeovers compared to friendly deals after controlling for a number of deal characteristics. Schwert (2000) also finds acquirers to be faced with lower abnormal returns in hostile takeovers. Therefore, although there are only five neutral deals in my sample, I add a *FRIENDLY* (1 if friendly and 0 if otherwise) variable anyway in my analysis for robustness purposes and estimate a positive sign condition for it.

3.4.8   Other Control Variables

In addition to the variables discussed above, I add *RUMORED* and annual dummy variables to my analysis. The Datastream Professional database marks deals that had rumors before actual announcements as using a "rumored deal technique". I used this information to construct *RUMORED* (1 if a deal had been rumored to be going to happen before actual announcement and 0 otherwise) and put it in my models since ex-ante rumors and information leakage could distort market reaction. Annual dummy variables were constructed using the year of deal announcement date are intended to capture time-related effects that are not already in my analysis. It would be ideal to also have financial data of target firms as control variables, such as financial leverage and profit margin. However, a large number of the targets in my sample were private firms and very limited financial information could be found about them.

Since I apply twenty-two independent variables (including annual dummy variables) in my analysis, it is natural for one to worry about a multicollinearity problem. Therefore, I first evaluated whether multicollinearity is an issue or not using a correlation matrix for all independent variables. The correlation matrix is displayed in Table 4. Most of the independent variables exhibit low correlations that are smaller than 0.2 with each other, while certain high correlation coefficients can be expected due to the variables' definitions. Nevertheless, I further check variance inflation factors (VIFs) and confirm that this does not constitute a multicollinearity problem.

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3.5   The Models

After my set of control variables are constructed, I estimate the following three expressions

using ordinary least squares (OLS) regressions for my entire data set of 600 observations:

Model (1):

$$CAR_i = f(A\_Aad\_B, A\_Tad\_B, A\_Aad\_S, A\_Tad\_S) + \varepsilon_i$$

Model (2):

$$CAR_i = f(A\_Aad\_B, A\_Tad\_B, A\_Aad\_S, A\_Tad\_S, RELA\_SIZE, PCT\_CASH, FRIENDLY, CROSSIND,$$

$$CROSSBORDER, RUMORED, TOEHOLD, FINAL\_HLD, A\_TIER\_ONE, T\_TIER\_ONE, TIER\_ONE) + \varepsilon_i$$

Model (3):

$$CAR_i = f(A\_Aad\_B, A\_Tad\_B, A\_Aad\_S, A\_Tad\_S, RELA\_SIZE, PCT\_CASH, FRIENDLY, CROSSIND,$$

$$CROSSBORDER, RUMORED, TOEHOLD, FINAL\_HLD, A\_TIER\_ONE, T\_TIER\_ONE, TIER\_ONE, YEAR) + \varepsilon_i$$

Where CAR_i is the 3-day cumulative abnormal return to acquirer i, and a definition for all other variables

can be found in Table 1. ε_i represents the error term.

Section 4.   EMPIRICAL RESULTS AND CONCLUSION

In this section, three items are discussed. First, overall deal characteristics (presented in Table 3)

controlling for commercial banking and "kanji" house relationships are reported. Descriptive statistics

controlling for the dummy control variables have already been discussed in Section 3.3 and are available

in Table 2 and Table 3. Then, OLS results (presented in Table 5) for all three model specifications are

reported in detail. Finally, I draw conclusions based on the regression results.

Table 3 shows the deal characteristics controlling for commercial banking and "kanji" house relationships. *A_Aad_S*, *A_Tad_S*, and *A_Tad_B* taking on the value of 1 seem to be related with lower probabilities of international deals, one potential explanation for which could be that Japanese domestic securities houses tend to have weaker global presence compared with foreign advisors and are more likely to be involved in cross-border deals. In addition, having any of the four acquirer-advisor relationships seems to be associated with higher probabilities of tender offers. Besides, acquirers in deals where their "kanji" houses are employed as advisors seem to have more toehold investments than those in other deals. What' more, *A_Aad_S* seems to be positively related with rumors before announcements. *A_Tad_S* seems to be positively associated with fewer cash payments and higher probabilities of stock swaps. *A_Tad_B* also seems to be negatively related with acquirers' shares in targets and positively with cross-industry deals. Finally, the association observed between these four main variables and the three reputation variables are expected because three megabanks and five major Japanese securities houses are all considered tier-one in my analysis.

Model (1) includes only my four main variables indicating commercial banking/securities underwriting relationship between acquirers and advisors: *A_Aad_B*, *A_Tad_B*, *A_Aad_S*, and *A_Tad_S*. Unfortunately, the coefficients on these variables are no significantly different from zero. The intercept is positive at 1.0% and significant at the 1% level. Adjusted R squared is also low at only -0.19%, indicating a poor explanatory power for Model (1). After adding thirteen variables intended to control for deal characteristics and advisor reputations to Model (1), I reach at Model (2). In this model, I still fail to find significant results for three of my main variables: *A_Aad_B*, *A_Tad_B*, and *A_Aad_S*. However, *A_Tad_S* shows a negative impact on acquirer *CAR* with a coefficient of -1.4% and is significant at 10%. It seems that Japanese acquirers, see abnormal returns from M&A deals that are on average 1.4 percent lower if their "kanji" securities houses advise target firms. The overall explanatory power, measured in adjusted R squared, increases from -0.19% to 3.80% due to the control variables

newly included. Of these thirteen added control variables, four are found to have significant influence on acquirer *CAR*. *RELA_SIZE* is strongly significant at 1% and is positively related with acquirer *CAR*. The coefficient of *CROSSBORDER* is -1.3% and significant at 5%, indicating that international targets bring gains that are on average 1.3 percent lower to acquirer shareholders. The coefficient of *PCT_CASH* is -0.034 and that of STOCK_SWAP is -3.7%, both significant at the 10% level. I fail to find coefficients that are significantly different from zero for other control variables in Model (2). The intercept of 1.8% is not significantly different from zero. Model (3) further incorporates annual dummy variables in addition to the variables used in Model (2). Adjusted R squared does improve slightly from 3.80% to 3.87%, but the main results do not vary much from those of Model (2). The low explanatory power here could mean that I have missed some important control variables. The coefficients of year 2012, 2013, 2014, 2015, and 2016 are all negative, but only *Y2013* and *Y2016* seem to have effects on acquirer *CAR* that are significantly different from zero.

This paper examines the role of commercial banking groups and "kanji" securities houses as M&A advisors in Japan using a sample of 600 deals announced during the time period from January 1, 2012 through December 31, 2017. In contrast to many U.S. results and consistent with the Japanese results by Kang, Shivdasani, and Yamada (2000) and Schaik and Steenbeek (2004), I find significantly positive average abnormal returns of 0.95% to acquirers upon M&A announcements. My analysis shows that wealth gains, measured as 3-day cumulative abnormal returns, to Japanese public acquirers tend to be smaller when targets' financial advisors are acquirers' "kanji" securities houses who once helped acquirers go public. This result is significant only at the 10% level. However, commercial banking relationship between acquirers and advisors does not seem to influence acquirer gains. In addition, acquirer *CAR* tends to be higher when target is larger relative to acquirer. Cross-border deals where targets are located outside Japan tend to bring negative impact on acquirer gains.

My results provide evidence in favor of net conflicts of interest with regard to Japanese "kanji" securities houses. A Japanese acquirer's "kanji" securities house once helped its IPO and likely continue to provide a series of services, ranging from market making to corporate advisory, to it. In such a relationship, it is possible that the securities house has cumulated some private information about the acquirer. As the target's advisor, the securities house has incentives to help sell the target and earn fees, without having to be worry about possible bad outcomes for the acquirer. Therefore, Japanese "kanji" securities houses could potentially utilize their private knowledge about acquirers in M&A negotiations and set higher valuation for targets in order to earn higher fees. Such conflicts of interest can therefore be priced by the market in the form of significantly lower returns to acquirers when targets hire acquirers' "kanji" as financial advisors.

Unfortunately, I am not able to find similar evidence for deals where targets advisors are acquirers' commercial banks. Contrary to the results by Kang, Shivdasani and Yamada (2000) where close banking relationships enhanced shareholder wealth, my analysis also seems to produce little evidence for a net certification effect for either commercial banks or securities houses when they function as acquirers' advisors. However, this, to a degree, could be caused by the imperfectness of dummy variables indicating the commercial banking in my analysis. The data I collect from Nikkei ValueSearch show the commercial banks with whom each acquirer had a relationship with, but this relationship is not necessarily a commercial lending one. For instance, Toyota Motor Corp., Japan's top automobile maker who is also famous for not borrowing money, has banking relationships with MUFG bank and SMBC according to Nikkei ValueSearch. This relationship can hardly be a lending one since Toyota has a strong reserve of cash and does not borrow, therefore the two banking groups do not monitor Toyota's financials and should not have much private information about Toyota. Nevertheless, Nikkei ValueSearch is the only source available to me, which could lead to biased data and the

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insignificant results that I find. Further studies could ideally avoid this problem by having commercial

banking relationships data of higher accuracy.

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APPENDIX

Table 1. Definition of Variables

A_Aad_S	acquirer's advisor or its affiliated entities underwrote securities for acquirer.
A_Aad_B	acquirer's advisor or its affiliated entities had commercial banking relationship with acquirer.
A_Tad_S	target's advisor or its affiliated entities underwrote securities for acquirer.
A_Tad_B	target's advisor or its affiliated entities had commercial banking relationship with acquirer.
RELA_SIZE	Relative size calculated as deal value divided by market capitalization of acquirer.
PCT_CASH	Percentage of cash used in deal payment.
TENDER_OFFER	A dummy indicating whether a deal is done using a tender offer, 1 if yes and 0 if otherwise
STOCK_SWAP	A dummy indicating whether a deal is done using a stock swap, 1 if yes and 0 if otherwise
FRIENDLY	A dummy indicating whether a deal is a friendly one or a neutral one, 1 if friendly and 0 if neutral.
CROSSIND	A dummy indicating whether a deal is cross-industry or not, 1 if cross-industry and 0 otherwise.
CROSSBORDER	A dummy indicating whether a deal crosses international border or not, 1 if target's headquarter is located outside Japan and 0 otherwise.
RUMORED	A dummy indicating whether a deal is "rumored", 1 if the deal had been rumored to be going to happen before actual announcement and 0 otherwise
TOEHOLD	An acquirer's ex-ante percentage of share in a target prior to a deal announcement.
FINAL_HLD	An acquirer's final percentage of share in a target after a deal is done.
A_TIER_ONE	A dummy indicating whether acquirer's advisors include at least a tier-one advisor, 1 if yes and 0 if not
T_TIER_ONE	A dummy indicating whether target's advisors include at least a tier-one advisor, 1 if yes and 0 if not
TIER_ONE	A dummy indicating whether at least a tier-one advisor is involved, 1 if yes and 0 if not
Y201X	Dummy variables indicating when the deal announcement date was for year 2012, 2013, 2014, 2015, 2016, and 2017

Table 2. Overall Descriptive Statistics

Variables		All Observations	A_Aad_S	A_Aad_B	A_Tad_S	A_Tad_B	TENDER_OFFER	STOCK_SWAP
Acquirer CAR	YES=1	600 deals 0.95%***	210 deals 0.89%**	153 deals 1.21%**	96 deals 0.11%	111 deals 0.73%**	77 deals 0.51%	81 deals 1.41%
	NO=0		390 deals 0.98%***	447 deals 0.86%***	504 deals 1.11%***	489 deals 1.00%***	523 deals 1.01%***	519 deals 0.88%***
Difference			-0.09%	0.35%	-1.00%	-0.27%	-0.50%	-0.53%

Variables		FRIENDLY	CROSSIND	CROSSBORDER	RUMORED	A_TIER_ONE	T_TIER_ONE	TIER_ONE
Acquirer CAR	YES=1	595 deals 0.97%***	260 deals 0.63%*	238 deals 0.43%	54 deals 0.15%	299 deals 0.88%***	213 deals 0.76%**	382 deals 0.82%***
	NO=0	5 deals -1.57%	340 deals 1.19%***	362 deals 1.29%***	546 deals 1.03%***	301 deals 1.02%***	387 deals 1.05%***	218 deals 1.18%***
Difference		2.54%	-0.57%	-0.87%*	-0.88%	-0.15%	-0.29%	-0.35%

Variables		Y2012	Y2013	Y2014	Y2015	Y2016	Y2017
Acquirer CAR	YES=1	124 deals 0.99%**	88 deals 0.31%	99 deals 0.68%	115 deals 1.07%**	115 deals 0.73%	59 deals 2.45%**
	NO=0						

Notes: *, **, *** denote significance at the 10%, 5%, 1% level, respectively, testing whether the mean equals zero for CARs, or whether the difference is zero.

Table 3. Overall Descriptive Statistics Mean

	A_Aad_S			A_Aad_B			A_Tad_S			A_Tad_B			All Sample
	Yes = 1	No = 0	Difference	Yes = 1	No = 0	Difference	Yes = 1	No = 0	Difference	Yes = 1	No = 0	Difference	
N	210	390		153	447		96	504		111	489		600
RELA_SIZE	0.16	0.13	0.03	0.16	0.13	0.03	0.15	0.14	0.01	0.13	0.14	-0.01	14.1%
PCT_CASH	0.83	0.86	-0.03	0.84	0.85	-0.01	0.77	0.87	-0.10***	0.81	0.86	-0.05	85.1%
TENDER_OFFER	0.26	0.06	0.21***	0.19	0.11	0.08***	0.21	0.11	0.10**	0.20	0.11	0.09**	12.8%
STOCK_SWAP	0.15	0.13	0.03	0.14	0.13	0.00	0.21	0.12	0.09**	0.16	0.13	0.03	13.5%
FRIENDLY	1.00	0.99	0.01	0.99	0.99	0.00	0.99	0.99	0.00	0.99	0.99	0.00	99.2%
CROSSIND	0.40	0.45	-0.06	0.48	0.42	0.06	0.47	0.43	0.04	0.52	0.41	0.11**	43.3%
CROSSBORDER	0.32	0.44	-0.12***	0.35	0.41	-0.07	0.09	0.45	-0.36***	0.10	0.46	-0.37***	39.7%
RUMORED	0.12	0.07	0.05**	0.08	0.09	-0.01	0.11	0.09	0.03	0.11	0.09	0.02	9.0%
TOEHOLD	0.07	0.02	0.06***	0.05	0.03	0.02	0.07	0.03	0.03***	0.04	0.03	0.01	3.6%
FINAL_HLD	0.90	0.92	-0.02*	0.91	0.92	-0.01	0.90	0.92	-0.02	0.87	0.93	-0.05***	91.6%
A_TIER_ONE	0.98	0.24	0.74***	0.95	0.34	0.60***	0.64	0.47	0.16***	0.54	0.49	0.05	49.8%
T_TIER_ONE	0.43	0.31	0.12***	0.40	0.34	0.06	0.94	0.24	0.69***	0.88	0.24	0.65***	35.5%
TIER_ONE	0.98	0.45	0.52***	0.95	0.53	0.43***	0.99	0.57	0.42***	0.93	0.57	0.36***	63.7%
Y2012	0.20	0.21	-0.02	0.21	0.21	0.00	0.22	0.20	0.01	0.23	0.20	0.03	20.7%
Y2013	0.15	0.14	0.01	0.13	0.15	-0.02	0.15	0.15	0.00	0.23	0.13	0.10***	14.7%
Y2014	0.18	0.16	0.02	0.22	0.15	0.08**	0.18	0.16	0.01	0.13	0.17	-0.05	16.5%
Y2015	0.17	0.21	-0.04	0.14	0.21	-0.07**	0.22	0.19	0.03	0.23	0.18	0.04	19.2%
Y2016	0.21	0.18	0.03	0.21	0.19	0.02	0.18	0.19	-0.02	0.13	0.21	-0.08*	19.2%
A_Aad_S	-	-	-	0.65	0.25	0.40***	0.53	0.32	0.22***	0.41	0.34	0.07	35.0%
A_Aad_B	0.47	0.14	0.33***	-	-	-	0.38	0.23	0.14***	0.20	0.27	-0.07	25.5%
A_Tad_S	0.24	0.12	0.13***	0.24	0.13	0.10***	-	-	-	0.41	0.10	0.31***	16.0%
A_Tad_B	0.21	0.17	0.05	0.14	0.20	-0.06	0.48	0.13	0.35***	-	-	-	18.5%

Notes: *, **, *** denote significance at the 10%, 5%, 1% level, respectively, testing whether the differences equal to zero or not.

Table 4. Correlation Matrix for Independent Variables

	RELA_SIZE	PCT_CASH	TENDER_OFFER	STOCK_SWAP	FRIENDLY	CROSS_IND	CROSSBORDER	RUMORED	TOEHOLD	FINAL_HLD	A_TIER_ONE	T_TIER_ONE	TIER_ONE	Y2012	Y2013	Y2014	Y2015	Y2016	A_Aad_S	A_Aad_B	A_Tad_S	A_Tad_B
RELA_SIZE	1.00																					
PCT_CASH	-0.23	1.00																				
TENDER_OFFER	-0.08	0.14	1.00																			
STOCK_SWAP	0.20	-0.92	-0.15	1.00																		
FRIENDLY	0.02	-0.04	-0.02	0.04	1.00																	
CROSSIND	-0.05	0.07	0.07	-0.06	0.01	1.00																
CROSSBORDER	0.01	0.28	-0.13	-0.29	0.00	-0.08	1.00															
RUMORED	0.05	0.03	0.07	-0.02	0.03	-0.05	-0.02	1.00														
TOEHOLD	-0.03	-0.11	0.32	0.13	-0.04	0.04	-0.18	0.03	1.00													
FINAL_HLD	0.12	-0.19	-0.29	0.19	0.01	-0.04	0.10	-0.05	-0.24	1.00												
A_TIER_ONE	0.08	0.01	0.28	-0.02	0.02	-0.06	0.00	0.13	0.18	-0.07	1.00											
T_TIER_ONE	0.07	-0.05	0.13	0.03	0.03	0.00	-0.23	0.16	0.04	0.00	0.17	1.00										
TIER_ONE	0.05	0.04	0.19	-0.08	0.05	-0.04	-0.10	0.14	0.13	-0.03	**0.75**	0.56	1.00									
Y2012	0.05	0.02	0.00	-0.02	-0.04	0.01	-0.03	0.01	-0.02	0.00	0.01	0.09	0.05	1.00								
Y2013	-0.04	0.02	-0.03	-0.01	0.04	0.10	-0.09	-0.05	-0.08	-0.02	-0.02	-0.01	-0.02	0.21	1.00							
Y2014	-0.08	0.06	-0.01	-0.06	-0.11	-0.04	0.02	0.02	-0.03	0.00	0.01	-0.01	0.01	0.23	0.18	1.00						
Y2015	-0.03	-0.05	0.09	0.06	0.04	-0.01	0.04	-0.05	0.08	-0.05	-0.03	0.05	-0.01	0.25	0.20	0.22	1.00					
Y2016	0.11	0.01	-0.02	-0.02	0.04	-0.04	0.08	0.04	0.00	0.06	0.07	-0.02	0.04	0.25	0.20	0.22	0.24	1.00				
A_Aad_S	0.05	-0.04	0.29	0.04	0.03	-0.06	-0.12	0.09	0.26	-0.07	**0.70**	0.12	0.52	0.02	0.01	0.03	0.05	0.04	1.00			
A_Aad_B	0.05	-0.02	0.11	0.00	0.01	0.05	-0.06	-0.01	0.07	-0.04	0.53	0.05	0.39	0.00	0.03	0.09	0.08	0.03	0.36	1.00		
A_Tad_S	0.02	-0.11	0.10	0.09	-0.01	0.03	-0.27	0.04	0.12	-0.04	0.12	0.53	0.32	0.01	0.00	0.01	0.03	0.02	0.17	0.12	1.00	
A_Tad_B	-0.01	-0.05	0.10	0.04	0.00	0.09	-0.29	0.03	0.02	-0.12	0.04	0.53	0.29	0.03	0.11	0.05	0.04	0.08	0.06	-0.06	0.33	1.00

Notes: correlation coefficients higher than 0.7 are made bold and highlighted.

Table 5. OLS Results

Variable	Definition	Model (1)	Model (2)	Model (3)
Intercept	OLS constant	0.010*** (0.003)	0.049 (0.037)	0.065* (0.038)
A_Aad_B	Acquirer hires its own commercial bank	0.005 (0.006)	0.005 (0.007)	0.004 (0.007)
A_Tad_B	Target hires acquirer's commercial bank	0.001 (0.007)	-0.003 (0.008)	-0.002 (0.008)
A_Aad_S	Acquirer hires its "kanji" securities house	-0.001 (0.006)	-0.0003 (0.007)	-0.001 (0.008)
A_Tad_S	Target hires acquirer's "kanji" securities house	-0.011 (0.007)	-0.014* (0.008)	-0.014* (0.008)
RELA_SIZE	Deal value over acquirer market cap		0.046*** (0.010)	0.046*** (0.010)
PCT_CASH	Percentage of cash payment		-0.034* (0.019)	-0.034* (0.019)
TENDER_OFFER	Deal is done with a tender offer		-0.004 (0.009)	-0.005 (0.009)
STOCK_SWAP	Deal is done with a stock swap		-0.037* (0.019)	-0.039** (0.019)
FRIENDLY	Friendly deal attitude		0.023 (0.027)	0.022 (0.027)
CROSSIND	Acquirer and target in different industries		-0.006 (0.005)	-0.005 (0.005)
CROSSBORDER	Target HQ outside Japan		-0.013** (0.006)	-0.014** (0.006)
RUMORED	Rumor about deal before announcement		-0.010 (0.009)	-0.011 (0.009)
TOEHOLD	Acquirer's ex-ante share in target		-0.011 (0.027)	-0.017 (0.027)
FINAL_HLD	Acquirer's final share in target		-0.024 (0.017)	-0.023 (0.017)
A_TIER_ONE	Acquirer hires at least a tier-one advisor		-0.001 (0.011)	-0.0002 (0.011)
T_TIER_ONE	Target hires at least a tier-one advisor		0.002 (0.008)	0.003 (0.008)
TIER_ONE	At least a tier-one advisor acts as advisor		-0.005 (0.011)	-0.005 (0.011)
Y2012	Dummy for 2012			-0.016 (-0.010)
Y2013	Dummy for 2013			-0.022** (-0.010)
Y2014	Dummy for 2014			-0.015 (-0.010)
Y2015	Dummy for 2015			-0.012 (-0.010)
Y2016	Dummy for 2016			0.019* (-0.010)
R Squared		0.50%	6.50%	7.40%
Adjusted R^2		-0.19%	3.80%	3.87%
Observations		600	600	600

Notes: *, **, *** are significance indicators at the 10%, 5%, 1% levels, respectively. Standard errors are in parentheses.