

An Analysis of Advisor Choice, Fees and Effort in Mergers and Acquisitions

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Abstract

This paper investigates the choice of financial advisors in mergers and acquisitions, the fees that the targets and the acquiring firms pay to these advisors, and the speed with which advisors complete transactions. Our sample includes 5,337 merger deals announced during the period January 1995 to June 2000, that involved publicly traded targets and acquirers. We find that top-tier advisors are more likely to complete deals and to complete them in less time than lower-tier advisors. However, the synergistic gains realized by the acquirers declined when top-advisor were used. We also find that contingent fees play a significant role in expediting the deal completion. Surprisingly, we find that deals that are initiated by the advisors do not seem to take less time to complete. Our results suggest that the payment of larger advisory fees do not play an important role in determining the likelihood of completing the deal, but they are associated with greater acquisition gains realized by the acquirer. In addition, these synergistic gains are also associated with the switching by acquirers of their financial advisors within the same tier.

JEL Classification Code: G21, G24, G34

Key Words: merger & acquisition, merger advisors, advisory fees, synergistic gains, contingent fees

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I. Introduction

The pace of corporate mergers and acquisitions increased dramatically over the last two decades. Accompanying this increase in merger activity has been a concentrated effort by market analysts and academic researchers to identify the key factors that determine whether these mergers achieve the stated goals of the merging entities. On a more focused level, there has been increased interest in understanding how the structure of the advisor-client relationship affects merger outcomes. In particular, how the advisory relationship affects the probability that an announced merger will actually be consummated, the speed with which an announced merger is consummated, and the size of the post-merger gains are of particular interest.

Despite the benefits that merger advisors can potentially provide¹, the seemingly excessive merger fees charged by merger advisors have been subject to criticism in recent years. That is, the question has been raised regarding whether these merger fees are justified based on the benefits that the advisors bring to the transaction. In this paper, we examine the determinants of the choice of merger advisors and whether merger fee contracts induce advisors to expend more effort in the advisory process leading to better post-merger performance of the combined entity.

The rest of the paper is organized as follows. Section II presents a brief review of related literature and our contribution. Section III describes the data. The empirical methodology and results are discussed in Sections IV and V, respectively.

¹ As discussed in Hunter and Walker (1990), these benefits include the provision of an effective mechanism by which merger property rights are assigned, the provision of insurance against the sampling error incurred by firms seeking merger partners without the assistance of an advisor, and the provision of insurance against suits brought against merger principals under the judgement rule, among others.

II. Review of Recent Literature and Our Contribution

Most studies in the merger and acquisition (M&A) literature examine abnormal returns to the acquiring and target firms around the M&A announcement date, controlling for various factors such as characteristics of the target, the acquirer, and the deal itself. A few studies have documented the importance of merger advisors in the M&A market. Servaes and Zenner (1996) find that investment bank advisors are retained (as opposed to in-house staff) in more complex transactions that are characterized by significant asymmetric information. In addition, Bowers and Miller (1990) found that choice of merger advisor was important in determining the wealth gains to targets and acquiring firms -- wealth gains being larger when either the target or the bidder uses a first-tier investment bank advisor.² This suggests that credibility of merger advisors is an important determinant of the gains generated by mergers.

A recent study by Allen, Jagtiani, Peristiani, and Saunders (2003) examined bank vs non-bank advisors, and found that banks have a comparative advantage relative to investment banks in serving as M&A advisors; i.e. a "certification role". The paper, however, does not deal with the possibility that factors other than the type of advisor may have been responsible for the higher abnormal returns observed when bank advisors are used.

The role of merger advisory fees in the M&A transaction has also been studied in recent years. However, the literature on M&A fees is still in an early stage and is relatively less extensive. Saunders and Srinivasan (2001) found that switching costs play an important role in the merger advisory market. They found that acquiring firms, as a result of high switching costs, are willing to pay a higher advisory fee when using a merger advisor, with whom they have a prior relationship. In addition, more credible investment bank advisors (proxied by their tier) charged higher fees than did lower-tier advisors. However, this analysis did not fully account for

² These first-tier (rather than second-tier or third-tier) investment advisors include First Boston, Goldman Sachs, Merrill Lynch, Salomon Brothers, and Morgan Stanley.

the notion that choice of advisor may depend on the nature and complexity of the deal, which in turn, ultimately determines the fees charged by advisors.

Hunter and Walker (1990) examined various merger fee contracts and found that the most commonly used contract involved a combination of a fixed fee and a fee based on the transaction price, contingent upon the satisfactory completion of the merger. They also found that this type of contract seemed to provide the proper incentive for advisors to increase their efforts to generate better outcomes.³ Consistent with Hunter and Walker (1990), McLaughlin (1992) examined the role of fee contracts in tender offers and found that different fees have different payoff functions so that fee contracts may be used as a tool to influence tender offer outcomes.

Rau (2000) examined the relationship between the market share held by merger advisors, incentive fee structures, and the acquirers' performance as measured by post-acquisition abnormal returns. He found that 1) the incentive fee structure (proportion of fees contingent on the completion of the deal) charged by different merger advisors was related to their market shares; and that 2) the market share was determined by the percentage of deals that the advisor had completed and *not* by the acquirer's post-merger performance. The analysis was focused only on the role of the *acquirers'* advisors and on *short-term* performance (as measured by post-merger abnormal stock returns).

In what follows, we examine determinants of choice of advisor, the relationship between fees and advisor and deal characteristics, and the economic gains created by the merger transaction. We also examine the role of fee structure in tender offers and other merger deals using a different methodology and more recent and more complete data. Finally, we examine the relationship between choice of advisor, fees, and performance focusing on long-term

³ For example, the contract resulted in improved quality of the merger matches as measured by the social surplus generated by the merger.

performance.⁴ In addition to examining the acquirers' advisors, we will also examine the *targets* firms' advisors as well as the role of *multiple* advisors.

III. The Sample and Data

Our sample includes all mergers that were announced during the period January 1995 to June 2000. Mergers involving targets and acquirers whose shares are not traded in a liquid secondary market were excluded from our sample. We obtained information on merger deals, the targets, the acquiring firms, the advisors, and the fees charged by merger advisors from the Securities Data Corporation (SDC) database.

The sample includes 5,337 merger deals announced between January 1995 and June 2000, where complete information about advisors could be identified. For each M&A transaction, we collected information on whether or not any advisor(s) were used, credibility of the advisors, number of advisors, advisor responsibility, the fees charged by advisors, among others. Of the 5,337 sampled deals, 4,845 were completed (by the end of June 2000), 160 deals were hostile takeovers, 1,430 deals were tender offers, and 790 deals were in-house deals (i.e., used no advisors). Among the deals that were not in-house, 21 had the same financial advisors on both sides of the transaction (target and acquirer). The average market value of the target and the acquiring firms, based on share price as of four weeks prior to announcement date, were approximately \$1.3 billion and \$8 billion, respectively.

Advisors were classified into three tiers (tier 1, tier 2, and tier 3) based on two different criteria: 1) total dollar value of transactions handled by the advisor during the sample period, and 2) the number of transactions handled by the advisor during the sample period.⁵ Our tier-1,

⁴ For more discussion on post-merger short-term performance vs long-term performance, see Cornett and Tehranian (1992) and Brewer, Jackson, Jagtiani, and Nguyen (2000).

⁵ Another criteria—average asset value of the clients being advised during the sample period—was also examined. However, this ranking was highly driven by a small number of large clients. Thus this ranking

tier-2, and tier-3 advisors are defined to be the top ranked 15 advisors, the 16th to 50th ranked advisors, and the rest (51st to 665th advisors), respectively. The top 25 advisors based on the dollar value of transactions and the number of transactions are presented in Tables 1 and 2, respectively.⁶ Goldman Sachs, Morgan Stanley, Merrill Lynch, and Citigroup/Salomon Smith Barney are among the top five advisors under both classifications.

Fees paid to advisors are reported in Table 3. Merger advisory fees were divided into the following categories: advisory, deal management, fairness opinions, bust-up, contingent, retainer, deal initiation, and seller representation. Under each fee category, total fees and the proportion of total fees paid by the target and the acquiring firms are reported. Our analysis also takes into consideration the number of advisors that shared the fees and the advisors' tier ranking. As indicated in Table 3, on average, target firms paid \$4.4 million (0.84 percent of transaction value) in advisory fees per deal while acquiring firms paid \$2.4 million (0.38 percent of transaction value). On average, total fees (paid by both targets and acquirers) were 1.22 percent of the transaction value. A breakdown of average fees per deal paid by the target and the acquiring firms is presented in Table 3.

IV. Empirical Methodology

We examine the factors that are important in determining advisors' effort and the associated merger advisory fees. Regarding advisor effort, we proxy the effort put forth by financial advisors in three different ways. First, advisor effort is measured by the ability to complete deals. We expect that greater effort should lead to a higher probability of the deals

criteria was not used. The primary tier classification used in our analysis is based on transaction values, which is similar to the ranking based on number of clients (or transactions) being advised by an advisor during the sample period.

⁶ When the same advisor is used by both the target and the acquiring firms, value of transaction is accumulated for both of the merger parties.

being completed rather than withdrawn. A logit analysis is utilized in our analysis of the probability of the deals being completed. The dependent variable in this regression -- *D_COMPLT* -- was set equal to 1 for completed deals, and zero otherwise. A description of the independent and control variables included in this and subsequent regressions is presented in Table 4. The variables *D1996*, *D1997*, *D1998*, *D1999*, and *D2000* are equal to 1 if the deal was announced in 1996, 1997, 1998, 1999, and 2000, respectively, and they were set equal to zero otherwise. The results of this logit regression are given in Table 5 and will be discussed in the next section.

Second, advisor effort was proxied by the amount of time it took for a given deal to be completed. The variable *SPEED* represents the number of days between the merger announcement date and the effective date (date the merger was legally completed). *Ceteris paribus*, it is reasonable to expect that greater advisor effort should reduce the number of days it takes for an announced merger to become a completed transaction. An OLS regression was used to investigate the factors that determine the speed with which deals were completed. These results are presented in Table 6 and are discussed below.

Third, the amount of effort put in by advisors of the acquiring firms should (as a result of better negotiation strategy) lead to greater post-acquisition gains for the acquiring firms. The variable *ACQ_GAIN* was used to proxy the gains accumulated by the acquiring firms around the effective merger date. The post-merger gain was measured as the percentage difference between the market value of transaction as of the effective date (*VEFF*) and the value of transaction paid by the acquiring firm (*VAL*) divided by *VAL* and multiplied by 100 percent. This variable measures what the acquirer paid for the transaction relative to the value of the transaction when the acquisition become effective. The OLS analysis of post-merger gains is presented in Table 7 and is discussed below.

In addition to these three proxies for advisor effort, we were also interested in examining factors that are important in determining the fee structure across merger deals. To examine this

question, we use OLS regressions to examine both the fees paid by acquirers and by targets. The dependent variables are the percentage of total fees (relative to transaction value) paid by the acquiring firm and the target. The results are presented in Table 7 and are discussed below.

V. The Empirical Results

A. Probability of Completing the Deal

The results of the logit estimation are presented in Table 5. This analysis examines the factors that are important in determining the probability that a merger deal will be completed, rather than withdrawn. As can be seen, the variables *D_HOSTILE* and *D_TENDER* are significant with a negative and positive sign, respectively, indicating that the likelihood of completing a deal is reduced when the offer is in the form of a hostile takeover bid versus a non-hostile one. In addition, deals that involve tender offers are more likely to be completed. These findings are not surprising.

The coefficients of *ACQ_NOADV* and *TGT_NOADV* are positive and significant, suggesting that the larger number of advisors used by either the target or the acquirer the higher is the likelihood that the deal will be completed. Moreover, *ACQ_TIER1* is significantly positive in most cases, indicating that when the acquirer uses at least one tier-1 advisor, the likelihood of completing the deal is enhanced. It is generally believed that Tier-1 advisors are more capable of completing deals relative to tier-2 or tier-3 advisors. We also find that the existence of a previous relationship between the acquirer and the M&A advisor does not matter in determining whether the deal would be completed or withdrawn. The variable *D_OLDADV* is not significant, suggesting that having had a prior relationship with the advisor (in a previous merger deal) does not have a significant impact on the advisor's ability to complete the deal. Two-tiered transactions were also found to be less likely to be completed.

It is reasonable to expect a higher probability of deals being completed when initiated by the advisors themselves. This is because the likelihood of completing the deal may be one

factor considered by advisors when matching merger counterparties. However, the results in Table 5 show that the variable *D_INITIATE* is not significant.

Regarding the relationship between advisory fees and the likelihood of completing the deal, we find that advisory fees generally do not have a significant impact. The only fee variable that is significant is the contingent fee. Both the contingent fee variable for the target (*FEECTG_TGT*) and the acquirer (*FEECTG_ACQ*) are statistically significant but with unexpected negative signs. This is probably a reflection of the fee structure negotiated between the advisors and the merger parties where the portion of the total fee that is contingent is likely to be smaller for those deals that are less likely to be completed, ex ante.

B. Speed of Completion

The key factors that explain the variation in the amount of time it takes for a deal to be completed are presented in the regression analysis in Table 6. The dependent variable *SPEED* is the number of days between the merger announcement and the effective date. Unlike the analysis of the probability of completion, where all the announced merger deals are included, the sample behind the results presented in this table includes only completed deals.

As shown in Table 6, the variables *D_HOSTILE* and *D_TENDER* are significant with positive and negative signs, respectively. As might be expected, this indicates that it generally takes longer to complete a hostile takeover bid relative to a non-hostile one due to the complexity associated with hostile takeovers. Non-hostile tender offers, in addition to being more likely to be completed (shown earlier in Table 5), also take significantly less time to complete than other mergers.

Interestingly, increasing the number of advisors used by either the target (*TGT_NOADV*) or the acquiring firm (*ACQ_NOADV*) is likely to add complexity -- thus, significantly increasing the time required to complete the deal. The significant negative coefficient on the variable *ACQ_TIER1* indicates that deals are generally completed faster when the acquirer uses at least

one tier-1 advisor. Thus, Tier-1 advisors appear to be more capable than lower-tier advisors not only in their ability to complete the deal (Table 5), but also in their ability to complete it in a shorter time period (Table 6).

As was the case with the probability of completion, the regression variables *D_OLDDADV* and *D_INITIATE* are not significant in determining the speed of completion of a merger. That is, the existence of a prior relationship between the acquirer and the advisor does not have a significant impact on the advisor's ability to complete the deal in less time. Similarly, the speed of completion of a given merger does not seem to depend on whether or not the deal was actually initiated by a merger advisor. These results are somewhat surprising.

While advisory fees seem to have no impact on the probability of completing a deal, fees do play an important role in determining the speed with which deals are completed. The various measures of fees (as percent of transaction value) that are included in the regression in Table 6: *FTOTPCT*, *FEECTG_ACQ*, and *FEECTG_TGT* are all significant and negative. Larger total fees (as a percent of transaction value) significantly reduce the time advisors take to complete deals. In addition, the larger the portion of fees that are contingent upon completion of the deal (whether paid by the target or the acquirer), the faster are deals completed. Finally, regarding the impact of the split of total fees paid by the acquirer and target in a transaction on the speed of completion, it turns out that the larger the portion of total fees paid by the target the quicker is the transaction completed. This is evidenced by the positive and significant coefficient on the variable *AFEE_SHARE*.

C. Post Acquisition Gains to the Acquirers

In this section, we examine the variation in the post-acquisition gains accruing to the acquiring firms across completed deals. The regression analysis is presented in Table 7. The dependent variable in this analysis, *ACQCQ_GAIN*, is a measure of the value or return earned (loss) by the acquirer as of the effective date of the transaction. Specifically, the gain to

acquirers is proxied by the difference between the value of the transaction at two points of time -- at the time the deal was announced and the time the deal became effective. If the acquirer paid too much for the transaction, the synergy realized by the acquirer would be smaller or negative. We expect that the advisors' effort could play an important role in the amount of gains to be realized by the acquirer.

As shown in Table 7, the variable *ACQ_NOADV* -- representing the number of advisors used by the acquirer -- is significant and positive, suggesting that the greater the number of advisors used by the acquirer, the larger the post acquisition gains realized by the acquirer. Although it was shown in Table 6 that use of more advisors tended to slow completion speed, the combined efforts associated with the use of several advisors do seem to pay off in terms of larger post-acquisition gains.

The use of tier-1 advisors by acquirers and targets is measured by the variables *ACQ_TIER1* and *TGT_TIER1*, respectively. As shown in Table 7, both are significant and negative, indicating that use of tier-1 advisors tends to reduce the gains to the acquiring firm. It seems reasonable to expect that the gains to the acquirer would decline when the target uses a tier-1 advisor. Likewise, it seems reasonable that the gains to the acquirer would improve with the use of Tier-1 advisors. Thus, it is somewhat surprising to find that the gains realized by the acquirer decline when the acquirer uses a tier-1 advisor. However, this result is consistent with Rau (2000), who finds that top-tier advisors tend to advise their clients to offer larger premiums to targets, reducing the gains to the acquiring firms.

As was the case with speed of completion, advisory fees play an important role in determining post acquisition gains. The variable *FTOTPCT* is significantly positive, indicating that the gains to acquirers are larger in deals where larger total (combined) fees (as a percentage of transaction value) are paid regardless of the distribution of fees paid by the target or the acquirer. This finding is consistent with the positive and significant coefficients on the variables *AFEE_PCT* and *TFEE_PCT* when included separately in the analysis.

An examination of the relationship between the decision to switch advisors and the gains to the acquirer suggests that the gains are smaller when the acquirer switches to a lower-tier advisor as evidenced by the significantly negative coefficient on the variable *Tier_DOWN*. Switching advisors within the same tier, however, is associated with larger gains to the acquiring firm (indicated by the variable *Tier_SAME*).

Other control variables that are significant in explaining the variation in the gains to the acquirer include the following: the merger is hostile (significantly positive coefficient for *D_HOSTILE*), the merger is a non-hostile tender offer (significantly negative coefficient for *D_TENDER*), and the size of the merger (significantly positive coefficient for *LOG(VAL)*). That is, the gains realized by acquiring firms are generally larger in hostile takeovers if the deals are completed successfully; non-hostile tender offers are more likely to be completed and generally take less time to complete (as discussed earlier), but they do not produce greater post-merger gains to the acquiring firms; and as expected, the realized post-merger gains tend to be larger in larger transactions.

D. Advisory Fees Paid by the Acquirer and the Target

Table 8 presents the regression analysis of the factors that determine the advisory fees paid by either the target or the acquiring firm. These results indicate that the fees (as a portion of transaction value) paid by the acquiring firm, *AFEE_PCT*, increase with number of advisors involved in the deal (as measured by the variable *ACQ_NOADV* which is significant and positive). In addition, the coefficients on the variables indicating the tier of the advisor (*ACQ_TIER1* and *TGT_TIER1*) are both significant and positive. Thus, the acquirer also pays larger fees when it uses a tier-1 advisor (tier-1 advisors are known to charge more for their expertise) or when the target uses a tier-1 advisor (the negotiations become more difficult for the acquirer when target uses a tier-1 advisor).

Interestingly, the fees paid by the acquirer decline when it switches advisors either within the same tier (*TIER_SAME*) or to an upper tier (*TIER_UP*). In fact, lower fees charged by another advisor in the same tier as the previous advisor may be the cause of switching within the same tier. On the other hand, it is surprising to see that the fees also decline when the acquirer switches to an advisor in a higher tier. However, this result is consistent with that reported by Saunders and Srinivasan (2001), who found that acquiring firms pay a higher fee to advisors when they have had a continuing relationship and a lower fee when they switch to an advisor with whom they have had no prior relationship.⁷

Other variables that are significant in determining advisory fees include: *TENDER* (positive), *D_SAMESIC* (positive), and *LOG(VAL)* (negative). That is, the fees paid by the acquirer are larger in tender offers than in a typical non-tender merger or acquisition; the fee is also larger when the target and the acquirer are in the same business line (i.e., same SIC codes); and the fees (as percent of transaction value) tend to become a smaller portion in larger merger transactions.

As can be seen in Table 8, the same analysis is performed to examine fees (as percent of transaction value) paid by targets. The results presented in columns 3 and 4 indicate that the fees paid by the target, *TFEE_PCT*, increase with the number of advisors used by the target (*TGT_NOADV*); i.e., the coefficient is significantly positive. This result is consistent with those found for the acquirers. In addition, the positive and significant coefficient on the variable *TGT_TIER1* suggests that the fees are larger when the target uses a tier-1 advisor. Again, this is probably because tier-1 advisors charge more for their superior ability. Finally, use of tier-1 advisors by acquirers (*ACQ_TIER1*) and the acquirer's decision to switch advisors in any

⁷ Our finding is also consistent with the results reported by Krigman and Womack (2001), who examined why firms switched their lead underwriter in the initial public offerings. They concluded that there was little evidence that firms switched due to dissatisfaction with underwriter performance – in fact, switchers raised fewer proceeds than expected.

direction (*TIER_SAME*, *TIER_UP*, or *TIER_DOWN*) have no impact on the fees paid by the target. As was the case for the acquirer, the target also pays larger fees in tender offers versus non-tendered friendly mergers.

VI. Summary and Conclusions

This paper examines the characteristics of all merger deals announced during the period January 1995 to June 2000. The sample includes 5,337 merger deals involving publicly traded acquirers and targets. We investigate the factors that determine the probability that an announced merger will be successfully completed, the speed with which announced mergers are actually completed, the fees paid to advisors by the acquiring and target firms, and the post merger gains earned by the acquiring firms. In doing so, we also attempt to add to our understanding of the nature of the relationship between merger advisors and their clients.

We find that advisor quality and the number of advisors employed in a given transaction are important in determining the probability of completing a deal. Top tier (Tier-1) advisors were found to be more capable of completing deals relative to tier-2 and tier-3 advisors. Interestingly, the size of advisory fees do not seem to play an important role in determining the likelihood of completing a deal.

In terms of the speed of completing a deal, tier-1 advisors were found to be more efficient in terms of the amount of time required to complete deals, other things equal. However, unlike the case of the probability of completing deals, increasing the number of advisors used by either the target or the acquirer adds complexity to the transaction requiring significantly more time for deals to be completed. We also find that a greater portion of advisory fees that are contingent upon completion of the deal (whether paid by the target or the acquirer) further shortens the time to deal completion. The existence of a prior relationship between the acquirer and the advisor does not seem to have a significant impact on the advisor's ability to

complete the deal in less time. Finally, merger deals that are initiated by the advisors are not likely to be completed sooner than deals initiated by the merger counterparties.

While tier-1 advisors tend to complete the deals with higher probability and complete them in less time, we also found that the post-merger gains realized by the acquiring firms in these mergers actually decline when tier-1 advisors are employed. However, larger total advisory fees paid were found to be associated with larger post-merger gains. We found that when acquirers switch their financial advisors within the same tier, the switching is associated with larger post-merger gains to acquiring firms. Finally, our overall findings suggest that hostile takeovers and non-hostile tender offers introduce significantly more complexity into mergers and acquisitions when compared to simple friendly mergers between firms.

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Table 1: Top 25 Advisors (based on total \$ value of transactions advised during January 1985 and June 2000)

Ranking	Advisor's Name	1995 (Mil)	1996 (Mil)	1997 (Mil)	1998 (Mil)	1999 (Mil)	2000 (Mil)	Total (Mil)
1	Goldman Sachs & Co	\$144,380	\$133,062	\$318,049	\$826,686	\$893,982	\$380,804	\$2,696,964
2	Morgan Stanley & Co	229,036	186,243	237,586	432,841	604,594	334,580	2,024,878
3	Merrill Lynch & Co Inc	101,987	181,995	272,932	495,584	644,243	303,183	1,999,925
4	CitiGroup / Salomon Smith Barney	105,091	103,392	214,334	386,349	442,169	260,649	1,511,984
5	Credit Suisse	118,015	91,746	132,011	277,605	251,893	142,773	1,014,043
6	Lehman Brothers	80,209	82,702	180,165	163,905	303,590	34,450	845,021
7	Lazard	42,472	120,401	158,698	86,004	248,413	32,089	688,077
8	Bear Stearns & Co Inc	63,258	50,503	118,059	152,620	241,073	29,943	655,455
9	Donaldson, Lufkin & Jenrette	26,143	45,621	93,470	175,292	235,988	67,643	644,156
10	JP Morgan	53,748	72,732	108,005	208,848	124,235	51,155	618,723
11	Chase Manhattan / Chemical	8,279	20,811	39,191	139,646	278,602	44,627	531,157
12	Dillon, Read & Co Inc	46,578	42,091	70,070	46,295	173,784	70,394	449,211
13	Wasserstein Perella Group Inc	41,406	39,485	26,665	38,937	67,544	179,956	393,993
14	Deutch Banc Alex Brown	18,483	28,116	54,661	114,188	93,214	28,240	336,902
15	Banc of America / Nations	2,169	2,170	36,728	125,517	23,219	32,056	221,858
16	Gleacher Natwest	6,661	23,763	20,415	17,096	84,990	4,374	157,297
17	Rothschild	234	4,442	293	8,217	124,421	6,327	143,934
18	Houlihan Dorton Jones	6,473	9,671	39,521	22,315	39,328	10,130	127,438
19	Allen & Co Inc	30,378	12,980	421	2,712	67,025	369	113,886
20	NM Rothschild & Sons (AU)	2,617	21,012	41,907	5,038	1,046	149	71,769
21	BancBoston Robertson Stephens	4,796	6,977	4,065	968	31,957	16,238	65,001
22	Greenhill & Co, LLC		1,006	8,972	14,989	34,643	1,745	61,355
23	The Blackstone Group	5,991	8,356	8,794	13,825	15,655	5,426	58,046
24	CIBC Oppenheimer	1,065	3,398	2,844	7,647	33,798	5,774	54,527
25	Paine Webber	7,678	8,604	7,051	13,430	12,554	1,220	50,537
*****	In_House (No IB Retained)	8,357	9,249	16,049	117,617	62,501	6,148	219,921

Table 2: Top 25 Advisors (based on total number of transactions advised during January 1985 and June 2000)

Ranking	Adviser's Name	1995	1996	1997	1998	1999	2000	Total
1	Goldman Sachs & Co	157	204	283	261	271	106	1282
2	Merrill Lynch & Co Inc	187	214	235	205	194	79	1114
3	Morgan Stanley & Co	152	167	208	226	258	91	1102
4	CitiGroup / Salomon Smith Barney	200	200	218	204	160	63	1045
5	Donaldson, Lufkin & Jenrette	109	109	192	230	257	106	1003
6	Credit Suisse	115	99	151	155	174	90	784
7	Lehman Brothers	112	121	141	128	140	61	703
8	Deutch Banc Alex Brown	93	157	148	123	110	41	672
9	JP Morgan	72	55	96	105	93	57	478
10	Bear Stearns & Co Inc	82	73	88	82	89	36	450
11	Dillon, Read & Co Inc	79	79	68	72	81	30	409
12	Lazard	70	70	93	70	73	32	408
13	Banc of America / Nations	11	23	64	134	110	36	378
14	Houlihan Dorton Jones	42	46	78	100	87	16	369
15	Chase Manhattan / Chemical	43	46	67	68	87	36	347
16	Broadview Associates	50	67	55	65	39		276
17	Wasserstein Perella Group Inc	27	24	52	48	65	10	226
18	CIBC Oppenheimer	25	33	17	40	88	22	225
19	Paine Webber	41	34	32	54	46	11	218
20	KPMG Peat Marwick	31	29	33	54	52	12	211
21	Hambrecht & Quist	17	25	50	50	59		201
22	BancBoston Robertson Stephens	21	33	30	25	62	29	200
23	Keefe Bruyette & Woods Inc	34	18	36	45	40	13	186
24	Robinson-Humphrey / American Exp	35	40	18	46	36	9	184
25	Piper Jaffray & Hopwood Inc	25	23	46	51	35		180
*****	In-House (No IB Retained)	481	691	317	223	287	11	2010

Table 3: Average Fees Per Deal (in \$ Mill) Paid by the Acquiring Firms and the Targets

Variable	Mean	STD.	Min.	Max.	N
<u>Fees Paid By Acquirers (\$million):</u>					
<i>AFEE_TOTAL</i>	2.339	5.725	0	60.000	5337
<i>AFEE_PCT</i> (in % of trans. value)	0.378	1.071	0	30.681	5337
<i>AFEE_ADVISORY</i>	0.486	3.111	0	115.00	5337
<i>AFEE_ADVISORY/OPINION</i>	0.148	0.948	0	15.000	5337
<i>AFEE_BUST-UP</i>	0.134	1.139	0	20.000	5337
<i>AFEE_CONTINGENT</i>	1.674	4.877	0	135.000	5337
<i>AFEE_DEAL MANAGEMENT</i>	0.016	0.198	0	5.000	5337
<i>AFEE_DEAL INITIATION</i>	0.000	0.003	0	0.150	5337
<i>AFEE_FAIRNESS OPINION</i>	0.090	0.500	0	8.000	5337
<i>AFEE_RETAINER</i>	0.012	0.082	0	2.000	5337
<i>AFEE_REPRESENTED SELLER</i>	0.000	0.012	0	0.500	5337
<u>Fees Paid By Targets (\$million):</u>					
<i>TFEE_TOTAL</i>	4.427	7.251	0	68.500	5337
<i>TFEE_PCT</i> (% of trans. value)	0.837	1.845	0	87.209	5337
<i>TFEE_ADVISORY</i>	0.473	1.790	0	27.500	5337
<i>TFEE_ADVISORY/OPINION</i>	0.264	1.315	0	20.000	5337
<i>TFEE_BUST-UP</i>	0.179	1.845	0	40.920	5337
<i>TFEE_CONTINGENT</i>	3.376	6.022	0	53.500	5337
<i>TFEE_DEAL INITIATION</i>	0.007	0.214	0	7.000	5337
<i>TFEE_FAIRNESS OPINION</i>	0.224	0.886	0	15.000	5337
<i>TFEE_RETAINER</i>	0.042	0.322	0	10.000	5337
<i>TFEE_REPRESENTED SELLER</i>	0.004	0.159	0	6.700	5337

Table 4: Description of the Variables used in Regressions

Variables	Definition
<i>HOSTILE</i>	is equal to 1 for hostile takeover, 0 otherwise
<i>ACQ_NOADV</i>	is the number of advisors used by the acquiring firm
<i>TGT_NOADV</i>	is the number of advisors used by the target firm
<i>D_TENDER</i>	is equal to 1 for tender offer, and 0 otherwise
<i>D_TWOTIER</i>	is equal to 1 for a two-tier transaction, and 0 otherwise
<i>D_INITIATE</i>	is equal to 1 if either the target or the acquiring firm or both pay a deal- initiation fee to their advisor for initiating the deal
<i>ACQ_TIER1</i>	is equal to 1 if the acquiring firm uses tier-1 advisor, and 0 otherwise
<i>TGT_TIER1</i>	is equal to 1 if the target firm uses tier-1 advisor, and 0 otherwise
<i>D_OLDADV</i>	is equal to 1 if the acquiring firm uses an advisor with whom they have had prior relationship (advised them previously on another merger deal), and 0 otherwise
<i>D_SAMEADV</i>	is equal to 1 if at least one of the advisors was advising both the target and the acquiring firms for the deal
<i>FTOTPCT</i>	is dollar value (in \$ million) of total fees paid to advisors by the target and the acquiring firm combined
<i>AFEE_SHARE</i>	is percentage of advisory fees paid by the acquiring firm (<i>AFEE_TOT</i>) to total combined fees paid for the transaction (<i>AFEE_TOT</i> + <i>TFEE_TOT</i>)
<i>AFEE_PCT</i>	is percentage of fees paid by the acquirer relative to transaction value
<i>TFEE_PCT</i>	is percentage of fees paid by the target relative to transaction value
<i>FEECTG_TOT</i>	is dollar amount (in \$ million) of contingent fees paid by both the target and the acquiring firm combined
<i>FEECTG_ACQ</i>	is dollar amount (in \$ million) of contingent fees paid by the acquirer
<i>FEECTG_TGT</i>	is dollar amount (in \$ million) of contingent fees paid by both the target
<i>LOG(VAL)</i>	is log of the dollar value of transaction
<i>TIER_SAME</i>	is equal to 1 if the acquiring firm switches its advisor but stays within the same tier, and 0 otherwise
<i>TIER_UP</i>	is equal to 1 if the acquirer switches its advisor to a better tier
<i>TIER_DOWN</i>	is equal to 1 if the acquirer switches its advisor to a lower tier
<i>D_MOE</i>	is equal to 1 for a merger of equals, and 0 otherwise
<i>D_SAMESIC</i>	is equal to 1 if both the target and the acquiring firms are in the same business line (same SIC codes), and 0 otherwise
<i>RELSIZE</i>	is the ratio (in percent) of the market value of the acquiring firm to market value of the target multiplied by 100 percent

Table 5: Probability of Completing the Deals

Dependent variable is a binary variable *D_COMPLT*, which is equal to 1 for completed deals and zero otherwise. Explanatory variables are defined in Table 4. Coefficients of the year dummies are not reported here. ***, **, and * represent significance at the 1, 5, and 10 percent, respectively.

Independent Variable	(1)	(2)	(3)	(4)	(5)
<i>Intercept</i>	2.734*** (0.000)	2.997*** (0.000)	3.043*** (0.000)	1.486*** (0.005)	1.447*** (0.007)
<i>D_HOSTILE</i>	-3.300*** (0.000)	-3.153*** (0.000)	-3.151*** (0.000)	-3.407*** (0.000)	-3.426*** (0.000)
<i>ACQ_NOADV</i>	0.269* (0.080)	0.219** (0.027)	0.271* (0.078)	0.452 (0.143)	0.444 (0.151)
<i>TGT_NOADV</i>	0.678*** (0.000)	0.686*** (0.000)	0.656*** (0.000)	1.325*** (0.000)	1.321*** (0.000)
<i>D_TENDER</i>	0.370*** (0.005)	0.316** (0.018)	0.323** (0.016)	0.349 (0.123)	0.357 (0.116)
<i>D_TWOTIER</i>	-1.559*** (0.000)	-1.624*** (0.000)	-1.626*** (0.000)	-2.738*** (0.000)	-2.792*** (0.000)
<i>D_INITIATE</i>	-0.703 (0.263)	-0.775 (0.216)	-0.772 (0.218)	-0.724 (0.496)	-0.720 (0.499)
<i>ACQ_TIER1</i>	0.289** (0.012)	0.353*** (0.002)	0.350*** (0.003)	0.286 (0.143)	0.225 (0.293)
<i>TGT_TIER1</i>					0.153 (0.471)
<i>D_OLDADV</i>	0.092 (0.526)	0.091 (0.529)	0.087 (0.548)	-0.055 (0.803)	-0.061 (0.781)
<i>FTOTPCT</i>	-0.008 (0.667)		-0.010 (0.591)	0.001 (0.975)	0.004 (0.911)
<i>AFEE_SHARE</i>	-0.001 (0.683)		-0.001 (0.683)	0.002 (0.695)	0.002 (0.661)
<i>FEECTG_TOT</i>		-0.005*** (0.000)	-0.005*** (0.000)		
<i>FEECTG_ACQ</i>				-0.003** (0.016)	-0.003** (0.014)
<i>FEECTG_TGT</i>				-0.002** (0.044)	-0.002** (0.039)
Concordant	76.7%	77.2%	77.2%	82.6%	82.5%
Discordant	21.9%	21.8%	21.9%	16.5%	16.0%
C-Value	0.774	0.777	0.776	0.830	0.830
Model X ² (P-Value)	515.173 (0.000)	554.914 (0.000)	555.329 (0.000)	314.075 (0.000)	314.595 (0.000)
N	5152	5152	5152	2227	2227

Table 6: Number of Days From Announcement to Effective Date (*SPEED*)

Explanatory variable is *SPEED*, as defined in Table 4. Coefficients of the year dummies are not reported here. ***, **, and * represent significance at the 1, 5, and 10 percent, respectively.

Independent Variable	(1)	(2)	(3)	(4)	(5)
<i>Intercept</i>	146.910*** (0.000)	147.273*** (0.000)	153.380*** (0.000)	154.200*** (0.000)	153.710*** (0.000)
<i>D_HOSTILE</i>	60.907*** (0.000)	62.120*** (0.000)	61.378*** (0.000)	42.477*** (0.001)	42.037*** (0.001)
<i>ACQ_NOADV</i>	18.677*** (0.000)	13.582*** (0.000)	19.372*** (0.000)	18.315*** (0.001)	18.225*** (0.001)
<i>TGT_NOADV</i>	8.376*** (0.001)	11.361*** (0.000)	8.834*** (0.000)	16.634*** (0.000)	16.106*** (0.000)
<i>D_TENDER</i>	-78.934*** (0.000)	-81.554*** (0.000)	-79.916*** (0.000)	-83.687*** (0.000)	-83.760*** (0.000)
<i>D_TWOTIER</i>	67.976*** (0.000)	70.316*** (0.000)	68.961*** (0.000)	43.581*** (0.000)	42.672*** (0.000)
<i>D_INITIATE</i>	1.633 (0.901)	-0.620 (0.962)	0.707* (0.054)	-16.677 (0.382)	-16.480 (0.388)
<i>ACQ_TIER1</i>	-13.519*** (0.000)	-11.544*** (0.000)	-11.941*** (0.000)	-8.885** (0.020)	-10.089** (0.013)
<i>TGT_TIER1</i>					3.470 (0.380)
<i>D_OLDADV</i>	-0.555 (0.843)	0.122 (0.965)	-0.517 (0.853)	-0.248 (0.955)	-0.456 (0.918)
<i>FTOTPCT</i>	-1.874 (0.000)		-1.820*** (0.000)	-3.462*** (0.000)	-3.385*** (0.000)
<i>AFEE_SHARE</i>	-0.111 (0.050)		-0.135** (0.018)	-0.069 (0.502)	-0.062 (0.549)
<i>FEECTG_TOT</i>		-0.134*** (0.000)	-0.137*** (0.000)		
<i>FEECTG_ACQ</i>				-0.124*** (0.001)	-0.128*** (0.001)
<i>FEECTG_TGT</i>				-0.238 (0.000)	-0.242*** (0.000)
R ²	0.221	0.221	0.224	0.243	0.243
Adjusted R ²	0.218	0.218	0.222	0.237	0.237
N	4648	4648	4648	2033	2033

Table 7: Post-Acquisition Gain to Acquirers (*ACQ_GAIN*)

Explanatory variable is *ACQ_GAIN*, as defined in Table 4. Coefficients of the year dummies are not reported here. ***, **, and * represent significance at the 1, 5, and 10 percent, respectively.

Independent Variable	(1)	(2)	(3)	(4)
<i>Intercept</i>	-10192*** (0.000)	-10090*** (0.000)	-9904.373*** (0.000)	-9769.556*** (0.000)
<i>ACQ_NOADV</i>	666.625*** (0.002)	798.096*** (0.000)	575.751*** (0.006)	744.458*** (0.000)
<i>TGT_NOADV</i>	294.792 (0.120)	222.425 (0.181)	293.231 (0.120)	197.276 (0.233)
<i>D_TENDER</i>	-869.113*** (0.000)	-854.342*** (0.000)	-850.578*** (0.000)	-830.425*** (0.000)
<i>D_TWOTIER</i>	-1363.382** (0.024)	-1362.291** (0.024)	-1128.182* (0.062)	-1132.521* (0.061)
<i>D_HOSTILE</i>	2251.946*** (0.000)	2260.341*** (0.000)	2270.173*** (0.000)	2286.233*** (0.000)
<i>ACQ_TIER1</i>	-1406.425*** (0.000)	-1392.851*** (0.000)	-1633.467*** (0.000)	-1619.169*** (0.000)
<i>TGT_TIER1</i>	-1671.488*** (0.000)	-1677.565*** (0.000)	-1630.041*** (0.000)	-1635.901*** (0.000)
<i>D_SAMEADV</i>	1085.477 (0.390)	1116.139 (0.376)	958.654 (0.445)	1000.930 (0.425)
<i>LOG(VAL)</i>	2248.236*** (0.000)	2246.152*** (0.000)	2215.361*** (0.000)	2215.009*** (0.000)
<i>TIER_SAME</i>			1789.699*** (0.000)	1766.014*** (0.000)
<i>TIER_UP</i>			-501.215 (0.195)	-510.952 (0.187)
<i>TIER_DOWN</i>			-1526.512 (0.000)	-1541.742*** (0.000)
<i>AFEE_PCT</i>		153.638* (0.065)		175.688** (0.034)
<i>TFEE_PCT</i>		212.257*** (0.000)		207.779*** (0.000)
<i>FTOTPCT</i>	196.142*** (0.000)		199.063*** (0.000)	
<i>AFEE_SHARE</i>	2.798 (0.503)		4.082 (0.327)	
R ²	0.274	0.274	0.282	0.282
Adjusted R ²	0.272	0.272	0.279	0.279
N	5289	5289	5289	5289

Table 8: Fees Paid by Acquirers (*AFEE_PCT*) and Targets (*TFEE_PCT*)

Explanatory variables *AFEE_PCT* and *TFEE_PCT*, as defined in Table 4. Coefficients of the year dummies are not reported here. ***, **, and * represent significance at the 1, 5, and 10 percent, respectively.

Independent Variable	Dependent Var is <i>AFEE_PCT</i>		Dependent Var is <i>TFEE_PCT</i>	
	(1)	(2)	(3)	(4)
<i>Intercept</i>	0.852 ^{***} (0.000)	0.833 ^{***} (0.000)	1.704 ^{***} (0.000)	1.699 ^{***} (0.000)
<i>ACQ_NOADV</i>	0.477 ^{***} (0.000)	0.480 ^{***} (0.000)	-0.052 (0.115)	-0.051 (0.122)
<i>TGT_NOADV</i>	-0.089 ^{***} (0.009)	-0.089 ^{**} (0.010)	0.382 ^{***} (0.000)	0.384 ^{***} (0.000)
<i>D_TENDER</i>	0.137 ^{***} (0.005)	0.134 ^{***} (0.006)	0.127 ^{**} (0.027)	0.130 ^{**} (0.024)
<i>D_TWOTIER</i>	-0.060 (0.688)	-0.065 (0.661)	-0.032 (0.855)	-0.040 (0.820)
<i>D_MOE</i>	0.024 (0.834)	0.024 (0.833)	0.052 (0.705)	0.045 (0.743)
<i>D_SAMESIC</i>	0.067 ^{**} (0.048)	0.064 [*] (0.058)	-0.015 (0.707)	-0.011 (0.773)
<i>RELSIZE</i>	0.000 (0.737)	0.000 (0.746)	0.000 (0.711)	0.000 (0.717)
<i>D_HOSTILE</i>	-0.059 (0.522)	-0.076 (0.415)	-0.026 (0.810)	-0.026 (0.811)
<i>PREM4WK</i>	-0.000 (0.516)	-0.000 (0.572)	0.000 (0.962)	0.000 (0.968)
<i>ACQ_TIER1</i>	0.097 ^{**} (0.014)	0.123 ^{***} (0.002)	0.072 (0.123)	0.063 (0.189)
<i>TGT_TIER1</i>	0.096 ^{**} (0.016)	0.098 ^{**} (0.013)	0.156 ^{***} (0.001)	0.156 ^{***} (0.001)
<i>D_SAMEADV</i>	-0.052 (0.825)	-0.020 (0.931)	-0.022 (0.938)	-0.005 (0.987)
<i>TIER_SAME</i>		-0.124 ^{**} (0.014)		0.016 (0.787)
<i>TIER_UP</i>		-0.132 [*] (0.098)		0.006 (0.949)
<i>TIER_DOWN</i>		0.063 (0.473)		-0.133 (0.202)
<i>LOG(VAL)</i>	-0.146 ^{***} (0.000)	-0.145 ^{***} (0.000)	-0.272 ^{***} (0.000)	-0.271 ^{***} (0.000)
R ²	0.314	0.319	0.340	0.341
Adj R ²	0.302	0.305	0.329	0.329
N	1098	1098	1098	1098