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## Does relationship matter? The choice of financial advisors

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# Does relationship matter? The choice of financial advisors



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## Does Relationship Matter? The Choice of Financial Advisors

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## Does Relationship Matter? The Choice of Financial Advisors

### **Abstract**

Using a sample of U.S. mergers and acquisitions, this study evaluates how banking relationships influence acquirers' choice of financial advisors. Specifically, it examines: i) acquirers' previous relationships with advisors in various financial activities: M&A advisories, equity issuings and lending activities; ii) the optimism of analyst recommendations; and iii) how acquirers' past satisfaction with their financial advisors determines the choice of financial advisors. Overall, the findings suggest that the influence of banking relationships on a firm's choice of financial institutions is limited in the area of M&A advisory business. The implications from the traditional "relationship banking" studies may not be suitable to explain how firms choose advisors, due to the wide variety of practices in investment banking activities. The evidence portrays that firms with M&A experience are more likely to switch financial advisors with poor deal outcomes. Firms without M&A experience, on the other hand, are more likely to choose their underwriters as financial advisors, especially when they provide overly optimistic analyst coverage prior to the transactions.

## 1. Introduction

U.S. firms have experienced a merger and acquisition (*M&A* hereafter) wave over the last two decades. The total transaction value in the U.S. market increases from \$243 billion in 1984 to a peak of \$1.8 trillion in 1999 (according to the Securities Data Corporation, Mergers and Acquisitions Database, *SDC* hereafter). A common characteristic of these transactions is that they usually involve financial advisors. For instance, financial advisors are used in over 82% (See Figure 1) of M&A deals (by transaction value) between 1984 and 2003.<sup>1</sup>

[INSERT FIGURE 1 HERE]

Although the services of financial institutions are prevailing in various aspects of corporate activities, the factors that determine the selection of financial advisors are still unclear, especially from the perspective of the relationship between those financial institutions and their clients. Diamond (1991), Rajan and Winton (1992), and James (1992), among others, argue that banks provide more effective and efficient services to clients through lasting relationships. The central argument for “relationship banking” focuses on the role of banks in generating information through screening (Diamond, 1991) and monitoring (Rajan and Winton, 1992). Specifically, the proprietary information banks generate on borrowers via repeated lending business (economy of scale) reduces the banks' average cost and therefore motivates and helps to retain existing clients in the lending business, as well as to gain future business in other areas (e.g., bond or equity underwritings) from the same client. In the latter case, the bank achieves economy of scope by spreading the fixed costs of information production over multiple products. The recent studies by Yasuda (2005), Ljungqvist et al. (2006), Drucker and Puri (2005), and Bharath et al. (2007) confirm that the presence of existing lending relationships significantly increases banks' likelihood of winning future underwriting business and/or loans from the same clients.

However, the traditional "relationship banking" hypothesis may be weak in the M&A advisory business due to the different nature of M&A practices. The information-production process in M&A involves not only acquirer-specific information, but also target information, deal-specific information, and the execution of the transaction if stock is the exchange medium.

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<sup>1</sup> Securities Data Corporation: league table.

Furthermore, the market's unfavorable response to acquirers upon M&A announcements makes the investigation of the advisor-client relationship even more interesting, in that banks must manage a relationship under such extraordinary pressure, if such a relationship is even manageable at all.

Furthermore, there is both anecdotal and empirical evidence that financial firms are becoming more and more aggressive and proactive in retaining current clients and winning future ones. *Business Week*, for example, cited this proactive side of investment banking in 1986<sup>2</sup> as one of the underlying factors in the M&A wave that started during that period. Some recent studies of equity issuances also support the hypothesis that proactive investment banks are reaching out for potential business (see Ellis et. al, 2004). Besides the media stories and the scholarly evidence, there is also good reason to suspect the solicitous side of investment banks, given the significant fees they received<sup>3</sup> during the last two decades of M&A waves. We contend that the proactive side of investment banks may significantly increase the banks' chance of winning future business if it is true that the bank-client relationship is weak in the M&A advisory business.

The existing literature also suggests that other factors may affect a firm's choice of financial institutions. For example, although previous studies on the reputations of the acquirers' financial advisors and deal outcomes (e.g. Bowers and Miller (1990), Michel, Shaked and Lee (1991), Servaes and Zenner (1996), and Rau (2000)) either finds no or negative relation between them, the recent study by Golubov, Petmezas and Travlos (2011) offers new evidence and demonstrates that reputation matters, but only when taking over public targets. Furthermore, equity issuers may retain their underwriters for future issuings if they had a satisfying experience (Ljungqvist and Wilhelm, 2005) or receive better analyst coverage (Krigman et al., 2001). Gopalan, Udell, and Yerramilli (2009) find that firms may switch banks to get better credit or capital market services. In particular, we use analyst recommendations as a proxy to measure the

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<sup>2</sup> "There's been steady movement away from the traditional role as counselor toward activity initiated by the investment banker himself." (*Business Week*, Nov 24, 1986, p.77).

<sup>3</sup> The fee data is sparse in the SDC database because such information is rarely disclosed. And the Securities Industry Association (SIA) also does not track how much investment banking revenue is from M&A advisory fees, because the data falls into the category of "revenues from other investment banking related business." We estimate the revenue from M&A advisory work by multiplying the total advisor-assisted M&A transaction values by the average fee (estimated to be 0.9% over the years) from the SDC database. The estimated revenues from M&A advisory fees increased from \$1.5 billion in 1984 to a peak \$15 billion in 1999. We estimate the revenue from M&A advisory work by multiplying the total advisor-assisted M&A transaction values by the average fee (estimated to be 0.9% over the years) from the SDC database.

proactiveness of investment banks. Recent studies show that analyst coverage is an important factor in firms' decision to switch underwriters. For example, Krigman et. al (2001) suggest that firms request additional and influential analyst coverage from new lead underwriters, and they will switch underwriters to get it. They conclude that issuers place value on incremental and perceived high-quality research coverage by sell-side analysts, and they allocate their resources, in the form of underwriting fees, to increase and improve this coverage. We contend that proactive investment banks may provide optimistic analyst recommendations prior to the deal to increase their chances of winning the financial advisory business if this service is valued by the acquirers.

Therefore, to investigate how acquirers choose and why they switch financial advisors, we examine factors such as banking relationships, analyst coverage, and acquirers' previous banking experience. Specifically, this study attempts to answer the following questions: Do economies of scale (through repeated M&As) or scope (through equity underwriting and lending activities) helps bank win future M&A business? Do factors such as analyst coverage determine whether advisors are retained or switched? Does a company's previous experience with a bank matter at all to its subsequent choice of financial advisors? And finally, we report how the advisor-acquirer relationship influences the market's reaction to the acquirer's announcement.

To answer those questions, we obtain deal and financial advisor information on every M&A transaction completed by U.S. public acquirers between 1990 and 2003 from SDC. These data are then divided into three groups to identify banking relationships according to their activities in the five years prior to the focal M&A. Specifically, the first group contains acquiring firms that only issued equity. The second group contains acquiring firms that only conducted M&A transactions. And the final group contains firms that conducted both activities.

Contrary to the hypothesis of "relationship banking," we observe that acquirers seem to show little loyalty toward their financial advisors. In our sample of 914 U.S. public firms that conducted M&A repeatedly between 1985 and 2003, only about 18% of them retained the financial advisor(s) they used in their previous M&A transaction. Although the bank-client relationship seems to be generally weak in the M&A advisory business given the high switching rate, we find that the significance of such relationships varies depending on the acquirers' previous M&A experiences.

Specifically, for firms without recent M&A experience that only conducted equity offerings in the previous five years, both the number of previous equity issuings (a proxy for the strength of the banking relationship) and the optimism of the underwriters' analysts' recommendations (a proxy for the proactiveness of the investment banks) significantly increased the likelihood that the company would retain the previous equity underwriter. The effect of the affiliated analysts' optimism is particularly true for stock deals, in which professional firms have more influence on their clients' M&A decisions (Hayward, 2003) and the acquirers seem to value such service the most. These results suggest that investment banks that have developed equity underwriting relationships with their clients and have acted positively prior to the transaction are rewarded by being hired for their clients' first M&A deal in years.

In contrast, for the two groups with recent M&A experience, neither the number of previous M&A deals with the client nor the optimism of their analysts' recommendations increases the advisor's likelihood of being retained. We find that for these two groups of acquirers, it is the deal outcome (measured by announcement effects) of previous M&A deals that determines whether an acquirer retains the advisor for its next M&A transaction. We also find that although optimistic analyst recommendations do not increase an advisor's chance of winning repeat M&A advisory business, such recommendations do help in approaching and winning a new client.

Our results show that the influence of analyst coverage is complementary to the existing literature. On one hand, analyst coverage does increase investment banks' chances when pursuing new clients for M&A advisory business. On the other hand, it does not help retain a client if the client's previous M&A experience with the bank was not satisfying. The impact of the lending relationship on the likelihood of being retained is mixed. Only for acquirers that are active in both equity issuing and M&A deals does the lending relationship (and the strength of the lending relationship) significantly increase the likelihood of retaining a previous advisor.

Lastly, the data show that the choice of financial advisors, defined by the type of advisor-acquirer relationship, significantly affects the market's reaction to acquirers' announcements. The direction of the impact, again, varies depending on acquirers' M&A experience. Specifically, those acquirers that do not have recent M&A experience and retain their equity underwriters experience significantly more unfavorable announcement effects—particularly for



stock financed deals. In contrast, those acquirers that have M&A experience in recent years and retain the same financial advisor(s) throughout experience significantly higher abnormal returns.

In sum, this study finds that the acquirer-advisor relationship is weak in the M&A advisory business. It depends on the acquirers' previous M&A experience and could be easily broken by other factors, such as the optimistic analyst coverage from a competing bank if the previous M&A outcome is not satisfying. Previous studies on the market reaction to the choice of advisors focus on their reputation or relative reputation. We show that the market reacts more to the reasons for the advisory choice than to the choice itself.

The remainder of the paper is structured as follows. Section 2 reviews the relevant literature and motivations of the empirical analyses. Section 3 describes the data; Section 4 discusses the results of the analyst recommendations and the choice models. Section 5 discusses the event study results and presents a cross-sectional analysis of the announcement effects. We conclude in Section 6.

## **2. Related Literature and Motivations for the Hypotheses**

The number of papers that examine financial advisors in corporate takeovers is sparse, and the evidence provided by these papers is inconclusive. More importantly, previous studies mostly focus on the reputations of financial advisors as measured by their market shares. For instance, Servaes and Zenner (1996) propose that several important factors affect acquirers' choice of professional firms or in-house expertise, and they find no relation between an advisor's reputation and the bidder's wealth. Rau (2000) concludes that advisor reputation has a positive relationship with the likelihood of completing the deal but not with clients' stock prices. Kale, Kini, and Ryan (2003), on the other hand, examine acquirers' and target advisors' *relative* reputations. They find that wealth to bidders increases as the reputation of the bidders' advisor increases relative to that of the target.

Bao and Edmans (2009) challenge the notion that investment banks' reputation should be solely based on market share. They provide evidence that clients seem to overlook investment banks' past performance when selecting advisors but rely instead on the past market share. Furthermore, they suggest that the league table of investment banks' past performances should be published in order to improve clients' selection decisions and advisors' incentives to avoid

bad deals. Although their study is insightful, questions remain as to how and why clients select and change their financial advisors in M&A.

The existing literature in other areas indicates that other important factors may influence a firm's choice of professional firms. For example, studies of equity underwriters find that firms retain investment banks if they have had a satisfying experience with them (Ljungqvist and Wilhelm, 2005); studies also find that firms may choose investment banks for a particular service, such as better analyst coverage (Krigman et al., 2001). Recent work by Yasuda (2005), Drucker and Puri (2005), and Bharath et al. (2007) provide evidence, too, that the presence of a banking relationship significantly increases a bank's likelihood of winning future underwriting business and/or loans from its clients. They show that the influence of the lending relationship in many cases overrides the effects of other prominent factors, such as fees and analyst recommendations. When studying the factors that determine whether to stay with or switch a financial advisor, we include those that have been shown to have some impact on the choice of investment banks.

It is possible that proactive investment banks could influence that choice—a possibility that the M&A literature has not explored. Figure 2 presents the total revenue of investment banking industry and the total value of M&A transactions from 1984 to 2003. The two trends appear closely correlated.

[INSERT FIGURE 2 HERE]

Figure 3 presents the estimated revenue that investment banks received from M&A advisory work and the revenue received from all underwriting activities between 1984 and 2003. Given that M&A advisory fees have become an important revenue source for investment banks, especially in 90s, investment banks are understandably at least as proactive in these activities as they are in equity offerings. Thus, if investment banks are proactive in M&A, are they more concerned with initiating and completing deals than with providing advice that serves shareholders' best interests?

[INSERT FIGURE 3 HERE]

The existing evidence suggests the former. Hayward (2003), for instance, suggests that firms make stock-financed acquisitions—despite the strong evidence that those acquisitions result in inferior performance—because stock financing is more complicated and thus allows finance professionals to gain greater influence over the acquisition process (Abbott, 1988; Pfeffer, 1981). Such decisions then reflect the preferences and biases of acquiring firms' executives and their advisors, who decide precisely what to acquire and how to acquire it (Cyert et al., 1963).

Therefore, identifying the financing methods of the M&A deals and the advisors' involvement in acquiring firms' previous equity issuings may explain the choice of financial advisors and the announcement performance variations among corporate takeovers as well. We contend that because professional firms and individuals can adopt and implement their favored practices—which may lead clients toward complex solutions with problematic outcomes (Abrahamson and Fairchild, 1999; Hayward, 2003) —investment banks that have helped their clients with IPOs and/or SEOs are likely to approach their clients again with possible takeover opportunities and convince them that stock financing is a better option for the potential deals.

Those deals that are helped along by previous equity managers and are financed by stock are more likely to be categorized as deals solicited by investment banks for a few reasons. First, by making relationship-specific investments, such as researching client problems and investing in client executives and communication channels, (Abbott, 1988), previous equity managers can easily approach their clients again with a possible takeover opportunity. Second, as Hayward (2003) argues, stock-financed deals enable investment banks to gain greater influence on the acquisition process. Such deals are obviously favorable to those “has-been” equity managers. Firms might also allow their investment banks to manage the relationship, manipulate strategic directions, and/or exercise other influence. As result, the market punishes these deals by adjusting the price down. Therefore, we expect to find a negative relationship between market reactions to acquiring firms' M&A announcements and their use of previous equity managers. Stock-financed deals should drive this negative relationship.

In sum, as Hayward notes, “The prominence of professional firms in Western societies underscores the continued need for theory and evidence on the nature and implications of professional action.” We believe that it is worthwhile to look into the relationship between

acquiring firms and their investment banks over time and how this relationship may impact firms' performance in current activities.

### **3. Data and Summary Statistics**

#### **3.1 Sample**

The study's initial sample includes all U.S. firms that conducted a merger or acquisition between January 1990 and December 2003. To measure the previous relationship between the acquiring firms and their investment banks, we then identify those acquiring firms that conducted initial public offerings and/or seasoned equity offerings, and/or conducted a merger or acquisition within five years prior to the original M&A sample. Using the Securities Data Company (SDC) New Issues Database and Global Mergers and Acquisitions Database, the sample is then screened for the following criteria:

- a) Information about acquirer's financial advisors is available<sup>4</sup>
- b) Underwriters' information is available for equity issuances
- c) Mergers or acquisitions in utility or financial industry are excluded
- d) Shares owned after the merger or acquisition is larger than 50%
- e) Self-tender offers are excluded
- f) Acquirer does not have any mergers or acquisitions within 255 days prior to the announcement date

Stock information, which comes from the CRSP database, must include data for the 265 days prior to and 10 days after the announcement date so as to create a 255-day estimation window and 21-day event window for the event study. We also hand-match each acquirer to the Loan Pricing Corporation's DealScan database to identify whether, how much, and from whom the acquirer borrowed money in the five years prior to the M&A announcement. Therefore,

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<sup>4</sup> Because it is important to conduct this study with investment bank information and the SDC seems not to have advisor information all the time, we double-checked the representativeness of the sample. According to the SDC M&A database, among the 91,230 M&A transactions conducted by U.S. acquirers from 1990 to 1999, 11,043 have acquirers financial advisors information available. We then checked the SDC league table, which reports 95,368 M&A transactions in the U.S. market between 1990 and 1999, and found that financial advisors helped in 19,430 deals. Thus, the SDC M&A database captures about 60% of advisor-assisted deals (85% from a value perspective).

subject to the standards listed, SDC reports 1,792 mergers or acquisitions between January 1990 and December 2003.

Table 1 presents the distribution of the previous activities of the acquiring firms in the focal sample by payment method and target type.

[INSERT TABLE 1 HERE]

*Group 1: Issued Equity(ies)* refers to acquiring firms that only issued IPOs, SEOs, or both within five years prior to the announcement of the current M&A; *Group 2: Conducted M&A(s)* refers to those firms that conducted only M&A within five years prior to the announcement date of the current M&A; and *Group 3: Both Activities* refers to the acquiring firms that conducted both equity issuings and M&A within five years prior to the announcement of current M&A. Of these 1,792 M&A transactions, 878 (49%) had only issued equities in five years (Group 1); 380 (21%) had only conducted M&A in five years (Group 2); and 534 (30%) had conducted both activities (Group 3). We separate the sample this way to easily observe and interpret the banking relationships between acquiring firms and investment banks from the perspective of the information-production process.

As shown in Table 1, about 32% of the deals are all-cash and 73% involve private targets. Stock is a dominant financing method for acquirers, especially those taking over public targets, because 397 out of 482 deals (82%) involving public targets are financed by stocks. Acquiring firms that only issued equity in the previous five years are most likely to conduct stock-financed M&A (72%), but those that had only conducted M&A in five years are more likely to pay in cash (42%).

### **3.2 Prior Relationships**

To further investigate acquirers' previous relationships with their current M&A advisors, we categorize the relationships between acquiring firms and their current financial advisors. Table 2 summarizes the data.

[INSERT TABLE 2 HERE]

“Keep,” for the firms that only issued equity, refers to the company's retention of its equity underwriters for current M&A advisory work. For example, Lehman Brothers helped Premier Parks take over Six Flags in October 1997, and Lehman Brothers also helped Premier Parks on its IPO and seasoned equity issuances less than five years before the announcement date of the takeover. Therefore, Premier Parks falls into the group of firms that “keep” their equity underwriters for current M&A. Those that do not retain their previous equity underwriters are in the “Switch” group.

We define “Keep” in this group if the acquiring firm retains any of their previous equity underwriters. We believe this categorization is a more natural way of describing the relationship between acquiring firms and their underwriters, as it relates to M&A, for the following reasons. First, underwriting and M&A are two different activities. Second, underwriting and M&A advisory are two different departments in investment banks, which means acquirers deal with two groups of professionals (even though those groups might assist each other in getting business).

It would be too risky to assume that acquiring firms stay with their financial advisors for the same reasons they chose those advisors during their equity underwritings, especially when the determinants of choice are still a mystery. Though the definition of “Keep” in this group relies on a familiarity approach, the regression analyses presented later do control for the strength of such relationship by incorporating the number and amount of issuances. The analysis also includes a variable that indicates whether the underwriter managed the acquirer's most recent equity offerings, as such relationship may intuitively have stronger influence.

Stricter criteria apply when separating the other two groups of acquirers (the groups that conducted M&A less than five years prior) into “Keep” or “Switch” groups. Specifically, an acquirer falls into the “Keep” category if it retains the financial advisors it used for all of its previous M&A. A stricter definition applies to these groups in order to highlight the factors that influence acquiring firms’ decision to retain or switch advisors, particularly in extreme cases where firms consistently stay with same financial advisors.<sup>5</sup>

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<sup>5</sup> Acquirers may switch financial advisors in different types of M&A activity. This study identifies and controls for such deal-specific characteristics. We also relax the definition of “Keep” for these two groups and find that the results are qualitatively the same.

Table 2 summarizes the sample firms' prior relationships with investment banks, sorted by activity type. "Group 1" contains acquirers that only issued equity in the five years preceding their M&A activity; "Group 2" contains acquirers that only conducted M&A in the five years preceding; and "Group 3" contains acquirers that did both. The percentages for each group denote the proportion of firms that retained their previous investment banks. Due to M&A activity within the investment banks themselves from 1985 to 2003, we collect M&A news about investment banks from Lexis-Nexis Academic to ensure consistency.

According to the results in Table 2, 46% of the acquiring firms that only issued equity in the five years prior to their M&A activity retained their equity underwriters as M&A advisors. The "Keep" ratio is much lower for groups 2 and 3.<sup>6</sup> Specifically, only 15% of the acquiring firms with M&A activity in the preceding five years stay with the same financial advisors, and only 20% of the firms that engaged in both M&A and equity-issuance activities do not switch.

These relatively high switch ratios suggest at least two things. First, M&A advisory is a more competitive business than underwriting because, according to Ljungqvist and Wilhelm (2005), the keep ratio is about 64% when issuing firms conduct subsequent events. Second, given that acquiring firms are not particularly loyal to their investment banks, investment banks' market share of M&A advisory work is curiously not related to the results of their services (Rau, 2000). Therefore, factors other than relationship and outcome may determine why acquirers hire (but not necessarily retain) M&A advisors.

Table 3 offers a closer look at the distribution of acquiring firms according to their switching details. *Up* in groups 1 and 2 refers to acquirers that switched to a higher-ranking investment bank (rank is measured by market share of M&A advisory business), *Same* refers to acquirers that switched to a similarly ranked investment bank, and *Down* refers to acquirers that switched to a lower-ranking investment bank. The *To Dumped Advisors* subcategory of Group 3 refers to the firms that switched back to the advisors that participated in some of the firm's previous M&A transactions; the *To Equity Underwriters* subcategory refers to firms that switched back to their equity underwriters; and the *To New* subcategory refers to the firms that switched to new banks. All the rankings are according to the market share in the year the transactions occurred.

[INSERT TABLE 3 HERE]

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<sup>6</sup> Please note that the definition of "Keep" differs slightly between these groups.

As Table 3 shows, less than a third of the firms in both groups 1 and 2 switched to more reputable banks; they were actually more likely to switch to lower-ranked banks. These results suggest that reputation in the M&A advisory market is not a major driver for switching firms in subsequent M&A. For group 3, of the acquiring firms that conducted both M&A and equity-issuing activities, over 65% of the switchers chose banks with which they had no relationships at all.

The results confirm the findings in Table 2 that the market for financial advisory services is competitive and volatile. Little loyalty seems to exist on the part of acquiring firms when it comes to retaining financial advisors. A preliminary examination of the relationships further suggest that factors (e.g., banks' reputations, relationship banking) shown to be influential in other studies do not seem to drive acquirers' decisions in choosing a financial advisor for M&A.

### **3.3 Summary Statistics**

Table 4 presents the summary statistics for the focal sample of M&A from 1990 to 2003. The data show that acquiring firms that conducted only M&A in the preceding five years (Group 2) are generally larger than the other two groups of firms. The average market capitalization of the Group 3 acquirers four weeks prior to their transactions is about \$13.6 billion; it is only \$1.1 billion for Group 1 (equity issuances only) and \$4.4 billion for Group 2 (both activities). The data also show that Group 1 firms pay significantly lower fees<sup>7</sup> if they retain their equity underwriters. In either group, acquirers are more likely to purchase public targets if they have retained their previous investment banks. This is consistent with Hayward's (2003) conjecture that investment banks influence M&A transactions because their abstract knowledge or skill (such as valuations or negotiation with the management teams under public scrutiny) is in more demand for stock transactions and acquisitions of public targets.

[INSERT TABLE 4 HERE]

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<sup>7</sup> Note that SDC's fee information is very limited and only reports information for about 5% of total M&A activity. According to the SDC league table, however, financial advisors assisted in about 20.4% of all M&A transactions from 1990 to 1999, and we assume they did not do it for free (we report earlier in this paper that financial advisors are involved in over 80% of transactions from a value perspective). Thus, about 75% of the fee information is missing in this analysis and should be interpreted with caution.



Studies by Yasuda (2005); Ljungqvist, Marston, and Wilhelm (2006); Drucker and Puri (2005); and Bharath, Dahiya, Saunders, and Srinivasan (2007) provide evidence that the presence of a lending relationship with a client significantly increases a bank's likelihood of winning future business (bond/equity underwriting or loans, as examples) from the same clients. Consistent with their findings, the univariate results in Table 4 suggest that acquirers that retain their underwriters or financial advisors are likely to have existing lending relationships with those institutions. Particularly for Group 3, both the presence and the strength of the lending relationship are significantly and positively related with the decision to retain or switch financial advisors.

#### **4. The Determinants of the Decision to Keep or Switch Advisors**

##### **4.1 Analyst Coverage**

To examine whether banks use analyst coverage to solicit M&A business, we obtain all available recommendations published within one year preceding and following each M&A transaction's announcement date in the sample. We limit the attention to analyst recommendations because, unlike earnings forecasts, analysts can issue as many recommendations as they wish at any point in time. If there are cases in which banks use analyst recommendations to cajole managers, it should be easier to observe among recommendation activities. We also collected post-transaction analyst recommendations in order to detect changes in analysts' pre- and post-transaction biases. *I/B/E/S* provides analyst coverage for firms from 1993, but not all firms in the sample have published recommendations from within one year prior to and after their transactions; thus, the sample excludes those firms with incomplete analyst information.

Note that in contrast to the extant analyst-coverage literature, we do not define analysts' affiliation with the acquirers based on the current employment. This study focuses on whether acquirers' prior related banks behave differently from the consensus around the current M&As. Therefore, we determined the affiliation of each analyst in the sample according to the acquirer's prior relationship with the analyst's employer. Please distinguish the analyst recommendations from “hired” banks (current advisors) and those from “affiliated” banks (previously related banks, not necessarily retained) in the sections follow. *SDC* provides equity underwriter and advisor information for acquiring firms in previous activities, and *I/B/E/S* lists the institutions

whose analysts issue recommendations. Matching the two samples requires tremendous work because the codes from these two databases are totally different and the number of previous activities and recommendations easily magnify the matching job.

We take the following criteria to calculate the consensus. We exclude the recommendations offered by affiliated analysts. Because investment banks might use analyst recommendations to entice a new client, we also exclude the recommendations offered by unaffiliated but currently hired brokers. Therefore, the consensus is the average recommendation from previously unrelated and currently un-hired investment banks.

Table 5 presents the summary statistics for acquirers with analyst recommendations available in the year before and after the focal M&A transactions. Panel A reports the number of acquiring firms successfully identified in I/B/E/S, sorted by their previous activities and the type of payment method. Panel B of Table 10 shows the average number of recommendations received by each acquiring firm. Column (2) in Panel B shows the proportion of the number of recommendations received from the currently hired financial advisors prior to current transactions. Columns (3) and (4) report the changes in the number of recommendations for each firm and in the proportion of recommendations from the acquirers' current advisors after current transactions.

[INSERT TABLE 5 HERE]

Specifically, 1,207 (67%) of 1,792 acquiring firms in our study receive recommendations in the year preceding their transactions, and 1,392 (78%) receive recommendations within one year after. According to the results in Panel B, acquirer Group 2 (firms that conducted only M&A) receive a relatively higher number of recommendations, which makes sense considering that those firms are the largest of the firms in the sample (recall Table 4). For all three groups of firms, the number of analyst recommendations significantly increases after the transactions. On the other hand, the proportion of recommendations from currently hired advisors significantly increases for Group 1 acquirers, especially when the transaction is a stock deal. Similar patterns do not exist in other two groups—a finding that suggests that analyst recommendations might be particularly valuable to firms conducting their first M&A transactions in years, which are generally much smaller in terms of market capitalization.

## 4.2 Analyst Objectivity

Table 6 shows analysts' recommendations sorted by previous relationship with the acquirers and by their employment in the current M&A transactions. To present the relationship between the analysts' objectivity and the acquirers' choice to retain previous banks, we calculate the deviation of the affiliated recommendations by comparing them with the consensus. Therefore, only when a pair of recommendations from both the previously related analysts and the consensus is available can we test the analysts' objectivity. Some firms only receive recommendations from previously related analysts, and others may only receive recommendations from totally unrelated and un-hired analysts, both of which are dropped from the objectivity study.

[INSERT TABLE 6 HERE]

Panel A\_1 of Table 6 reports the distribution of recommendations for acquirer groups 1 and 2. We test the objectivity of Group 1's 572 pre-transaction recommendations, among which 407 recommendations were from previously related (affiliated) analysts. Exactly 95 of those 407 recommendations were from previously related and currently retained banks, and 312 were from previously related but currently un-hired banks. We test the objectivity of Group 2's 140 pre-transaction recommendations, among which 89 recommendations were from previously related (affiliated) analysts.

Panel A\_2 presents the number of recommendations for Group 3. The panel first reports the analyst recommendations from previously related and currently hired investment banks, including those that were the financial advisors for the acquiring firms in all of their previous M&A transactions (*Kept*), those that were the financial advisors in some of the client's M&A transactions (*Switched to Related Advisors*), and those that were the equity underwriters in their clients' previous equity issuings (*Switched to Underwriters*). The table then reports the analyst recommendations from the dumped investment banks, including those that were the financial advisors in previous M&A transactions but not hired this time (*Dumped Previous M&A Advisors*) and those that were the equity underwriters in previous equity issuances but not hired as financial advisors this time (*Dumped Previous Underwriters*). Calculating the objectivity of

the analyst recommendations requires a pair of recommendations from both previously related analysts and the consensus, which reduces the number of observations.

Panel B in Table 6 presents the objectivity of recommendations for different groups of firms. The objectivity, or the *deviation* of the analysts' recommendation, is the difference between the recommendations from previously related and/or currently hired banks and those from previously unrelated and currently un-hired banks.

Panel B\_1 and panel B\_3 present the results for Group 1 (acquirers that only issued equities). Here, the average quality of recommendations from previously related and currently hired underwriters is 4.37<sup>8</sup> and the average deviation is 0.39, which is significant at the 1% level. In contrast, the average quality of recommendations from previously related but currently un-hired underwriters is 4.05 and the average deviation is 0.02, which is not significant. The t-test between deviations (2) and (4) suggests that in order to get the job, previously related underwriters offer significantly and positively biased recommendations compared to the consensus in the year before the M&A transaction.

Kolasinski and Kothari (2008) suggest that the biases of analysts could be explained by execution-related reasons, selection biases, or proactiveness of investment banks. Specifically, the execution-related hypothesis suggests that given that the investment banks have already won the advisory business in this group, the acquiring firms' managers may coax their analysts to offer more favorable recommendations so they can buy targets at relatively cheaper prices. This execution-related hypothesis is only valid for stock deals. In our sample, however, prior related underwriters offer significantly more optimistic recommendations in all cases regardless of the payment method.

The possible selection-bias explanation assumes that investment banks are objective but that acquirers select those with the most optimism. This hypothesis does not explain the results of our sample either: first, previously related underwriters with more optimistic recommendations are also selected in all-cash paid transactions; second, if acquirers also prefer more optimistic analysts in all-cash transactions, those analysts become no more optimistic after the transaction; third, both the absolute quality of the recommendations and the relative

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<sup>8</sup> I/B/E/S classifies recommendations on a scale from 1 to 5, where 1 is strong buy and 5 is strong sell. To interpret the scores easily, we calculated the difference between 6 and each recommendation. Therefore, the higher the number, the more favorable the recommendation is.

deviations by retained equity underwriters drops significantly after both cash and stock transactions. Note that the observations are deviation changes. Therefore, the focus is on whether previously related analysts behave *differently* than unrelated and un-hired ones.

Proactivity on the part of the investment banks seems to offer the best explanation for these deviations. We suspect that on average, investment banks approach potential clients at a point when the acquirers have not determined whether the deal will be a cash deal or a stock deal. Thus, the proactive hypothesis implies that to win the advisory business, banks tell their analysts to offer research coverage that is more optimistic than the consensus. Once the investment bank wins the business and the deal is completed, the pressure is off and the analysts return to recommendations that are closer to the consensus, which should be especially true in all-cash transactions because banks do not have to “bless” deals as they do in stock deals. The results from Panel B\_1 and Panel B\_3 suggest that this might be the case—the average deviation of the recommendations from previously related and currently hired banks drops from 0.39 to 0.18. In all-cash transactions, the deviation drops from 0.42 to almost 0.

There are costs to being overly optimistic, such as jeopardizing the reputation of the research department. This trade-off may push previously related banks back to consensus in all-cash deals and reduce the biases in stock deals after the transactions close. Note that the proactive hypothesis differs from the hypothesis of conflicts of interest (Kolasinski and Kothari, 2008) in that conflicts of interest require an existing relationship. The proactive hypothesis focuses more on motivation. Note the evidence that dumped underwriters tend to retaliate after transactions. Their average deviation from consensus in all-cash transactions drops from 0.03 to -0.11.

The results reported in Panel B\_2 and Panel B\_4 are different for Group 2 acquirers (which conducted M&A in the preceding five years). The recommendations from retained advisors do not differ from their pre-transaction recommendations. This suggests that the quality of the analyst coverage is not a decisive factor for retention if the acquirer has recent M&A experience. Nonetheless, those previously related and currently hired financial advisors do provide more optimistic analyst coverage after transactions, especially stock transactions (the average deviation of recommendations increases from 0.06 to 0.30).

In addition, in groups 1 and 2, acquirers that switch banks pick those with more optimistic analyst recommendations, especially in stock transactions. Therefore, although analyst

coverage may not always help banks keep clients, it is definitely an important factor in winning business from prospective clients.

Panel B\_5 and Panel B\_6 report the results of analyst coverage for Group 3 acquirers (which had conducted both equity issuances and M&A in the preceding five years). Consistent with the findings for Group 2, those previously related and currently hired (*Kept*) financial advisors do not offer recommendations that significantly differ from the consensus within the year prior to the transaction. Interestingly, dumped banks, especially those previously hired as underwriters, offer more optimistic analyst recommendations before and after the M&A. We also find that when these acquirers decide to switch to totally new banks, they pick those that offer more optimistic analyst recommendations before the transactions, particularly stock transactions.

In sum, the results in Table 6 suggest that for underwriters, analyst coverage is an important factor in obtaining subsequent M&A advisory business for acquirers venturing into M&A for the first time in years, regardless of the payment method. For active acquirers, however, the decision to keep a previously related bank for M&A advisory work is not dependent on how biased the banks' analyst recommendations are. Interestingly, when firms decide to switch to totally new banks, they apparently pick the optimistic ones.

### **4.3 Analysis of Choosing an Advisor**

The literature in relationship banking suggests that banks and their clients could benefit from the efficiencies of economies of scale/scope by using the same client-specific information in various products (Drucker and Puri, 2005). When it comes to M&A advisory work, if the efficiencies of the economies of scale exist, we should observe that acquirers are more likely to retain their previous financial advisors for subsequent M&A advisory work; if the efficiencies of the economies of scope are achieved, we should observe that they are more likely to retain their previous equity underwriters or lenders for subsequent M&A advisory work. This study tests these assumptions for each of the three groups of acquirers.

As mentioned, Hayward (2003) argues that to reap the benefits of its influence, a bank must increase switching costs in order to persuade its client to hire it for future stock-financed acquisitions. Therefore, we expect that for firms that had only issued equity(ies) in the preceding five years, the bank's influence is stronger and the acquirer is more likely to conduct stock-based M&A deals when the number of preceding equity issuances increases.

Ljungqvist, Marston, and Wilhelm (2006) find that given everything else equal, IPO firms are less likely to switch underwriters for their first seasoned equity offering when they are satisfied with the IPO underwriter's performance. Following Loughran and Ritter (2002), they measure whether the decision-maker is satisfied with the outcome of the IPO by integrating gains and losses, which is a composite of the underpricing of IPOs. In this study, we simply use underpricing as a measurement of satisfaction to see how/whether it influences the acquirers' decision to retain their underwriters for advisory work. We expect that less underpriced IPOs should persuade the acquiring firms to retain their underwriters. Thus, for acquirers that conducted M&A transactions in the preceding five years, we use previous announcement effects (three-day cumulative abnormal returns) as a proxy for customer satisfaction with previous financial advisors to examine whether it influences the decision to retain or switch.

Yasuda (2005); Ljungqvist et. al (2006); Drucker and Puri (2005); and Bharath, Dahiya, Saunders, and Srinivasan (2007) provide evidence that the presence of a lending relationship significantly increases the likelihood that a bank will win future business (bond/equity underwriting, or loans) from the same clients. This study tests whether the presence of a lending relationship (and the strength of the lending relationship) affects the decision to retain or switch.

Research by Ellis, Michaely, and O'Hara (2004) and Krigman, Shaw, and Womack (2001), among others, provide evidence that underwriters cut fees to retain existing clients. This study examines whether the advisory fee affects the decision to retain or switch.

Table 7 presents the results from the logit analysis of the choice to retain previous equity underwriters for current M&A. The dependent variable is a dummy variable that equals 1 when the acquirer keeps its previous equity underwriter. Models (1) and (2) include all observations that only issued equity(ies) in the preceding five years, and they include different measurements of the lending relationship. Models (3) and (4) include observations that have analyst recommendation information available. Models (5) and (6) include observations from Models (3) and (4) but are split according to payment method. Model (7) includes variables with available fee information.

[INSERT TABLE 7 HERE]

As indicated in Table 7, the more equity the acquirer issued in the preceding five years, the more likely it is to retain its underwriters for M&A advisory work. This is consistent with the expectation that the more involved the advisor is, the more influence it has over whether it is rehired for M&A work. Price or fee structure does not seem to have a significant relationship with the choice to keep or switch, unless the acquirer has only completed equity issuances in the previous five years. The study finds that acquirers are more likely to stay with their previous equity managers in stock-financed M&A, consistent with Hayward's argument about professional influence on clients' decisions. We also find that acquirers that keep their previous equity managers are more likely to take over public targets.

Table 8 presents the results from the logit analysis of acquiring firms' choice to retain previous M&A advisors. The dependent variable is a dummy variable that reflects the choice to keep the advisor. Model (1) includes all acquirers that conducted M&A in the preceding five years; Models (2) and (3) include all observations with analyst recommendation information available. In contrast to the results for acquirers that keep their previous equity managers, the results in Table 13 indicate that previous performance determines whether acquirers keep their advisors. The results support McLaughlin's (1990, 1992) argument that reputation-building concerns protect the interest of the client firm. Fees paid and the number of M&A transactions conducted do not show significant impact on the choice to keep or switch advisors. Thus, for clients active in M&A markets, investment banks should be most concerned with the outcome of their services or they will be dumped next time and ultimately lose clients.

[INSERT TABLE 8 HERE]

Table 9 presents logit analysis results for the acquirers that conducted both equity and M&A activities in the preceding five years. "Previous CARs," which indicate the quality of previous M&A transactions, significantly increase the likelihood that acquirers stay with their old financial advisors. Both the existence of a lending relationship and the strength of the lending relationship also increase the likelihood that acquirers will retain previous financial advisors. The frequency and objectivity of analyst coverage does not increase the likelihood that an acquirer will retain a previous financial advisor for subsequent M&A transactions.



[INSERT TABLE 9 HERE]

The results from tables 7 to 9 offer distinct and important information about whether banking relationships, including those from previous equity issuances and M&A work, affect the competition for financial advisory services. In explaining whether to keep previous equity managers, the strength of the relationship (measured by the number of equity issuances in the preceding five years) and optimism of the analyst recommendations take an important role, but when it comes to deciding whether to keep previous M&A advisors, the market's previous reactions to the acquirers' deal announcements play an important role. For acquirers that conducted both equity issuances and M&A transactions in the preceding five years, the lending relationship has a significant and positive influence on the decision to retain previous financial advisors. Simply having a previous M&A advisory relationship in general, however, does not influence the likelihood of winning future advisory business.

### **5. Announcement-Period Returns to Acquiring-Firm Shareholders**

This study follows Brown and Warner (1985) to evaluate bidder returns. We estimate these abnormal returns over the three-day event window (-1, +1) using market-model benchmark returns with the CRSP equally weighted index returns. The parameters for the market model are estimated over the (-266, -11)<sup>9</sup> interval, and Patell's Z value measures significance levels.

Table 10 shows the abnormal returns for the focal sample of 1,792 M&A transactions from 1990 to 2003, categorized according to payment method, target type, and acquirers' previous activities. The results indicate that significant statistical and economic differences exist between firms that retain their investment banks and those that switch, though the differences go in opposite directions for firms that previously issued only equity issued and firms that have prior M&A experience. Group 1 firms that stay with their previous equity underwriters experience average abnormal returns of 1.31% at the 1% significance level, which is significantly lower than the 3.51% returns for firms that switch. The difference is significant at the 1% level. The data indicate that stock-based M&A transactions drive much of the difference—in fact, acquirers that use their equity underwriters to buy public targets in stock

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<sup>9</sup> We also estimate the announcement effects by stopping 46 days prior to the announcement date. The results remain qualitatively the same.

deals experience negative and significant abnormal returns of -2.34%, which is significantly lower than that of the firms that switch to new advisors.

[INSERT TABLE 10 HERE]

The relationship is the opposite for groups 2 and 3. Acquirers that retain their previous M&A advisors experience positive and significant CARs of 2.10% at the 1% significance level if the acquirers had previous M&A experience and 1.58% at the 1% significance level if they had both equity issuances and other M&A transactions in the preceding five years. Those firms that switched advisors, on the other hand, experienced negative and significant CARs of -0.70% at the 1% significance level in Group 2 and -0.30% in Group 3. The difference in announcement effects between the “Keep” group and “Switch” group is significant at 1% and 5%, respectively.

As mentioned, Hayward (2003) suggests that professional firms generate revenue by getting clients to engage in deals that utilize professional expertise. For example, consulting firms use existing engagements to persuade clients that they have ongoing strategy problems (Maister, 1993) and investment banks use acquisitions to alert clients to future financing problems (Abbott, 1988; Eccles and Crane, 1988). Hayward (2003) argues that stock-financed acquisitions more intensively apply investment banks’ expertise, making it relatively easier to get more business from existing clients by offering stock- financed acquisition opportunities. Thus, concerned shareholders of acquiring firms may punish such stock-financed acquisitions. The evidence from the event study shows that regardless of the target, stock-financed acquisitions led by previous equity managers underperformed.

Given the significantly higher abnormal returns associated with retaining advisors, the high switching ratio of over 80% is puzzling and suggests that the value of building long-term relationships with investment banks does not rely on the completeness of an M&A transaction. Indeed, unlike with equity issuances, managers face higher scrutiny from the public and from shareholders after M&A transactions. Therefore, it may be totally rational for managers to switch financial advisors in subsequent M&A transactions if they received a lot of criticism for previous deals. Switching financial advisors might not cure bad M&A deals, and the evidence shows that on average it does not. But the data show that if managers retain the same financial advisors for

deals that generate consistent, consecutive negative announcement effects, there is little space left for the managers to contend.

To illustrate the effects of switching to more prominent versus less prominent banks, Table 11 sorts announcement effects according to switch characteristics. Panels A, B, and C present results for the three groups of acquiring firms. In panels A and B, “Switch Up” refers to acquirers that switched to higher ranking investment banks (as measured by M&A market share); “Switch Same” refers to acquirers that switched to equally ranked investment banks; “Switch Down” refers to acquirers that switched to lower-ranking investment banks. In Panel C, “To Dumped Advisors” refers to firms that switched back to old advisors (but not all of them); “To Equity Underwriters” refers to firms that switched back to their equity underwriters; and “To New” refers to firms that switched to new investment banks with which they had no prior relationships.

[INSERT TABLE 11 HERE]

The results in Panel A show that “Switch Same” firms experience the best announcement effects and “Switch Down” firms experience the worst. The difference between the two categories is significant at 10%. The results also indicate that for acquirers that only issued equity in the past five years and are now doing stock-based M&A transactions, “trading down” to a lower-ranking bank still generates abnormal positive returns of 2.58% at the 1% significance level. That is 1.27% higher than the abnormal returns associated with acquirers that stay with their previous equity underwriters; the difference is significant at the 10% level. Therefore, the difference between “Keep” and “Switch” in the group of firms that only issued equity is not driven by “Switch Same” firms because even “Switch Down” is better than “Keep” with prior related equity underwriters in stock financed-acquisitions.

Panel B shows that the abnormal returns for acquirers that did M&A transactions in the preceding five years and stayed with their advisors were still 1.85% higher than those of the acquirers that switched to the same rank investment banks, the best performing group of firms that switched. The difference is significant at 10%.

Panel C shows the announcement effects of acquiring firms that conducted both equity issuance and M&A in the five years preceding the announcement date. To test whether retaining

previous financial advisors has a significantly different impact on abnormal returns than other choices, we identify firms that switch back to previously dumped financial advisors, switch to previous equity underwriters, and switch to new investment banks. The univariate tests indicate that for this group of acquirers, those that kept their financial advisors experience significantly higher announcement effects than those that switched. Stock-based transactions appear to drive the significantly inferior market reaction to switching financial advisors.

In sum, the market reacts more negatively to acquirers that conduct stock-financed acquisitions with their previous equity underwriters, and the market reacts more favorably when acquirers use the same advisor for all of their M&A transactions. The different types of prior relationships between acquiring firms and investment banks present opposite impacts on acquirers' announcement effects. Therefore, it is interesting to study this issue further and it is important to distinguish relationships built on different activities.

Following the spirit of the argument in Hayward (2003), this study looks into the specific relationships between acquiring firms and their investment banks in previous activities and how such relationships affect the performance of current M&A transactions. By identifying acquiring firms' advisors in their previous equity issuances, we offer complementary evidence for the professional-influence hypothesis.

To verify if the findings from univariate analyses remain after we include other control variables, we conduct a cross-sectional analysis to control for other variables from existent literature. The reported regression specifications use the market-model abnormal returns cumulated over the period  $t = (-1, 1)$  as the dependent variable. The main variables of interest in this study are the relationships between acquiring firms and their investment banks in previous activities and how such relationships explain the variations among acquiring firms' performance in current M&A.

From the results of the event study, we know that acquiring firms' prior relationships with their investment banks in different activities have a totally opposite impact on the announcement effects. Table 12 includes transactions by acquiring firms that only issued equity in the previous five years. Model 2 confirms the findings in the univariate tests. The negative relationship between the choice of previous equity underwriters remains after we include other control variables.

[INSERT TABLE 12 HERE]

Everything else equal, the data show that using previous equity underwriters is associated with 1.5% lower announcement returns. Estimations of other control variables are consistent with extant literature. The negative relationship between acquiring public targets is consistent with Smith (1986). Models 3 and 4 break the 878-member sample into an all-cash group and a stock group; the study then runs the same regression of abnormal returns on the main variable and the control variables. The results indicate that stock-financed acquisitions drive the negative relationship between retaining previous equity managers and announcement returns, all else being equal. Retaining previous equity managers does not have significant impact on announcement performance for the all-cash group, regardless of whether the target is public. The later result is consistent with the findings of Travlos (1987).

The results from Table 12 verify the findings in the event study after the addition of control variables. As suggested, retaining previous equity managers for M&A work reduces the value of the acquirers in stock acquisitions. Therefore, although retention is good for the investment bank, that shareholders of the acquiring firm are worse off if the investment bank has had a previous underwriting relationship with the acquirer.

Table 13 presents various specifications of the regression models for acquirers that conducted only M&A in the previous five years. Table 14 presents estimations for acquirers that conducted both activities.

[INSERT TABLE 13 HERE]

[INSERT TABLE 14 HERE]

The dependent variable is the announcement abnormal returns around period  $t = (-1, 1)$ . The positive relationship between staying with previous M&A advisors and CARs retains its statistical significance after controlling other factors. Consistent with findings from extant literature, when small acquirers conduct all-cash deals, the abnormal returns are higher. The cross-section analysis confirms the findings in the event study: shareholder wealth increases when acquirers keep their financial advisors, but it falls if those advisors are the acquirers' previous equity underwriters, especially when acquirers pursue stock-based M&A transactions.

The analysis also emphasizes the importance of the types of relationship involved in different activities.

## **6. Summary**

This study obtained information on every M&A deal completed between 1990 and 2003 that had financial advisor information available from SDC and divided them into three groups: acquirers that only issued equity in the preceding five years, acquirers that only did M&A deals in the preceding five years, and acquirers that did both. Our findings suggest that previous banking relationships have limited impact on the acquirers' decisions to keep or switch financial advisors. This may be due to the heterogeneity of the information produced in each of the deals completed. Therefore, there is no evidence that economies of scale, in terms of information-production efficiencies, exists in the M&A advisory business.

On the other hand, the data do offer evidence that relationships developed through some banking activities (such as equity issuances and/or borrowings) have an impact on the decision to retain or keep, depending on the acquirers' M&A experience. Underwriters for those acquirers that only issued equity in the previous five years have significant advantages in competing for their clients' first M&A advisory business, especially if transaction is a stock deal. Given that the average size of this group is, on average, relatively much smaller (about \$1 billion market capitalization) and has little M&A experience, these acquirers may be more likely to rely on their underwriters to signal information to the investors and support the transaction, especially when the exchange medium is stock.

For acquirers that conducted both equity issuances and M&A transactions in the preceding five years, the presence of lending relationships significantly increases the likelihood that a firm will hire its lender for subsequent M&A advisory work. These acquirers are significantly more leveraged (23.5% debt-to-asset ratio) than the acquirers that only issued equity in the preceding five years (15.8% debt-to-asset ratio) and the acquirers that only conducted M&A (18.3% debt-to-asset ratio). Acquirers may be less likely to break their lending relationships because of their heavy dependency on the debt financing.

This study also examines the impacts of analyst coverage and the outcomes of prior investment banking activities. For acquirers without recent M&A experience, the optimism of analyst recommendations is significantly related to the possibility that acquirers will hire their

underwriters for M&A work. The data suggest that investment banks act proactively prior to a transaction in order to get hired. In contrast, for the other two groups of acquirers with recent M&A experience, analysts' recommendations do not increase the likelihood that an investment bank to be retained. Rather, it is the announcement effects in previous M&A deals that decide whether a financial advisor will be rehired. Interestingly, we show that when acquirers do switch, however, they appear to choose the most optimistic ones.

Lastly, the data show that the choice of financial advisors, defined by the type of advisor-acquirer relationship, significantly affects the market's reaction to acquirers' announcements. The direction of the impact, again, varies depending on acquirers' M&A experience. Specifically, the market exhibited significantly lower announcement effects toward those acquirers without recent M&A experience that retain their underwriters for M&A advisory work, particularly if those M&As are stock deals. In contrast, those acquirers that have recent M&A experience and that keep the same financial advisors for all of those deals experience significantly higher abnormal returns.

Financial advisory work is probably the most profitable line of service for investment banks—a team of a few professionals may bring in tens of million dollars in just a few weeks of advisory services. The relationships in this line of work, however, turn out to be more difficult to manage than other types of banking relationships. We suggest that those difficulties are inherent in the nature of the service. Because M&A advisory work is not done through syndicates as in underwriting, banks come under much more scrutiny and criticism when their deals have unfavorable outcomes. As much of the M&A literature conveys, acquiring firms' shareholders lose wealth when their companies announce deals, especially when the acquirers are large and the deals are in stock (Moeller et al., 2004). Given this pressure, it is easy to understand why a firm's executive team would dump an advisor after a series of abnormally negative market reactions.

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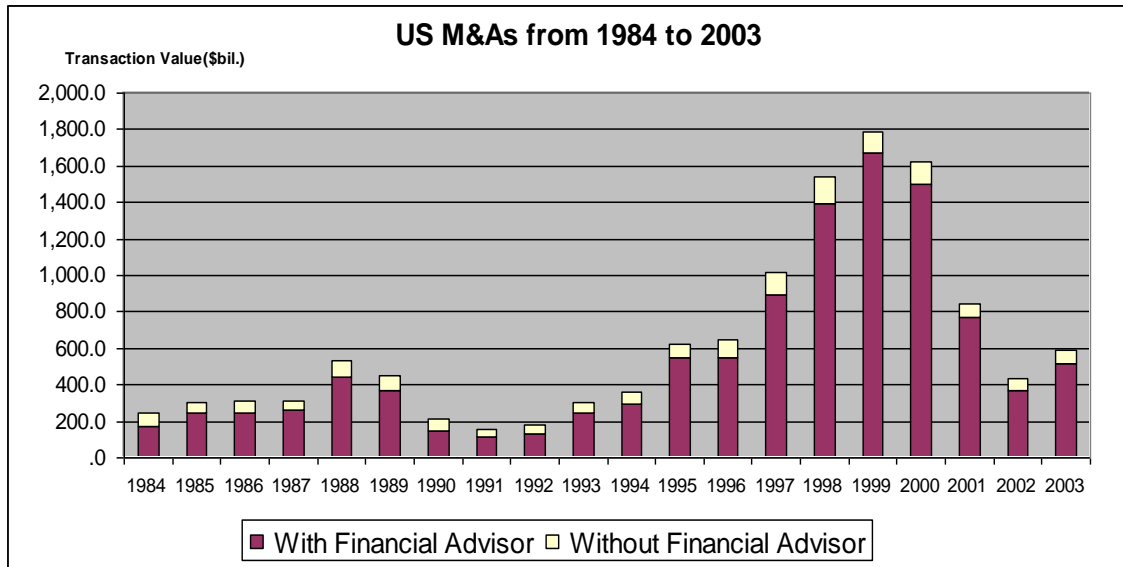
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Figure 1.

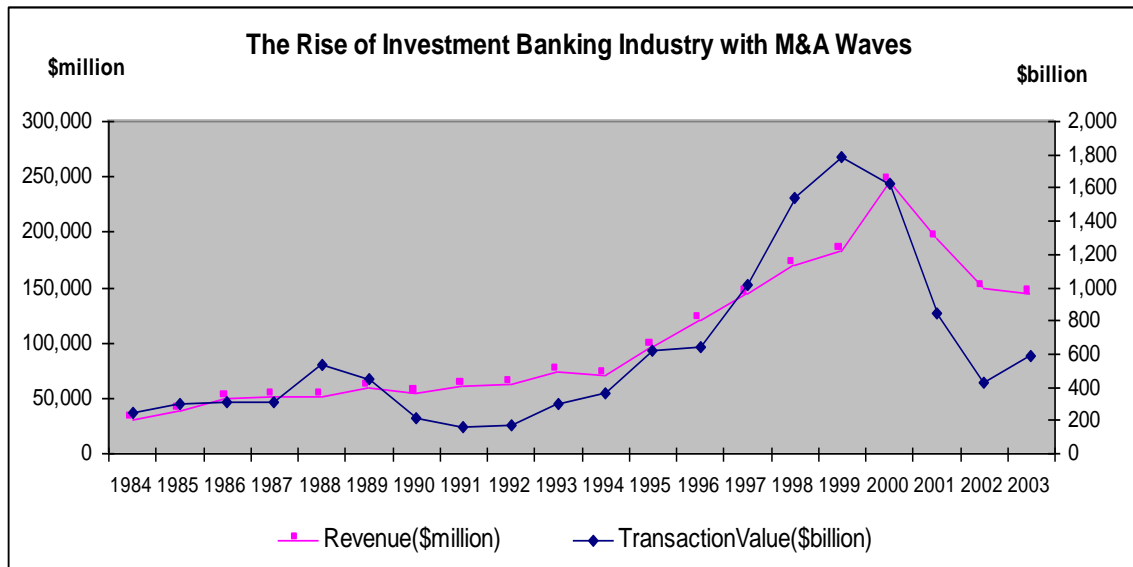
M&A Transactions from 1984 to 2003 and the Use of Financial Advisors



Source: Elaboration from SDC database.

Figure 2.

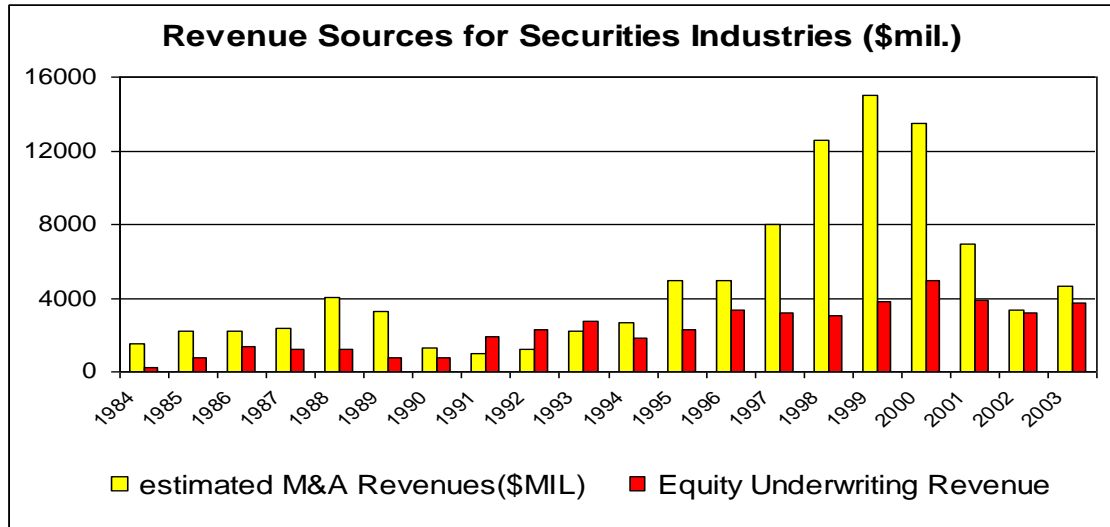
The Rise of Investment Banking Industry with the M&A Waves



Source: Elaboration based on data from SDC and SIA.

Figure 3.

Revenue Sources for Investment Banks



Source: Elaboration based on data from SDC and SIA.

Table 1  
Acquiring Firms by Previous Activities

This table presents acquiring firms' previous activities sorted by target type and payment method. Percentages are based on the total number of observations in the total sample and in each group, respectively. *Group 1: Issued Equity(ies)* refers to acquiring firms that only issued IPOs, SEOs, or both within five years prior to the announcement of the current M&A; *Group 2: Conducted M&A(s)* refers to those firms that conducted only M&A within five years prior to the announcement date of the current M&A; *Group 3: Both Activities* refers to the acquiring firms that conducted both equity issuances and M&A within five years prior to the announcement of current M&A; *Public Tgts.* refers to the firms that acquire public targets; *Other* refers to the firms that acquire nonpublic targets; *All Cash* refers to all-cash transactions; *Stock* refers to stock or stock-and-cash transactions.

	All			All Cash			Stock		
	Total	Public Tgts.	Other	Total	Public Tgts.	Other	Total	Public Tgts.	Other
All	1,792 100%	482 26.90%	1,310 73.10%	578 32.25%	85 4.74%	493 27.51%	1,214 67.75%	397 22.15%	817 45.59%
<i>Group 1: Issued Equity(ies)</i>	878 100%	223 25.40%	655 74.60%	249 28.36%	29 3.30%	220 25.06%	629 71.64%	194 22.10%	435 49.54%
<i>Group 2: Conducted M&amp;A(s)</i>	380 100%	101 26.58%	279 73.42%	160 42.11%	32 8.42%	128 33.68%	220 57.89%	69 18.16%	151 39.74%
<i>Group 3: Both Activities</i>	534 100%	158 29.59%	376 70.41%	169 31.65%	24 4.49%	145 27.15%	365 68.35%	134 25.09%	231 43.26%

Table 2  
Summary of Relationships

This table displays the *Keep Ratio*, which is the number of acquiring firms that retain their banks (equity underwriter for group 1, financial advisor for groups 2 and 3) for current transactions as a percentage of the total number of observations in each group and subgroup. *Group 1: Issued Equity(ies)* refers to acquiring firms that only issued IPOs, SEOs, or both within five years prior to the announcement of the current M&A; *Group 2: Conducted M&A(s)* refers to firms that only conducted M&A within five years prior to the announcement date of the current M&A; *Group 3: Both Activities* refers to the acquiring firms that conducted both equity issuances and M&A(s) within five years prior to the announcement of current M&A; *Public Tgts.* refers to the firms that acquire public targets; *Private Tgts.* refers to the firms that acquire nonpublic targets; *All Cash* refers to all-cash transactions; *Stock* refers to stock or cash-and-stock transactions. “Keep” in Group 1 refers to the retention of underwriters from the previous five years’ equity issuances; in Group 2, “keep” refers to retention of the same financial advisors from the previous 5 years M&A activity. In Group 3, which conducted both activities in the previous five years, “keep” refers to the retention of financial advisors from previous M&A. *Difference* denotes the difference in the *Keep* ratios of subsamples (3) and (2). *Diff.* denotes the difference in *Keep* ratios between cash deals and stock deals.

	<i>Keep Ratio (%)</i>			
	All (1)	Private Tgts. (2)	Public Tgts. (3)	<i>Difference</i> (3)-(2)
<b>Group 1: Issued Equity</b>				
Total	45.79	40.76	60.54	19.78***
All Cash	37.75	36.36	48.28	11.92
Stock	48.97	42.99	62.37	19.38***
<i>diff.</i>	11.22***	6.62*	14.10*	
<b>Group 2: Conducted M&amp;A</b>				
Total	15.00	11.83	23.76	11.93***
All Cash	12.50	10.94	18.75	7.81
Stock	16.82	12.58	26.09	13.50***
<i>diff.</i>	4.32	1.64	7.34	
<b>Group 3: Both Activities</b>				
Total	19.66	17.82	24.05	6.23**
All Cash	14.79	14.48	16.67	2.19
Stock	21.92	19.91	25.37	5.46
<i>diff.</i>	7.13**	5.43*	8.70	

The symbols \*, \*\*, and \*\*\* denote statistical significance at the 10%, 5%, and 1% levels respectively.

Table 3  
Distribution by Switching Details

This table presents the distribution of the acquiring firms by switching details. *Up* in groups 1 and 2 refers to acquirers that switched to a higher-ranking investment bank (rank is measured by market share); *Same* refers to acquirers that switched to a similarly ranked bank; *Down* refers to acquirers that switched to a lower-ranking investment bank. *To Dumped Advisors* refers to the firms that switched back to those advisors who participated in some of the firm's previous M&A transactions but not all of them; *To Equity Underwriters* refers to firms that switched back to their equity underwriters from previous equity issuances; *To New* refers to the firms that switch to new banks. *Public Tgts.* refers to the firms that acquire public targets; *Private Tgts.* refers to the firms that acquire non-public targets; *All Cash* refers to transactions that are paid in all cash; *Stock* refers to transactions that are paid in stock or a combination of cash and stock.

	Group 1: Issued Equity(ies)			Group 2: Conducted M&A			Group 3: Both Activities		
	<i>UP</i>	<i>Same</i>	<i>Down</i>	<i>UP</i>	<i>Same</i>	<i>Down</i>	<i>To Dumped Advisors</i>	<i>To Equity Underwriters</i>	<i>To New</i>
All	21.59%	35.01%	43.40%	31.89%	24.77%	43.34%	9.62%	24.88%	65.49%
<i>All Cash</i>	23.87%	32.90%	43.23%	30.00%	22.14%	47.86%	9.86%	16.20%	73.94%
<i>Public Tgts.</i>	26.67%	20.00%	53.33%	26.92%	26.92%	46.15%	10.00%	20.00%	70.00%
<i>Private Tgts.</i>	23.57%	34.29%	42.14%	30.70%	21.05%	48.25%	9.84%	15.57%	74.59%
<i>Stock</i>	20.50%	36.02%	43.48%	33.33%	26.78%	39.89%	9.47%	29.47%	61.05%
<i>Public Tgts.</i>	28.77%	35.62%	35.62%	52.94%	23.53%	23.53%	16.00%	36.00%	48.00%
<i>Private Tgts.</i>	18.07%	36.14%	45.78%	25.76%	28.03%	46.21%	5.95%	25.95%	68.11%

Table 4

## Summary Statistics for the Focal Sample of M&amp;A Transactions

This table sorts deal and firm characteristics according to acquiring firms' preceding five years of activities and their relationship with previous investment banks. *Transaction Value* (\$mil.) refers to the size of current M&A activity; *Acquirers' Mkt* (\$mil.) refers to acquiring firms' market capitalization four weeks prior to the announcement date; *Total Assets* (\$mil.) equals the acquirers' total assets at the end of the previous fiscal year; *Debt/Asset* is the ratio of an acquiring firm's long-term debt to total assets. *All Cash* refers to all-cash transactions; *Fee\_Perc.* are the fees paid to financial advisors as a percentage of the total transaction value; *Tender* refers to tender offers; *US Tgts.* is a dummy variable referring to U.S. domestic M&A; *Public Tgts.* refers to acquirers of public targets; *Total num. of borrowings* refers to the number of loans received in the previous five years. *Total amt. of borrowings* (\$mil.) refers to the total amount of the loans borrowed in the previous five years. *Lending relationship* is a dummy variable that equals 1 if the current financial advisor was also the acquirer's lender in the previous five years; *Strength of Lending* measures the strength of the lending relationship between the current financial advisors and their clients over five years and equals the amount lent by the current financial advisors as a percentage of the total money borrowed by the acquirers. We define "keep" in Group 1 as retaining any underwriters from previous five years' equity issuances, and in Group 2 as to keep with the same financial advisors from previous 5 years' all M&A in current M&A. In Group 3 where both activities had been conducted in previous 5 years, we define "keep" as to stay with the same financial advisors from all previous M&A. Difference is the test of the difference of means.

	Group 1: Issued Equity(ies)				Group 2: Conducted M&A(s)				Group 3: Both Activities				Difference		
	Total (1)	Keep (2)	Switch (3)	Difference (2) - (3)	Total (4)	Keep (5)	Switch (6)	Difference (5) - (6)	Total (7)	Keep (8)	Switch (9)	Difference (8) - (9)	(1) - (4)	(1) - (7)	(4) - (7)
<i>Transaction Value</i> (\$mil.)	326.23	348.25	306.25	42.00	1,671.41	496.73	1,881.48	-1,384.74	572.98	387.99	619.96	-231.97	***	***	***
<i>Acquirers' Mkt</i> (\$mil.)	1,079.66	971.29	1,171.18	-199.89	13,601.22	7,208.41	14,729.36	-7,520.96*	4,408.59	1,990.15	5,000.51	3,010.36*	***	***	***
<i>Total Assets</i> (\$mil.)	579.31	695.49	480.78	214.71**	7,468.69	3,903.55	8,101.75	-4,198.20*	2,623.70	1,284.04	2,959.40	-1,675.36***	***	***	***
<i>Debt/Asset</i> (%)	15.77	16.78	14.92	1.86*	18.30	15.00	18.89	-3.89*	23.52	23.73	23.46	0.27	**	***	***
<i>All Cash</i> (%)	28.36	23.38	32.56	-9.18	42.11	35.09	43.34	-8.25	31.65	23.81	33.57	-9.76**	***	*	***
<i>Fee_Perc.</i> (When avail.) (%)	0.98	0.86	1.13	-0.27**	0.73	0.62	0.75	-0.13	0.79	0.68	0.82	-0.14	***	**	
<i>Tender</i> (%)	5.69	4.73	6.51	-1.78	16.05	10.53	17.03	-6.50	7.68	3.81	8.62	-4.82**	***	*	***
<i>US Tgts.</i> (%)	87.59	96.02	80.46	15.56	78.68	94.74	75.85	18.89***	85.58	98.10	82.52	15.58***	***		***
<i>Public Tgts.</i>	25.40	33.58	18.49	15.09***	26.58	42.11	23.84	18.27***	29.59	36.19	27.97	8.22**		**	
<i>Total num. of borrowings</i>	1.50	1.62	1.40	0.22**	2.20	1.42	2.34	-0.92***	2.50	2.10	2.60	-0.50**	***	***	**
<i>Total amt. of borrowings</i> (\$mil.)	236.00	284.00	197.00	87.00	1,260.00	550.00	1,380.00	833.00**	1,040.00	718.00	1,110.00	-397.00*	***	***	
<i>Lending relationship</i> (%)	2.53	5.47	2.94	2.53**	4.02	5.26	9.29	-4.03	10.67	16.19	9.32	6.87**	***	***	
<i>Strength of Lending</i> (%)	2.89	3.48	2.39	1.09	6.36	3.33	6.90	-3.57	6.28	10.63	5.21	5.41***	***	***	

The symbols \*, \*\*, and \*\*\* denote statistical significance at the 10%, 5%, and 1% levels respectively.



Table 5

## Summary of Analyst Recommendations before and after M&amp;A

This table presents the summary of the acquiring firms with analyst recommendations available in the year prior to and in the year after the current M&A transactions. Panel A presents the acquirers successfully identified from I/B/E/S, sorted by previous activity and the type of payment method. Column (1) of Panel B shows the average number of recommendations for each acquirer in the year prior to the current M&A transactions. Column (2) presents the proportion of the recommendations for each firm from the hired financial advisors in current M&A transaction. Columns (3) and (4) report the average changes in the number of recommendations received by each firm and the proportion of recommendations from the hired financial advisors in the year after the current transactions.

*Panel A. Number of firms with recommendations within year preceding and one year after current transaction*

	Total	Group 1: Issued Equity(ies)	Group 2: Conducted M&A	Group 3: Both Activities
1 year prior				
All	1,207	532	284	391
Cash	379	132	115	132
Stock	828	400	169	259
1 year after				
All	1,392	662	300	430
Cash	459	200	122	137
Stock	933	462	178	293

*Panel B. Summary of average recommendations regarding acquirer within one year preceding and one year after current transaction*

	Before Transactions		After Transactions	
	Num. of Recom. (1)	From Hired Advisors (2)	Changes of (1) (3)	Changes of (2) (4)
		Group 1: Issued Equity(ies)		
All	7.79	30%	1.86***	3%**
Cash	8.25	25%	0.99**	-3%
Stock	7.58	32%	2.24***	7%***
		Group 2: Conducted M&A		
All	14.16	27%	1.45***	3%
Cash	13.93	21%	1.49**	6%
Stock	14.32	32%	1.42**	0%
		Group 3: Both Activities		
All	12.13	29%	1.85**	4%
Cash	11.86	21%	3.91**	7%*
Stock	12.26	34%	0.87	1%

The symbols \*, \*\*, and \*\*\* denote statistical significance at the 10%, 5%, and 1% levels respectively.

Table 6

Summaries of Affiliated Recommendations before and after Transactions: Previous Relationships and Current Hiring Status

This table summarizes recommendations made before and after transactions and sorts them according to the acquirers' previous and current relationships with the analysts' investment banks. The required consensus (which is the average recommendation from previously unrelated and currently unhired investment banks) measures investment banks' bias in competing for subsequent business and makes the recommendations comparable across acquirers prior to and after transactions. Panel A\_1 presents the number of acquiring firms that have recommendations from both previously related and previously unrelated and currently unhired investment banks. "Kept" refers to acquiring firms with recommendations from previous and current investment banks; "Dumped" refers to acquiring firms with recommendations from previously related but currently unhired investment banks; "Previously Unrelated" refers to recommendations from previously unrelated but currently hired investment banks. Recommendations from previously unrelated and currently unhired investment banks are not reported here because they are used as the consensus with which to calculate the investment banks' bias. Panel A\_2 reports results for the acquirers that conducted both activities. "Switch to Some Related Advisors" refers to acquirers with recommendations from currently hired investment banks that participated in some but not all of the acquirers' previous M&A; "Switch to Equity Underwriters" refers to acquirers with recommendations from currently hired investment banks that were also the firms' underwriters in previous equity issuances; "Dump M&A Advisors" refers to acquiring firms with recommendations from previously related but currently un-hired financial advisors; "Dumped Equity Underwriters" refers to acquiring firms with recommendations from previously related but currently unhired equity underwriters. Panel B reports the objectivity findings, sorted by acquiring firms' choice of financial advisors. "Recommendation" is the average value of recommendations received by acquiring firms. I/B/E/S reports five kinds of recommendations: strong buy, buy, hold, sell, and strong sell. The recommendations range from 1 to 5, with 1 referring to strong buy and 5 to strong sell. In order to easily understand the analyses and estimations, we reverse the order by assigning 5 to strong buy and 1 to strong sell. Thus, the higher the recommendation value, the better the quality of the stocks. "Deviation" is the difference between the recommendations of affiliated investment banks and the consensus, which is calculated as the average of the recommendations received by acquiring firms from previously unrelated and currently un-hired investment banks. The higher the deviation, more optimistic the analysts are.

*Panel A\_1. Number of acquiring firms (Group 1 and 2) with recommendations from both affiliated and unaffiliated brokers*

	<u>Before Transactions</u>			<u>After Transactions</u>		
	<u>Previously Related IB</u>		<u>Unrelated IB</u>	<u>Previously Related IB</u>		<u>Unrelated IB</u>
	<i>Kept</i>	<i>Dumped</i>	<i>Hired</i>	<i>Kept</i>	<i>Dumped</i>	<i>Hired</i>
	(1)	(2)	(3)	(4)	(5)	(6)
Group 1: Issued Equity(ies)						
All	95	312	165	113	330	315
Cash	21	108	43	22	106	87
Stock	74	204	122	91	224	228
Group 2: Conducted M&A						
All	13	76	51	15	77	59
Cash	5	28	17	4	35	25
Stock	8	48	34	11	42	34

*Panel A\_2. Number of acquiring firms (Group 3) with recommendations from both affiliated and unaffiliated brokers*

	Previously Related IB					Unrelated IB
	<i>Kept</i>	<i>Switched</i>		<i>Dumped</i>		<i>Hired</i>
	(1)	<i>to Related Advisors</i>	<i>to Underwriters</i>	<i>Previous M&amp;A Advisors</i>	<i>Previous Underwriters</i>	(6)
Group 3: Both Activities						
Before Transactions						
All	25	15	36	108	232	41
Cash	4	0	9	42	78	13
Stock	21	14	29	66	154	28
After Transactions						
All	31	12	40	52	281	47
Cash	11	3	9	22	96	14
Stock	20	9	31	30	185	33

*Panel B\_1-4 Summary of analyst objectivity and acquiring firms' choice of financial advisors: firms either had issued equity or conducted M&A*

	Previously Related IB				Unrelated IB		Difference of Means			
	<i>Kept</i>		<i>Dumped</i>		<i>Hired</i>		(2) - (4)	(4) - (6)	(2) - (6)	
	<i>Recom.</i>	<i>Deviation</i>	<i>Recom.</i>	<i>Deviation</i>	<i>Recom.</i>	<i>Deviation</i>				
	(1)	(2)	(3)	(4)	(5)	(6)				
Before Transactions										
<i>Panel B_1 Group 1: Issued Equity</i>										
All	4.37	0.39***	4.05	0.02	4.18	0.17***	4.156***	2.039**	2.380***	
Cash	4.20	0.42**	3.91	0.03	3.98	0.11	2.009**	0.510	1.408*	
Stock	4.42	0.38***	4.13	0.02	4.22	0.19***	3.683***	2.145**	1.893**	
<i>Panel B_2 Group 2: Conducted M&amp;A</i>										
All	3.92	0.00	3.88	0.02	4.19	0.34***	0.094	2.564***	1.569*	
Cash	3.70	-0.08	3.87	0.03	4.28	0.34***	0.308	1.444*	1.191	
Stock	4.06	0.06	3.88	0.02	4.15	0.34***	0.135	2.097**	1.027	
After Transactions										
<i>Panel B_3 Group 1: Issued Equity</i>										
All	4.21	0.18***	3.95	-0.04	4.08	0.12***	2.860***	2.743***	0.900	
Cash	3.93	0.03	3.79	-0.11*	3.89	0.11*	0.774	2.071**	0.452	
Stock	4.28	0.22***	4.03	-0.01	4.16	0.12***	2.626***	1.846**	1.202	
<i>Panel B_4 Group 2: Conducted M&amp;A</i>										
All	4.43	0.33*	3.81	0.03	4.07	0.26***	1.402*	1.769**	0.305	
Cash	4.50	0.41	3.67	-0.02	4.09	0.46***	1.088	2.789***	0.129	
Stock	4.41	0.30*	3.90	0.06	4.06	0.11	0.891	0.239	0.678	

Panel B\_5-6 Summary of analyst objectivity and acquiring firms' choice of financial advisors: firms with both activities

	Previously Related IB										Unrelated IB	
	<i>Kept</i>		<i>Switched</i>				<i>Dumped</i>				<i>Hired</i>	
	<i>Recom.</i>	<i>Deviation</i>	<u>to Related Advisors</u>		<u>to Underwriters</u>		<u>Previous M&amp;A Advisors</u>		<u>Previous Underwriters</u>		<i>Recom.</i>	<i>Deviation</i>
			<i>Recom.</i>	<i>Deviation</i>	<i>Recom.</i>	<i>Deviation</i>	<i>Recom.</i>	<i>Deviation</i>	<i>Recom.</i>	<i>Deviation</i>		
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	
Before Transactions												
<i>Panel B_5 Group 3: Both Activities</i>												
All	4.15	0.07	4.07	0.14	4.14	0.20*	4.12	0.15***	4.15	0.15***	4.11	0.17*
Cash	4.08	-0.40	na	na	4.26	0.24	4.04	0.15*	4.04	0.00	4.04	0.15
Stock	4.17	0.16	4.07	0.14	4.11	0.18*	4.16	0.15**	4.21	0.22***	4.15	0.18*
After Transactions												
<i>Panel B_6 Group 3: Both Activities</i>												
All	4.16	0.20**	3.85	-0.04	4.09	0.13	4.02	0.08	3.99	0.09***	3.91	0.00
Cash	3.80	0.04	3.33	-0.57	3.81	-0.15	3.77	-0.10	3.84	0.00	3.56	-0.09
Stock	4.35	0.30**	4.03	0.14	4.18	0.21**	4.20	0.22*	4.07	0.14***	4.06	0.01

The symbols \*, \*\*, and \*\*\* denote statistical significance at the 10%, 5%, and 1% levels respectively.

Table 7  
Logit Analysis of the Determinants of  
Retaining Previous Equity Underwriters: Issued Equity (Group 1)

This table shows results for the determinants of retaining previous equity underwriters in current M&A for firms that only issued equity(ies) in the preceding five years. The dependent variable is a dummy variable that equals 1 when the acquirer retains its previous equity underwriters.; *#ofEquitiesIssued* refers to the number of acquirers' equity issuances in the preceding five years, which include IPOs, SEOs, or both; *IPO in 5yrs* refers to acquirers that went public in the preceding five years; *Previous Underpricing* refers to the average underpricing of previous equity issuances; *Lending relationship* is a dummy variable that equals 1 if the acquirer's current financial advisor was also the acquirer's lender in the preceding five years; *Strength of Lending* measures the strength of the lending relationship between the current financial advisors and their clients over five years and equals the amount lent by the current financial advisors as a percentage of the total money borrowed by the acquirers; *Total num. of borrowings* refers to the number of loans received in the previous five years; *LnAcqMkt* is the natural logarithm of the acquiring firms' market capitalization four weeks prior to the M&A transactions; *LnTrans* is the natural logarithm of the size of the transaction; *LnTA* is the natural logarithm of the acquiring firms' total assets at the end of the previous fiscal year; *All Cash* refers to all-cash transactions; *Public Tgts.* refers to the firms that acquire public targets; *US Tgts.* is a dummy variable that refers to U.S. domestic M&A; *Tender* refers to tender offers; *Affiliated Ana. Prior* is a dummy variable that equals 1 if acquirers receive analyst recommendations from retained financial advisors that were also their equity underwriters; *Recom. Deviation Prior* measures the objectivity of those analyst recommendations and equals the difference between their recommendation and the consensus; *Affiliated Ana. After* is a dummy variable that equals 1 if acquirers receive analyst recommendations after the transaction from their financial advisors that were also their equity underwriters. The reported p-values in the parentheses reflect White's heteroskedasticity correction. Marginal effects are reported in the brackets.

	All Model 1	All Model 2	All Model 3	All Model 4	Allcash Model 5	Stock Model 6	Fees Avail. Model 7
Constant	-6.822*** (0.000)	-6.942*** (0.000)	-3.897* (0.067)	0.288 (0.920)	3.354 (0.537)	1.277 (0.716)	-9.786*** (0.006)
#ofEquitiesIssued	0.460*** (0.000) [0.114]	0.460*** (0.000) [0.114]	0.442*** (0.002) [0.110]	0.362** (0.027) [0.090]	0.557** (0.039) [0.134]	0.396* (0.062) [0.098]	1.126*** (0.000) [0.276]
IPO in 5yrs	0.218 (0.227) [0.053]	0.218 (0.226) [0.053]	0.388 (0.129) [0.096]	-0.043 (0.897) [-0.011]	-0.800 (0.240) [-0.192]	0.147 (0.705) [0.036]	0.801* (0.055) [0.196]
Previous Underpricing	-0.236 (0.567) [-0.058]	-0.237 (0.566) [-0.059]	-0.339 (0.601) [-0.085]	-0.493 (0.473) [-0.123]	-1.003 (0.391) [-0.241]	-0.492 (0.529) [-0.122]	0.717 (0.597) [0.175]
Lending Relationship	0.260 (0.446) [0.065]		0.279 (0.528) [0.070]	-0.194 (0.691) [-0.048]	-2.882* (0.086) [-0.409]	1.034 (0.153) [0.231]	0.686 (0.699) [0.155]

Strength of Lending		0.026 (0.954) [0.006]						
Total num. of borrowings	0.042 (0.364) [0.010]	0.047 (0.305) [0.012]	0.042 (0.484) [0.010]	0.097 (0.168) [0.024]	0.110 (0.445) [0.026]	0.076 (0.404) [0.019]	-0.051 (0.665) [-0.012]	
LnAcqMkt	0.180** (0.011) [0.044]	0.179** (0.011) [0.044]	0.043 (0.658) [0.011]	-0.013 (0.919) [-0.003]	-0.527** (0.039) [-0.127]	0.105 (0.485) [0.026]	0.770*** (0.000) [0.188]	
LnTrans	-0.058 (0.293) [-0.014]	-0.056 (0.309) [-0.014]	-0.035 (0.635) [-0.009]	-0.003 (0.975) [-0.001]	-0.119 (0.589) [-0.029]	0.022 (0.839) [0.006]	-0.175 (0.377) [-0.043]	
LnTA	0.091 (0.269) [0.022]	0.095 (0.246) [0.024]	0.042 (0.730) [0.010]	-0.117 (0.430) [-0.029]	0.347 (0.287) [0.084]	-0.292* (0.099) [-0.073]	-0.191 (0.402) [-0.047]	
All Cash	-0.229 (0.207)	-0.228 (0.208) [-0.056]	-0.095 (0.675) [-0.024]	0.231 (0.411) [0.058]			-3.551** (0.012) [-0.598]	
Public Tgts.	0.527*** (0.003) [0.131]	0.522*** (0.003) [0.129]	0.504** (0.045) [0.125]	1.005*** (0.002) [0.242]	1.181 (0.490) [0.286]	1.020*** (0.005) [0.242]	0.272 (0.528) [0.067]	
US Tgts.	1.783*** (0.000) [0.356]	1.801*** (0.000) [0.358]	1.409*** (0.000) [0.313]	1.311*** (0.003) [0.304]	2.165*** (0.002) [0.427]	0.547 (0.365) [0.136]	Dropped	
Tender	-0.631* (0.063) [-0.147]	-0.633* (0.062) [-0.148]	-1.100** (0.016) [-0.249]	-0.864* (0.075) [-0.206]	-1.158 (0.463) [-0.238]	-1.279* (0.097) [-0.297]	2.087* (0.077) [0.381]	
Affiliated Ana. Prior			1.480*** (0.000) [0.349]					

Recom. Deviation Prior				0.281*	-0.136		0.481**	
				(0.085)	(0.624)		(0.027)	
				[0.070]	[-0.033]		[0.119]	
Affiliated Ana. After		0.651***		1.069***	1.552***		1.081***	
		(0.003)		(0.000)	(0.006)		(0.001)	
		[0.161]		[0.258]	[0.369]		[0.257]	
<i>Fee_Perc.</i>								-0.190
								(0.505)
								[-0.047]
N	878	878	558	346	109	237		192
Pseudo R <sup>2</sup>	0.103	0.103	0.182	0.148	0.236	0.165		0.226
Prob.> $\chi^2$	0.000	0.000	0.000	0.000	0.024	0.000		0.000

The symbols \*, \*\*, and \*\*\* denote statistical significance at the 10%, 5%, and 1% levels respectively.



Table 8  
Logit Analysis of the Determinants of  
Retaining Previous Financial Advisors: Conducted M&A (Group 2)

This table shows results for the determinants of retaining previous financial advisors in current M&A transactions for firms that only conducted M&A in preceding five years. The dependent variable is a dummy variable that equals 1 when acquirers retain their previous financial advisors. *#ofM&Aconducted* refers to the number of M&A transactions the acquirers completed in the preceding five years; *Previous CARs* refers to the acquirers' average CARs in previous M&A transactions; *Lending relationship* is a dummy variable that equals 1 if the acquirer's current financial advisor was also the acquirer's lender in the preceding five years; *Strength of Lending* measures the strength of the lending relationship between the current financial advisors and their clients over five years and equals the amount lent by the current financial advisors as a percentage of the total money borrowed by the acquirers; *Total num. of borrowings* refers to the number of loans received in the previous five years; *LnAcqMkt* is the natural logarithm of the acquiring firms' market capitalization four weeks prior to the M&A transactions; *LnTrans* is the natural logarithm of the size of the transaction; *LnTA* is the natural logarithm of the acquiring firms' total assets at the end of the previous fiscal year; *All Cash* refers to all-cash transactions; *Public Tgts.* refers to the firms that acquire public targets; *US Tgts.* is a dummy variable that refers to U.S. domestic M&A; *Tender* refers to tender offers; *Affiliated Ana. Prior* is a dummy variable that equals 1 if acquirers receive analyst recommendations from retained financial advisors; *Recom. Deviation Prior* measures the objectivity of those analyst recommendations and equals the difference between their recommendation and the consensus; *Affiliated Ana. After* is a dummy variable that equals 1 if acquirers receive analyst recommendations after the transaction from their retained financial advisors. The reported p-values in the parentheses reflect White's heteroskedasticity correction. Marginal effects are reported in the brackets.

	Model 1	Model 2	Model 3	Model 4
Constant	2.366 (0.377)	2.409 (0.367)	-3.918 (0.344)	-0.257 (0.966)
#ofM&Aconducted	-0.439** (0.023) [-0.037]	-0.438** (0.023) [-0.037]	-0.936*** (0.004) [-0.038]	-1.990*** (0.002) [-0.021]
Previous CARs	4.638* (0.074) [0.389]	4.672* (0.070) [0.391]	6.498** (0.050) [0.264]	2.129 (0.663) [0.022]
Lending Relationship	-0.453 (0.544) [-0.033]		-0.669 (0.398) [-0.021]	-1.708 (0.133) [-0.011]
Strength of Lending		-0.726 (0.508) [-0.061]		
Total num. of borrowings	-0.156** (0.043) [-0.013]	-0.154** (0.042) [-0.013]	-0.133 (0.158) [-0.005]	-0.430** (0.025) [-0.004]
LnAcqMkt	-0.188 (0.340) [-0.016]	-0.191 (0.335) [-0.016]	0.104 (0.713) [0.004]	-1.243** (0.025) [-0.013]
LnTrans	-0.221** (0.015) [-0.018]	-0.222** (0.013) [-0.019]	-0.048 (0.666) [-0.002]	-0.267 (0.109) [-0.003]
LnTA	0.177 (0.410) [0.015]	0.179 (0.406) [0.015]	0.014 (0.963) [0.01]	1.576*** (0.005) [0.016]

All Cash	-0.190 (0.570) [-0.016]	-0.184 (0.583) [-0.015]	-0.741 (0.143) [-0.029]	-1.433 (0.174) [-0.013]
Public Tgts.	1.188*** (0.006) [0.127]	1.184*** (0.006) [0.126]	0.931* (0.067) [0.047]	3.667*** (0.002) [0.101]
US Tgts.	1.409** (0.024) [0.088]	1.412** (0.023) [0.088]	2.001* (0.085) [0.056]	Dropped
Tender	-1.245** (0.029) [-0.076]	-1.239** (0.030) [-0.076]	-0.535 (0.491) [-0.018]	-1.869 (0.244) [-0.012]
Affiliated Ana. Prior			0.215 (0.734) [0.009]	
Recom. Deviation Prior				-0.768 (0.128) [-0.008]
Affiliated Ana. After			0.556 (0.276) [0.025]	0.973 (0.247) [0.012]
N	380	380	277	115
Pseudo R <sup>2</sup>	0.163	0.164	0.241	0.427
Prob.> $\chi^2$	0.000	0.000	0.000	0.059

The symbols \*, \*\*, and \*\*\* denote statistical significance at the 10%, 5%, and 1% levels respectively.

Table 9  
Logit Analysis of the Determinants of  
Keeping Previous Financial Advisors: Both Activities (Group 3)

This table shows results for the determinants of retaining previous financial advisors in current M&A transactions for firms that conducted both equity issuances and M&A in the preceding five years. The dependent variable is a dummy variable that equals 1 when acquirers retain their previous financial advisors. *#ofM&Aconducted* refers to the number of M&A transactions the acquirers completed in the preceding five years; *Previous CARs* refers to acquirers' average CARs in previous M&A transactions; *Lending relationship* is a dummy variable that equals 1 if the acquirer's current financial advisor was also the acquirer's lender in the preceding five years; *Strength of Lending* measures the strength of the lending relationship between the current financial advisors and their clients over five years and equals the amount lent by the current financial advisors as a percentage of the total money borrowed by the acquirers; *Total num. of borrowings* refers to the number of loans received in the previous five years; *LnAcqMkt* is the natural logarithm of the acquiring firms' market capitalization four weeks prior to the M&A transactions; *LnTrans* is the natural logarithm of the size of the transaction; *LnTA* is the natural logarithm of the acquiring firms' total assets at the end of the previous fiscal year; *All Cash* refers to all-cash transactions; *Public Tgts.* refers to the firms that acquire public targets; *US Tgts.* is a dummy variable that refers to U.S. domestic M&A; *Tender* refers to tender offers; *Affiliated Ana. Prior* is a dummy variable that equals 1 if acquirers receive analyst recommendations from retained financial advisors; *Recom. Deviation Prior* measures the objectivity of those analyst recommendations and equals the difference between their recommendation and the consensus; *Affiliated Ana. After* is a dummy variable that equals 1 if acquirers receive analyst recommendations after the transaction from their retained financial advisors. The reported p-values in the parentheses reflect White's heteroskedasticity correction. Marginal effects are reported in the brackets. *Last Trans. (Equity=1)* is a dummy variable that equals 1 if the last transaction prior to the current M&A was an equity issuance.

	Model 1	Model 2	Model 3	Model 4
Constant	0.449 (0.818)	0.325 (0.867)	2.812 (0.297)	-1.505 (0.827)
#ofM&Aconducted	-0.316** (0.018) [-0.040]	-0.308** (0.018) [-0.040]	-0.198 (0.165) [-0.024]	-0.567* (0.059) [-0.068]
Previous CARs	3.528* (0.088) [0.449]	3.536* (0.086) [0.453]	4.850* (0.063) [0.592]	3.963 (0.390) [0.477]
Lending Relationship	1.018*** (0.017) [0.168]		0.937** (0.031) [0.145]	-1.543 (0.184) [-0.129]
Strength of Lending		1.311*** (0.008) [0.168]		
Total num. of borrowings	-0.093 (0.115) [-0.012]	-0.069 (0.223) [-0.009]	-0.017 (0.822) [-0.002]	0.289* (0.074) [0.035]
LnAcqMkt	0.076 (0.462) [0.010]	0.087 (0.398) [0.011]	0.067 (0.631) [0.008]	0.357 (0.292) [0.043]
LnTrans	-0.130 (0.123) [-0.017]	-0.125 (0.133) [-0.016]	-0.213** (0.031) [-0.026]	-0.186 (0.438) [-0.022]
LnTA	-0.123 (0.319)	-0.133 (0.280)	-0.167 (0.347)	-0.142 (0.683)

	[-0.016]	[-0.017]	[-0.020]	[-0.017]
All Cash	-0.262 (0.374)	-0.293 (0.324)	-0.192 (0.582)	0.421 (0.574)
Public Tgts.	[-0.032] 0.294 (0.251) [0.039]	[-0.036] 0.280 (0.274) [0.037]	[-0.023] 0.001 (0.997) [0.0001]	[0.055] 0.569 (0.346) [0.072]
US Tgts.	2.281*** (0.002) [0.172]	2.260*** (0.002) [0.173]	1.955** (0.012) [0.152]	1.041 (0.416) [0.092]
Tender	-0.886 (0.114) [-0.086]	-0.844 (0.130) [-0.084]	-0.879 (0.251) [-0.082]	-1.475 (0.390) [-0.113]
Last Trans. (Equity=1)	0.109 (0.642) [0.014]	0.112 (0.632) [0.014]	0.098 (0.730) [0.012]	-0.491 (0.378) [-0.060]
Affiliated Ana. Prior			0.419 (0.218) [0.054]	
Recom. Deviation Prior				-0.721*** (0.000) [-0.087]
Affiliated Ana. After			0.128 (0.709) [0.016]	-1.505* (0.056) [-0.149]
N	534	534	380	111
Pseudo R <sup>2</sup>	0.110	0.109	0.114	0.263
Prob.> $\chi^2$	0.000	0.000	0.002	0.023

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The symbols \*, \*\*, and \*\*\* denote statistical significance at the 10%, 5%, and 1% levels respectively.

Table 10

## Announcement Effects for Acquiring Firms

This table presents the announcement effects of acquiring firms around time  $t = (-1, 1)$ , categorized by acquiring firms' prior relationships with investment banks. The announcement effects are calculated as the cumulative abnormal returns on the acquirer's stock due to the announcement. The estimation window is from  $(-265, -11)$  and the event window is  $(-1, 1)$ . To be included in the event study, acquiring firms must have at least 255 days of stock information prior the announcement date; P-values are based on Patell's Z values. *Group 1: Issued Equity(ies)* refers to acquirers conducting IPOs, SEOs, or both within five years prior to the announcement of the current M&A; *Group 2: Conducted M&A(s)* refers to acquirers that conducted M&A within five years prior to the announcement date of the current M&A; *Group 3: Both Activities* refers to acquirers that conducted both equity issuances and M&A within five years prior to the announcement of the current M&A. "Keep" in Group 1 refers to acquirers that retain their underwriters from the previous five years of equity issuances; in Group 2 the term refers to the retention of financial advisors from the previous five years of M&A. For Group 3, in which acquirers conducted both activities in the preceding five years, "keep" refers to retaining the same financial advisors from all previous M&A. *Public Tgts.* refers to firms that acquire public targets; *Private Tgts.* refers to the firms that acquire nonpublic targets; *All Cash* refers to all-cash transactions; *Stock* refers to stock or cash-and-stock transactions. "Diff." is the test of the difference of means. The actual differences between means are reported.

	Group 1: Issued Equity(ies)				Group 2: Conducted M&As				Group 3: Both Activities			
	Total	Keep	Switch	Diff.	Total	Keep	Switch	Diff.	Total	Keep	Switch	Diff.
All	2.47***	1.31***	3.51***	-2.30***	-0.29	2.10**	-0.71***	2.81***	0.01	1.58***	-0.30	1.88**
All Cash	2.91***	3.45***	2.59***	0.86	0.66	6.70**	-0.20	6.90***	1.00***	1.50	0.92**	0.59
Public Tgts.	2.21**	3.30***	1.18	2.12	2.58*	9.59*	0.96	8.63**	-0.87	0.17	-0.88	1.04
Private Tgts.	3.00***	3.47***	2.74***	0.74	0.18	5.46*	-0.46	5.92***	1.29***	1.76	1.21**	0.55
Stock	2.30***	0.55	3.98***	-3.43***	-0.98***	-0.39	-1.10***	0.71	-0.37	1.60**	-0.92**	2.52***
Public Tgts.	-1.48***	-2.34***	-0.06	-2.28*	-2.99***	-3.77**	-2.72***	-1.05	-2.26***	0.12	-3.07***	3.19**
Private Tgts.	3.98***	2.42***	5.16***	-2.75**	-0.06	2.81**	-0.48	3.29**	0.73*	2.69**	0.24	2.45**

The symbols \*, \*\*, and \*\*\* denote statistical significance at the 10%, 5%, and 1% levels respectively.

Table 11

## Announcement Effects Sorted by Switch Details

This table presents the announcement effects categorized by switching. Panels A, B and C report the announcement effects of firms that only issued equity, only conducted M&A transactions, or conducted both activities, respectively. The announcement effects are calculated as the cumulative abnormal returns on acquirers' stock due to the announcement. The estimation window is from (-265, -11) and the event window is (-1, 1). To be included in the event study, acquiring firms must have at least 255 days of stock information prior the announcement date; P-values are based on Patell's Z values. "Keep" is defined the same as in previous tables for each group. In panels A and B, "Switch Up" refers to acquirers that switched to higher-ranking investment banks (as measured by M&A market share); "Switch Same" refers to acquirers that switched to equally ranked investment banks; "Switch Down" refers to acquirers that switched to lower-ranking investment banks. In Panel C, "To Dumped Advisors" refers to firms that switched back to old advisors but not all of them; "To Equity Underwriters" refers to firms that switched back to their equity underwriters; "To New" refers to firms that switched to new investment banks with which they had no prior relationships. *Public Tgts.* refers to acquirers of public targets; *Private Tgts.* refers to acquirers of nonpublic targets; *All Cash* refers to all-cash transactions; *Stock* refers to stock or stock-and-cash transactions.

*Panel A. Announcement effects of Group 1: Issued equity(ies)*

	Keep		Switch from Previous Equity Underwriters								Diff. of Means	
	Total Keep (1)	N	Total Switch (2)	N	Switch Up (3)	N	Switch Same (4)	N	Switch Down (5)	N	(4) – (5)	(1) – (5)
All	1.31***	402	3.51***	476	3.72***	102	4.53***	167	2.58***	207	1.98*	-2.21*
<i>All Cash</i>	3.45***	94	2.59***	155	3.46***	37	2.29***	51	2.15***	67	0.14	1.32
<i>Public Tgts.</i>	3.30***	14	1.18	15	-0.61	4	5.20**	3	0.57	8	4.63	2.73
<i>Private Tgts.</i>	3.47***	80	2.74***	140	3.95***	33	2.10***	48	2.37***	59	-0.27	1.13
<i>Stock</i>	0.55	308	3.98***	321	3.87***	65	5.51***	116	2.78***	140	2.73*	-2.13**
<i>Public Tgts.</i>	-2.34***	121	-0.06	73	-4.30***	21	3.37	26	0.28	26	3.09	-2.46*
<i>Private Tgts.</i>	2.42***	187	5.16***	249	7.68***	44	6.13***	90	3.35***	114	2.78*	-0.87

*Panel B. Announcement effects of Group 2: Conducted M&A*

	Keep		Switch from Previous Financial Advisors								Diff. of Means	
	Total Keep (1)	N	Total Switch (2)	N	Switch Up (3)	N	Switch Same (4)	N	Switch Down (5)	N	(4) – (3)	(1) – (4)
All	2.10**	57	-0.71***	323	-1.74***	103	0.25	80	-0.47*	140	1.99**	1.85*

<i>All Cash</i>	6.70**	20	-0.20	140	-2.39***	42	1.42**	31	0.44	67	3.81***	5.28**
<i>Public Tgts.</i>	9.59*	6	0.96	26	-2.93**	7	2.08	7	2.59**	12	5.01*	7.51
<i>Private Tgts.</i>	5.46*	14	-0.46	114	-2.29***	35	1.23***	24	-0.03	55	3.52**	4.23
<i>Stock</i>	-0.39	37	-1.10***	183	-1.28**	61	-0.49	49	-1.31**	73	0.79	0.10
<i>Public Tgts.</i>	-3.77**	18	-2.72***	51	-3.29***	27	-1.29	12	-2.42***	12	2.00	-2.48
<i>Private Tgts.</i>	2.81**	19	-0.48	132	0.31	34	-0.23	37	-1.09	61	-0.54	3.04*

*Panel C. Announcement effects of Group 3: Both activities*

	Keep		Switch from Previous Financial Advisors								Diff. of Means		
	Total Keep (1)	N	Total Switch (2)	N	To Dumped Advisors (3)	N	To Equity Underwriters (4)	N	To New (5)	N	(1) – (3)	(1) – (4)	(1) – (5)
All	1.58***	108	-0.30	426	0.51	41	-1.29	106	0.00	279	0.62*	2.39**	1.13
<i>All Cash</i>	1.50	27	0.92**	142	3.31**	14	1.25**	23	0.52	105	-2.19	0.12	0.60
<i>Public Tgts.</i>	0.17	4	-0.88	20	-2.95**	2	-1.02	4	-0.54	14	3.11	1.18	0.71
<i>Private Tgts.</i>	1.76	23	1.21**	122	4.36***	12	1.72**	19	0.69	91	-3.06	0.43	0.60
<i>Stock</i>	1.60**	80	-0.92**	285	-0.94	27	-2.00***	84	-0.33	174	2.07*	3.20***	1.46*
<i>Public Tgts.</i>	0.12	34	-3.07***	100	-1.90**	16	-3.88***	36	-3.00***	48	1.50	3.58**	1.36*
<i>Private Tgts.</i>	2.69**	46	0.24	185	0.47	11	-0.62	48	0.69**	126	1.87	2.97**	1.65

The symbols \*, \*\*, and \*\*\* denote statistical significance at the 10%, 5%, and 1% levels respectively.

Table 12

## Cross-Sectional Regression Analysis of Announcement Abnormal Returns

## Group 1: Issued Equity

The dependent variable is the cumulative abnormal returns of acquiring firms around the announcement date  $t = (-1, 1)$ . *Keep\_Equity Mgr* is a dummy variable that equals 1 when acquirers retain their previous equity underwriters for current M&A. *Public Tgts.* refers to firms that acquire public targets; *All Cash* refers to all-cash transactions; *LnAcqMkt* is the natural logarithm of the acquiring firms' market capitalization four weeks prior to the M&A; *IPO in 5yrs* refers to those acquirers that went public in the preceding five years; *LnTA* is the natural logarithm of the acquiring firms' total assets at the end of the previous fiscal year; *US Tgts.* is a dummy variable that refers to U.S. domestic M&A; *Previous Underpricing* refers to the average underpricing of previous equity issuances; *Strength of Lending* measures the strength of the lending relationship between the current financial advisors and their clients over five years. It equals the amount borrowed from current lenders as a percentage of the total amount borrowed; *Total num. of borrowings* refers to the number of loans the acquirer borrowed in the previous five years. P-values are given in parentheses under the respective coefficients and reflect White's heteroskedasticity correction.

	All Model 1	All Model 2	All Cash Model 3	Stock Model 4
Constant	0.035*** (0.000)	0.389*** (0.000)	0.183* (0.088)	0.473*** (0.000)
<i>Keep_Equity Mgr</i>	-0.023*** (0.006)	-0.015* (0.060)	0.002 (0.863)	-0.016* (0.085)
<i>Public Tgts.</i>		-0.043*** (0.000)	-0.008 (0.593)	-0.049*** (0.000)
<i>All Cash</i>		0.002 (0.822)		
<i>LnAcqMkt</i>		-0.022*** (0.000)	-0.012** (0.047)	-0.026*** (0.000)
<i>IPO in 5 Yrs</i>		0.007 (0.363)	-0.002 (0.855)	0.013 (0.175)
<i>LnTA</i>		0.003 (0.537)	0.003 (0.614)	0.002 (0.737)
<i>USTgts.</i>		0.035*** (0.001)	0.021 (0.137)	0.034** (0.040)
<i>Previous Underpricing</i>		-0.040** (0.043)	-0.030 (0.424)	-0.041* (0.057)
<i>Strength of Lending</i>		0.006 (0.785)	0.041 (0.117)	-0.006 (0.840)
<i>Total num. of borrowings</i>		0.005** (0.018)	0.003 (0.365)	0.006** (0.043)
N	878	878	249	629
Adj. R <sup>2</sup>	0.008	0.111	0.052	0.137
Prob > F	0.006	0.000	0.114	0.000

The symbols \*, \*\*, and \*\*\* denote statistical significance at the 10%, 5%, and 1% levels respectively.



Table 13

## Cross-Sectional Regression Analysis of Announcement Abnormal Returns

## Group 2: Conducted M&amp;A

This table presents results from regression analyses for acquirers that only conducted M&A in the preceding five years. The dependent variable is the cumulative abnormal returns of acquiring firms around the announcement date  $t = (-1, 1)$ . *Keep\_Adv.* denotes whether the acquirers retained their financial advisors from previous M&A; *Public Tgts.* refers to the firms that acquire public targets; *All Cash* refers to all-cash transactions; *LnAcqMkt* is the natural logarithm of the acquiring firms' market capitalization four weeks prior to the M&A; *LnTA* is the natural logarithm of the acquiring firms' total assets at the end of the previous fiscal year; *US Tgts.* is a dummy variable that refers to U.S. domestic M&A; *#ofM&Aconducted* refers to the number of M&A transactions acquirers conducted in the preceding five years; *Previous CARs* refers to the acquiring firms' average CARs in previous M&A transactions; *Strength of Lending* measures the strength of the lending relationship between the current financial advisors and their clients over five years. It equals the amount borrowed from current lenders as a percentage of the total amount borrowed; *Total num. of borrowings* refers to the number of loans the acquirer borrowed in the previous five years. P-values are given in parentheses under the respective coefficients and reflect White's heteroskedasticity correction.

	All Model 1	All Model 2	All Model 3
Constant	-0.007** (0.046)	0.016 (0.789)	0.002 (0.977)
<i>Keep_Adv.</i>	0.028* (0.083)		0.032** (0.036)
<i>Public Tgts.</i>		-0.010 (0.288)	-0.013 (0.155)
<i>All Cash</i>		0.015* (0.063)	0.016** (0.049)
<i>LnAcqMkt</i>		-0.015*** (0.002)	-0.015*** (0.002)
<i>LnTA</i>		0.013** (0.011)	0.013** (0.012)
<i>USTgts.</i>		0.014* (0.067)	0.011 (0.146)
<i>#ofM&amp;Aconducted</i>		-0.001 (0.539)	-0.001 (0.848)
<i>Previous CARs</i>		0.057 (0.746)	0.041 (0.808)
<i>Strength of Lending</i>		0.010 (0.445)	0.011 (0.389)
<i>Total num. of borrowings</i>		0.004** (0.023)	0.005** (0.016)
N	380	380	380
Adj. R <sup>2</sup>	0.018	0.094	0.115
Prob > F	0.083	0.007	0.010

The symbols \*, \*\*, and \*\*\* denote statistical significance at the 10%, 5%, and 1% levels respectively.

Table 14

## Cross-Sectional Regression Analysis of Announcement Abnormal Returns

## Group 3: Both Activities

The dependent variable is the cumulative abnormal returns of acquiring firms around the announcement date  $t = (-1, 1)$ . *Keep\_Adv.* denotes whether acquirers retained their financial advisors from previous M&A; *Public Tgts.* refers to the firms that acquire public targets; *All Cash* refers to all-cash transactions; *LnAcqMkt* is the natural logarithm of the acquiring firms' market capitalization four weeks prior to the M&A; *LnTA* is the natural logarithm of the acquiring firms' total assets at the end of the previous fiscal year; *US Tgts.* is a dummy variable that refers to U.S. domestic M&A; *#ofM&Aconducted* refers to the number of M&A transactions acquirers conducted in the preceding five years; *Previous CARs* refers to the acquiring firms' average CARs in previous M&A transactions; *Strength of Lending* measures the strength of the lending relationship between the current financial advisors and their clients over five years. It equals the amount borrowed from current lenders as a percentage of the total amount borrowed; *Total num. of borrowings* refers to the number of loans the acquirer borrowed in the previous five years. P-values are given in parentheses under the respective coefficients and reflect White's heteroskedasticity correction.

	All Model 1	All Model 2	All Model 3
Constant	-0.003 (0.460)	0.051 (0.256)	0.040 (0.389)
<i>Keep_Adv.</i>	0.019** (0.033)		0.020** (0.028)
<i>Public Tgts.</i>		-0.030*** (0.000)	-0.030*** (0.000)
<i>All Cash</i>		0.009 (0.226)	0.010 (0.188)
<i>LnAcqMkt</i>		-0.003 (0.336)	-0.004 (0.316)
<i>LnTA</i>		0.001 (0.889)	0.001 (0.770)
<i>USTgts.</i>		0.012 (0.145)	0.009 (0.311)
<i>#ofM&amp;Aconducted</i>		0.001 (0.340)	0.001 (0.203)
<i>Previous CARs</i>		0.107 (0.105)	0.095 (0.138)
<i>Strength of Lending</i>		0.004 (0.815)	-0.001 (0.944)
<i>Total num. of borrowings</i>		0.001 (0.450)	0.001 (0.376)
N	534	534	534
Adj. R <sup>2</sup>	0.008	0.043	0.051
Prob > F	0.033	0.002	0.002

The symbols \*, \*\*, and \*\*\* denote statistical significance at the 10%, 5%, and 1% levels respectively.

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