Does it always Pay to Pay your Investment Banker? Distracted Advisors and M&A performance

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Abstract

This paper provides new evidence on the role of financial advisors in M&As. We show that the involvement of financial advisors in very big deals has a negative effect on the smaller M&As facilitated in the same period. Moreover, our findings suggest that top-tier advisors deliver higher bidder announcement returns, but the value added to small deals decreases substantially when the advisor is also involved in facilitating a very large acquisition. Our results provide evidence that financial advisors prioritise very large acquisitions to have more visibility and to reinforce their reputation on the media.

Keywords: M&A; M&A Advisors; Acquisition Premium, Announcement returns.
JEL Codes: G24, G34

1. Introduction

Mergers and acquisitions (M&As) are a key driver of corporate growth, productivity, and constitute one of the most important activities in corporate finance. Corporations spend trillions of dollars every year in M&As and often hire an investment bank to provide financial advice for their transactions. Fees from advisory services in M&A represent an important source of income for investment banks. In 2007 advisory services generated an estimated of $39.7 billion in advisory fees[1]. The investment banking industry is dominated by top-tier large banks that have an established reputation as experts in capital markets. These large investment banks build their reputation and their revenues on very large deals, highly exposed to financial news, but also offer their services for small transactions with limited media attention. In this paper, we study whether top-tier investment companies prioritise large acquisitions in the allocation of their resources and whether it pays to hire a top-tier advisor for a small deal.

Existing studies have shown that hiring an investment bank matters for M&A outcomes (Bao and Edmans, (2011)) and that top-tier advisors deliver higher announcement returns (Golubov, Petmezas, and Travlos, (2012)). The improvement in bidder announcement return stems from the ability of top-tier advisors to secure a greater share of synergies for their clients. Financial advisors facilitate the identification of good merger counterparts and create value by bargaining the terms of the transactions on behalf of their clients. These services may increase the value generated by M&A deals not only for public companies but also for smaller private companies (Agrawal, Cooper, Lian, and Wang (2016)). However, when top-tier advisors are involved in very large transactions, they may not be able to offer the best of their services to small clients and may deliberately prioritise large acquisitions to establish their reputation and to increase

[1] See Golubov, Petmezas, and Travlos, (2012)

their revenues from transaction fees. The idea that the quality of services provided by the same advisor may be heterogeneous has already been advanced in recent studies: for example, Liu, Sun and Wu (2015) develop a model in which investment banks determine their resource allocation based on their clients' M&A frequency in the future, devoting more resources to "VIP clients". In the same vein, this paper aims to assess the effect of managing a very big deal on the quality of service offered by advisors to bidders involved in smaller operations conducted in the same period.

Hence, it is important to study whether financial advisors (and especially top-tier investment banks) create value in small M&A transactions. This is particularly important to study given the results in Moeller, Schlingemann and Stulz (2005), which show how small M&As are more likely to create value for shareholders than large transactions involving companies with very high valuations.

2. Hypotheses development

Investment banks commonly offer advisory services for M&A transactions. The investment banking industry is dominated by a group of so-called "bulge bracket" firms. These are very large investment banks offering advisory services for M&A and tend to facilitate the largest deal in terms of value. Existing studies have shown that these top-tier advisors generate higher abnormal returns for the bidder when compared to other advisors (Golubov, Petmezas, and Travlos, (2012)). The higher returns generated by top tier advisors are also reflected in higher fees charged to facilitate a deal. A natural question that follows is whether these higher fees are justified for small deals.

Top-tier advisors are often involved in facilitating very large deals, which give them visibility on financial media and help top-tier advisors in building their reputation. Some recent studies (e.g., Sibilkov and McConnell (2014)) confirm the relevance of reputation by finding a positive

relationship between the prior client deal outcome and investment banks' market share. Other contributions have focused on the link between the financial advisors and the firm in a relationship banking perspective (e.g., Francis, Hasan and Sun (2014)).

Top-tier advisors may then rationally prioritize large deals at the expense of small deals. Hence, the investment of hiring a top-tier advisor for small M&A transactions may not be the right choice as the quality of the service may deteriorate if the top-tier advisor is contemporaneously hired for a larger deal.

In this paper, we investigate the possibility that advisors deliberately allocate more resources to larger deals, offering services with heterogeneous quality at the expense of smaller ones. First, we assess the overall effect of "advisors' distraction", testing the following hypothesis:

Hypothesis 1. The bidder announcement returns are lower when the advisor hired for the acquisition is also facilitating a very large deal.

Second, we focus our attention on top-tier advisors, which generally manage very big deals and hence are more likely to be distracted.

While existing studies (Golubov, Petmezas, and Travlos, (2012)) suggest that bidders with top-tier advisors experience higher return on the announcement of the deal, this additional value may vanish in small transactions if the advisor is also involved in a very large deal that potentially catalyses its attention and internal resources. Our second hypothesis is the following:

Hypothesis 2. The additional value produced by a top-tier advisor decreases if the advisor is also involved in facilitating a very large deal.

3. Data

A. Sample Selection Criteria

The acquisition data used in this paper come from Thomson Reuters Eikon's Dealscan feature. Our initial sample contains all acquisitions announced between January 1, 1996 and December 31, 2007. Our sample does not include the period after 2007 in order to avoid the Great Financial Crisis, which had a strong impact on M&A activity and may bias our results. All bidders in our sample are U.S. listed firms and targets are U.S. listed, private, or subsidiary firms. Both successful and withdrawn deals are included. We exclude repurchases, liquidations, restructurings, leveraged buyouts, reverse takeovers, reverse LBOs, privatizations, bankruptcy acquisitions, and going private transactions. We also require that the acquirer does not own more than 10% of the target before the deal and seeks to acquire more than 50% (see Faccio et al., 2006). We further exclude deals worth less than $1 million. After these restrictions are imposed, we end up with 15,686 deals. We then require the acquirer advisor to be reported in Eikon database. This leaves us with a sample of 5,364 deals. Another requirement is that the bidder is covered in Thomson Reuters Datastream with enough data to calculate announcement period returns. In addition, we require enough data to allow us to determine the lead acquirer advisor in a deal. This means that we exclude deals with more than 1 acquirer advisor, where advisor fees are not reported. Our final sample therefore consists of 843 deals.

B. Measuring Advisor Distraction

First, we identify the largest deals in our sample. The deal is considered large if it is in the top 1% of deals in our sample according to the transaction value for that particular year. These are reported in Table 1 along with the main advisor for each deal. The deal values vary considerably given the different market conditions at different points in our sample period. In

particular, we can see that the largest deals happen in the late nineties, just before the burst of the internet bubble. On the other hand, the market was quite inactive just before the global financial crisis of 2007-2009. We consider an advisor to be distracted for all the deals that the advisor was involved in as the main advisor in the period of 4-6 months (depending on the specification) before the announcement of a large deal. For example, the Crown Castle International/Global Signal deal announcement on the 5th of October 2006 means that the main advisor of the deal, JP Morgan, was distracted by this ongoing deal in the period between the 5th of April 2006 and the 5th of October 2006, and this could potentially have an effect on 4 other deals advised by JP Morgan that were announced in this time period. The advantage of choosing a period before the public announcement of a large deal is made is that it limits the possibility that the deal was known to the general public. This helps us to separate the public perception of the deal from its underlying quality.

C. Measuring Advisor Reputation

We follow Golubov, Petmezas, and Travlos, (2012) and construct the advisor league table using the deals in our sample. We manually matched all advisors in our dataset to their ultimate parent at the time of the deal. We then ranked the advisors according to the total transaction value of the deals in which they were main advisors. In Table 2 we report top-25 advisors according to this measure. The biggest four banks in our list are Citigroup, JP Morgan, Goldman Sachs and Morgan Stanley. We classify these as top-tier advisors as opposed to non-top-tier advisors. In addition, we also report the number of deals advised by these banks as well as the number of large deals. There is a high correlation between all three measures of reputation. On the other hand, by taking only top-4 banks as opposed to top-8 as in Golubov,

Petmezas, and Travlos, (2012), we ensure that there is still a considerable number of large deals outside this top-4 group, which is essential for our econometric analysis.

D. Estimating Cumulative Abnormal Returns

We estimate abnormal returns (ARs) as the difference between actual stock returns and normal returns expected in the absence of relevant events. We use a market model (MacKinlay, 1997) in which normal returns for every firm are obtained as a function of the market portfolio return, represented by the S&P 500 index. Market model parameters are obtained with daily log returns of firm stock prices over a 252-day estimation period, ending 20 days before the announcement. ARs are then obtained as the difference between the actual stock return and the return predicted by the market model. ARs are cumulated over a 3-day period around the announcement date, obtaining Cumulative Abnormal Return (CARs) in the (-1;+1) event window.

E. Estimating the impact of advisor distraction

In the first specification, we regress the CAR (cumulative abnormal returns) for 3 days (CAR(+1,-1)) around the announcement day on the advisors' distracted status plus a large set of control variables at the bidder and the deal levels, including also advisor, year, industry and industry*year fixed effects. All control variables are defined in Appendix 1. Specifically, we estimate the following equation:

$$CAR_{it} = \alpha + \beta_1 distracted\ advisor_{it} + \gamma X_{it} + \delta_a + \tau_t + \eta_j + \lambda_{tj} + \varepsilon_{it} \quad (1)$$

The coefficient of interest to test our first hypothesis is β_1, for the variable *distracted advisor*, a dummy variable identifying advisors involved in facilitating a very large acquisition in the 4-6 months after the announcement.

In a second specification, we also consider the reputation of the advisor, including a dummy identifying top-tier investment banks:

$$CAR_{it} = \alpha + \beta_1 distracted\ advisor_{it} + \beta_2 top - tier\ advisor_{it} + \beta_3 distracted\ advisor_{it} * top - tier\ advisor_{it} + \gamma X_{it} + \delta_a + \tau_t + \eta_j + \lambda_{tj} + \varepsilon_{it} \quad (2)$$

The parameters of main interest to test our second hypothesis are β_1 and β_3, which identify – respectively - the effect of hiring an advisor distracted by a large acquisition and how this effect changes when the advisor is a top-tier investment bank.

4. Results

A. Sample statistics

Table 3 reports descriptive statistics for the overall sample and for the distracted and non-distracted groups, respectively. All variables are defined in Appendix A. Out of 843 deals in our final sample, 40 are advised by *distracted advisors*. The proportion of deals with distracted advisors where the advisor is also a top-tier advisor is 57.5% as opposed to 17.2% of deals where the advisor was not distracted. This is not surprising, since as we saw in Table 2, top-tier advisors are involved in the majority of large deals. The 3-day acquirer CARs (Cumulative abnormal returns) are negative for the overall sample, in line with Jarrell and Poulsen (1989)

and Masulis et al. (2007). Acquirer CARs are -3.83% when the advisor is distracted as opposed to – 1.87% when the advisor is not distracted. This simple univariate comparison provides first evidence that advisor distraction results in lower transaction value.

The average leverage ratio for the whole sample is 0.64 and 0.6 and 0.64 for distracted and non-distracted sub-samples, respectively. In terms of acquirer size, bigger firms participate in deals with distracted advisors, with the average size in the distracted sub-sample of $7.5 billion as opposed to $4.6 billion in deals with non-distracted advisors.

In terms of the market-to-book ratios, the average acquirer in our sample has a ratio of 2.7. Distracted advisors work with acquirers with slightly lower market-to-book ratios (2.3). The average cash flows-to-sales ratio in our sample is 7.3, and distracted advisors work with more cash-generating acquirers (18.46) than their non-distracted counterparts (6.7). The two sets of deals are also slightly different in terms of the stock market performance in the run-up to the deal, with companies that hire distracted advisors having an average increase of 7% in the firm value while those who hire non-distracted advisors seeing a smaller increase of 5.6%.

Finally, we report some deal-specific characteristics. In 86% of all deals in our sample the target is a public company, with slight differences between the two subsamples – 93% for deals with distracted advisors and 85% for the non-distracted advisor deals. Deals involving a distracted main advisor are more likely to be hostile (5%) as opposed to other deals (2.2%). Overall, 16.4% of the deals in our sample are non-diversifying deals, meaning that both acquirer and target operate in the same industry, according to the 4-digit Industry Classification Benchmark (ICB). The difference between the two types of deals is not large in this aspect, with deals involving distracted advisors being slightly less likely to be the same-industry deals (12.5% versus 16.6%). The 28% and 35% of all deals in our sample are all-cash deals and all-stock deals, respectively. For the deals with distracted advisors, however, this tendency is somewhat reversed, with 38% percent of deals being all-cash deals and only 23% of deals

involving all-stock consideration. Finally, the log of the deal value is on average 5.4 for the overall sample, and not surprisingly, deals with distracted advisors are bigger (6.4 versus 5.4). Table 4 reports p-values for the test of difference in means between the subsample of deals with distracted advisors and those with non-distracted advisors. Further evidence that advisor distraction results in worse deal performance is provided in this section, as the difference between the two sets of CARs results in a p-value of 0.139. This difference is quite large, albeit not statistically significant at any conventional level. The only two variables that yield statistically significant results are *Top-tier Advisor* and *Ln(DealValue).* Further to the preliminary statistics in Table 3, this provides more evidence that distracted advisors are also more likely to be one of the top advisors in terms of reputation, and these advisors are in turn, usually, in charge of much bigger deals.

B. Advisor distraction

In this section, we formally analyse the relationship between advisor distraction and acquirer CARs using multivariate OLS regression analysis. We control for various acquirer and deal characteristics described in the previous section, as well as for advisor, year, industry, and year-industry fixed effects. In addition, we use heteroskedasticity-robust standard errors. Table 5 reports the results of the effect of advisor distraction on acquirer CARs. We use three different variations of the *Distracted Advisor* variable depending on the period before the announcement of a large deal that distracts the advisor. These are 4, 5 and 6 months before the announcement. The main reason for choosing three different specifications of this variable is the fact that it is generally not known how long the advisor has been advising the acquirer before the public announcement of a deal was made. We assume that this process takes anywhere between 4 to 6 months, although of course, in practice, it could take longer or shorter. Column 1 reports the

results of the 4 months specification. The coefficient on the *Distracted Advisor* variable is negative and statistically significant at the 10 percent level. The magnitude suggests that having a distracted advisor leading a deal results in a 3.9 percent lower CARs or almost 0.5 standard deviations. In column 2 we add all the control variables. The coefficient on *Distracted Advisor* does not change. In terms of other factors affecting acquirer CARs, it seems that company size is positively correlated with the CARs. This effect is significant at the 5 percent level. In addition, leverage is also positively associated with CARs, albeit only at 10 percent significance level. On the other hand, deal value is negatively correlated with the CARs. Another notable result is the fact that acquiring a public company seems to be associated with almost 3 percent lower CARs. This coefficient is statistically significant at the 5 percent level. Finally, all-cash deals result in significantly higher acquirer CARs, which is in line with the findings of Masulis et al. (2007). None of the other control variables yield statistically significant coefficients. In columns 3 and 4 we repeat the analysis in the first two columns for the 5-month advisor distraction specification. The results are stronger, with advisor distraction being associated with 5.1 percent lower acquirer CARs in a multivariate setting. Finally, columns 5 and 6 repeat the analysis for the 6-month specification. The coefficients on *Distracted Advisor* are lower, but in a multivariate setting it is still statistically significant at the 10 percent level. Overall, the results in this section suggest that hiring a distracted advisor is consistently associated with lower acquirer CARs around the deal announcement date. This provides evidence in favor of our first hypothesis and confirms that, in the view of investors, advisors prioritise large deals at the expenses of smaller ones.

C. Interaction of advisor distraction and advisor reputation

Next, we analyse the effect of advisor distraction interacted with the effect of hiring a top-tier advisor. We repeat the analysis in Table 5 in Table 6, except now to each specification we add the dummy variable *Top-tier advisor* and the interaction term between *Top-tier advisor* and each of the variations of the *Distracted Advisor* variable. Column 1 reports the results for the 4-month advisor distraction specification. First, the coefficient on *Distracted Advisor* is much smaller than in Table 5, and it is not statistically significant. This effect applies throughout the table, which suggests that the earlier findings were primarily driven by the top-tier advisors. This is not surprising, since, as we saw earlier, it is mainly the top-tier advisors that become distracted by a large deal. Indeed, the coefficient on *Top-tier advisor* is positive and statistically significant in column 1, but once the control variables are included in column 2, it is no longer statistically significant. This feature is also repeated in all specifications of Table 6. However, the interaction term *Top-tier advisor*Distracted advisor* is negative and statistically significant at the 5 percent level here. Once the control variables are included, it becomes even more negative at -9.2 percent, which is about 1.2 standard deviations. This pattern is repeated in the rest of the columns of this table with slightly less negative coefficients in 5-month and 6-month distraction specifications. Overall, the results in this table seem to suggest that there is a marginal benefit of hiring a top-tier advisor to advise an M&A deal on the acquirer's side, although this effect is not statistically significant in a multivariate setting. However, if this top-tier advisor is distracted by an ongoing other large deal, it results in a worse deal performance with respect to the acquirer CARs around the acquisition announcement date. This provides evidence in favor of our second hypothesis, highlighting that paying high fees for a top-tier advisor may not be the best choice for a small deal.

5. Conclusions

This paper provides new evidence on the role of financial advisors in M&As. In particular, we explore the effect of advisors distraction, i.e. the effect of hiring an advisor that is involved in a very big deal in a time period near to the announcement, on the deal outcome. Our results provide evidence that distracted advisors produce lower bidder abnormal returns, controlling for several firm and deal characteristics. We also contribute to the existing corporate finance literature showing that top-tier advisors are associated with higher bidder returns. Specifically, our findings confirm the positive effect of hiring a top-tier investment bank, but also show that this value added is significantly reduced in case of distracted advisors. Overall, our findings suggest that it is not always worth to pay for a top-tier advisor, since they prioritise large deals at the expense of smaller ones.

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Table 1. Largest M&A deals between 1995 and 2008
This table presents top 1% of deals according to the value of deals for every year between 1996 and 2017.

Announcement Date	Acquiror	Target	Deal Value	Acquiror main advisor
01/04/1996	SBC Communications Inc	Pacific Telesis Group	16,490	Lazard
01/10/1997	WorldCom Inc	MCI Communications Corp	41,907	Salomon Brothers
20/10/1997	Starwood Hotels & Resorts Tr	ITT Corp	13,748	Merrill Lynch
06/04/1998	Travelers Group Inc	Citicorp	72,558	Citigroup
01/12/1998	Exxon Corp	Mobil Corp	78,946	JP Morgan
05/10/1999	MCI WorldCom	Sprint Nextel Corp	113,644	Citigroup
13/09/2000	Chase Manhattan Corp,NY	JP Morgan & Co Inc	33,555	Chase Manhattan
16/10/2000	Chevron Corp	Texaco Inc	42,872	Lehman Brothers
14/05/2001	SunTrust Banks	Wachovia Corp	14,443	Morgan Stanley
15/07/2002	Pfizer Inc	Pharmacia Corp	59,515	Lazard
06/06/2003	Oracle Corp	PeopleSoft Inc	10,467	Credit Suisse
15/12/2004	Sprint Nextel Corp	Nextel Communications Inc	38,975	Lehman Brothers
16/12/2004	Symantec Corp	Veritas Software Corp	13,520	Lehman Brothers
30/06/2005	Bank of America Corp	MBNA Corp	35,810	Keefe Bruyette & Woods
15/02/2006	Blackrock Inc	Merrill Lynch Investment Managers LP	9,487	Citigroup
05/10/2006	Crown Castle International	Global Signal Inc	5,793	JP Morgan
17/12/2007	National Oilwell Varco Inc	Grant PrideCo Inc	7,513	Goldman Sachs
24/10/2008	PNC Finl Svcs Grp Inc	National City Corp,Cleveland, Ohio	5,618	JP Morgan
14/12/2009	Exxon Mobil Corp	XTO Energy Inc	40,298	JP Morgan
07/09/2010	Enterprise Products Partners	Enterprise GP Holdings LP	9,001	Barclays
21/07/2011	Express Scripts Inc	Medco Health Solutions Inc	29,370	Credit Suisse
29/06/2012	Bristol-Myers Squibb Co	Amylin Pharmaceuticals Inc	7,183	Evercore Partners
09/12/2013	Sysco Corp	US Foods Inc	8,185	Goldman Sachs
13/02/2014	Comcast Corp	Time Warner Cable Inc	46,150	JP Morgan
26/05/2015	Charter Communications Inc	Time Warner Cable Inc	55,638	Goldman Sachs
13/06/2016	Microsoft Corp	LinkedIn Corp	26,639	Morgan Stanley
31/07/2017	Discovery Communications Inc	Scripps Networks Interactive Inc	11,760	Goldman Sachs
04/09/2017	United Technologies Corp	Rockwell Collins Inc	23,038	Morgan Stanley

Table 2. Top 25 U.S. Financial Advisor Ranking by Transaction Value
This table presents the ranking of the top-25 advisors according to the value of deals in which they were lead advisors. We have drawn a sample of M&A deals targeting U.S. firms during the period January 1, 1996 to December 31, 2016 from the Thomson Reuters Eikon Mergers and Acquisitions Database. Transaction value is in US$ million. The number of deals advised by each advisor in the role of the lead advisor is also presented. Finally, we show the number of top 1% of deals according to the value of deals for every year advised by these advisors.

Rank	Advisor	Transaction Value	Number of Deals	Number of Large Deals
1	Citigroup	443,573	103	3
2	JP Morgan	352,347	121	5
3	Goldman Sachs	347,972	157	4
4	Morgan Stanley	311,665	147	3
5	Credit Suisse	236,424	101	2
6	Merrill Lynch	225,561	118	1
7	Lehman Brothers	183,816	80	3
8	Bank of America Merrill Lynch	114,937	70	0
9	Lazard	109,520	33	2
10	UBS	83,469	66	0
11	Keefe Bruyette & Woods	65,703	164	1
12	Salomon Brothers	60,898	11	1
13	Donaldson Lufkin & Jenrette	59,745	43	0
14	Deutsche Bank	48,539	35	0
15	Barclays	48,126	30	1
16	Chase Manhattan Corp	41,929	10	1
17	Evercore Partners	34,615	27	1
18	Bear Stearns	30,220	42	0
19	Wells Fargo	21,297	22	0
20	Allen & Co Inc	20,622	6	0
21	Jefferies & Co	20,398	25	0
22	Moelis & Co	19,811	10	0
23	Centerview Partners	18,757	10	0
24	Sandler O'Neill Partners	15,732	128	0
25	Stephens	12,866	29	0

Table 3. Panel A. Sample characteristics
This table shows descriptive statistics for a sample of U.S. acquisitions announced over the period January 1, 1996 to December 31, 2007 drawn from the Thomson Reuters Eikon Mergers and Acquisitions Database. Panel A describes the number of observations, mean standard deviation, minimum, 25th percentile, median, 75th percentile and maximum for various bidder- and deal-specific characteristics. Panels B and C show the same statistics for the subsamples of deals advised by distracted advisors and those advised by non-distracted advisors, respectively. Distracted advisor is defined as an advisor who, at the time of the deal is also the lead advisor in the top 1 percent of the deals done in a particular calendar year according to the deal value (see Appendix A). The variation of the distracted advisor variable used in this table reflects large transactions that were announced at any time during the 6-month period preceding the M&A deal announcement. All variables are defined in Appendix A.

VARIABLES	(1) N	(2) mean	(3) Sd	(4) min	(5) p25	(6) p50	(7) p75	(8) max
Top-tier advisor	843	0.191	0.393	0	0	0	0	1
Distracted Advisor	843	0.0474	0.213	0	0	0	0	1
CAR(-1;+1)	843	-0.0196	0.0817	-0.266	-0.0527	-0.0114	0.0168	0.297
Leverage	843	0.638	0.330	0.0535	0.380	0.648	0.897	1.923
Size	843	4,704	13,336	6.870	190.1	640.7	2,675	89,098
Market-to-book	843	2.698	3.965	-2.960	1.220	1.790	2.750	34.41
Cash flows-to-sales	843	7.262	49.67	-401.4	5.120	12.81	22.49	67.14
Run-up	843	5.695	32.60	-115.3	-8.710	6.537	22.09	94.91
Sigma	843	2.969	1.889	0.268	1.610	2.389	3.722	10.53
Public deals	843	0.856	0.351	0	1	1	1	1
Hostile deals	843	0.0225	0.149	0	0	0	0	1
Same industry deals	843	0.164	0.370	0	0	0	0	1
All-cash deals	843	0.276	0.447	0	0	0	1	1
All-stock deals	843	0.345	0.476	0	0	0	1	1
Ln(DealValue)	843	5.412	1.583	1.385	4.293	5.358	6.437	9.908

Panel B. Sample characteristics for deals with distracted advisors

VARIABLES	(1) N	(2) mean	(3) Sd	(4) min	(5) p25	(6) p50	(7) p75	(8) max
Top-tier advisor	40	0.575	0.501	0	0	1	1	1
Distracted Advisor	40	1	0	1	1	1	1	1
CAR(-1;+1)	40	-0.0383	0.0801	-0.266	-0.0529	-0.00988	0.00799	0.0781
Leverage	40	0.599	0.221	0.0717	0.485	0.655	0.736	0.915
Size	40	7,469	14,986	6.870	479.6	2,326	6,179	73,525
Market-to-book	40	2.302	2.414	-2.960	1.105	1.650	3.025	12.82
Cash flows-to-sales	40	18.46	16.33	-7.460	6.950	14.51	25.39	61.23
Run-up	40	7.051	27.75	-40.55	-7.998	5.156	18.21	85.28
Sigma	40	2.502	1.492	0.793	1.493	2.102	2.924	7.024
Public deals	40	0.925	0.267	0	1	1	1	1
Hostile deals	40	0.0500	0.221	0	0	0	0	1
Same industry deals	40	0.125	0.335	0	0	0	0	1

All-cash deals	40	0.375	0.490	0	0	0	1	1
All-stock deals	40	0.225	0.423	0	0	0	0	1
Ln(DealValue)	40	6.436	1.487	3.513	5.564	6.235	7.483	9.297

Panel C. Sample characteristics for deals with non-distracted advisors

VARIABLES	(1) N	(2) mean	(3) Sd	(4) min	(5) p25	(6) p50	(7) p75	(8) max
Top-tier advisor	803	0.172	0.377	0	0	0	0	1
Distracted Advisor	803	0	0	0	0	0	0	0
CAR(-1;+1)	803	-0.0187	0.0817	-0.266	-0.0527	-0.0114	0.0170	0.297
Leverage	803	0.640	0.334	0.0535	0.378	0.648	0.898	1.923
Size	803	4,566	13,244	6.870	181.6	616.8	2,365	89,098
Market-to-book	803	2.718	4.026	-2.960	1.220	1.810	2.740	34.41
Cash flows-to-sales	803	6.705	50.70	-401.4	4.980	12.69	22.30	67.14
Run-up	803	5.628	32.83	-115.3	-8.926	6.886	22.30	94.91
Sigma	803	2.993	1.904	0.268	1.615	2.402	3.805	10.53
Public deals	803	0.853	0.354	0	1	1	1	1
Hostile deals	803	0.0212	0.144	0	0	0	0	1
Same industry deals	803	0.166	0.372	0	0	0	0	1
All-cash deals	803	0.271	0.445	0	0	0	1	1
All-stock deals	803	0.351	0.478	0	0	0	1	1
Ln(DealValue)	803	5.360	1.571	1.385	4.265	5.302	6.396	9.908

Table 4. Characteristics of deals with distracted lead advisor vs deals with non-distracted lead advisor.
This table shows tests of differences in means between characteristics of deals lead by distracted advisors versus those lead by non-distracted advisors. Means and number of observations are the same as in Panels B and C of Table 5. P-value are for t-test for differences in means. All variables are defined in Appendix A. ***, ** and * denote statistical significance at 1%, 5% and 10% level respectively.

	N(Distr)	Mean(Distr)	N(Non Distr)	Mean(Non Distr)	p-value
CAR(-1;+1)	40	-0.038	803	-0.019	0.139
Top-tier advisor	40	0.575	803	0.172	0.000***
Leverage	40	0.599	803	0.640	0.446
Size	40	7,469.033	803	4,566.275	0.179
Market-to-book	40	2.302	803	2.718	0.518
Cash flows-to-sales	40	18.455	803	6.705	0.144
Sigma	40	2.502	803	2.993	0.109
Run-up	40	7.051	803	5.628	0.788
Ln(DealValue)	40	6.436	803	5.360	0.000***
Public deals	40	0.925	803	0.853	0.206
Hostile deals	40	0.050	803	0.021	0.231
Same industry deals	40	0.125	803	0.166	0.498
All-cash deals	40	0.375	803	0.271	0.153
All-stock deals	40	0.225	803	0.351	0.102

Table 5. The impact of advisor distraction on bidder CARs

The table presents results of the cross-sectional OLS regression analysis of bidder CARs on advisor distraction and other bidder- and deal-specific characteristics for a sample of U.S. acquisitions announced over the period 1996 to 2007. Variables are defined in Appendix A. All regressions control for advisor, year, industry and year-industry fixed effects whose coefficients are suppressed. Industries are defined on a two-digit Industry Classification Benchmark (ICB) level. ***, ** and * denote statistical significance at 1%, 5% and 10% level respectively. The t-statistics reported in parentheses are based on standard errors adjusted for heteroskedasticity.

VARIABLES	(1) CAR(-1;+1)	(2) CAR(-1;+1)	(3) CAR(-1;+1)	(4) CAR(-1;+1)	(5) CAR(-1;+1)	(6) CAR(-1;+1)
Distracted Advisor 4 months	-0.039*	-0.039*				
	(0.024)	(0.023)				
Distracted Advisor 5 months			-0.049**	-0.051**		
			(0.021)	(0.020)		
Distracted Advisor 6 months					-0.031	-0.036*
					(0.020)	(0.019)
Leverage		0.025*		0.025*		0.025*
		(0.014)		(0.014)		(0.014)
Size		0.000**		0.000**		0.000**
		(0.000)		(0.000)		(0.000)
Market-to-book		-0.001		-0.001		-0.001
		(0.001)		(0.001)		(0.001)
Cash flows-to-sales		-0.000		-0.000		-0.000
		(0.000)		(0.000)		(0.000)
Sigma		-0.004		-0.004		-0.004
		(0.004)		(0.004)		(0.004)
Run-up		-0.000		-0.000		-0.000
		(0.000)		(0.000)		(0.000)
Ln(DealValue)		-0.006*		-0.006*		-0.006*
		(0.003)		(0.003)		(0.003)
Public deals		-0.028**		-0.029**		-0.029**
		(0.012)		(0.012)		(0.012)

Hostile deals		0.014		0.013		0.013
		(0.015)		(0.015)		(0.015)
Same industry deals		0.009		0.010		0.009
		(0.012)		(0.012)		(0.012)
All-cash deals		0.021**		0.021**		0.022**
		(0.010)		(0.010)		(0.010)
All-stock deals		-0.016		-0.017*		-0.016
		(0.010)		(0.010)		(0.010)
Constant	0.002	0.109*	0.005	0.110*	0.007	0.110*
	(0.075)	(0.064)	(0.075)	(0.064)	(0.075)	(0.063)
Observations	843	843	843	843	843	843
R-squared	0.345	0.406	0.349	0.411	0.345	0.407
Advisor fixed effects	Yes	Yes	Yes	Yes	Yes	Yes
Year fixed effects	Yes	Yes	Yes	Yes	Yes	Yes
Industry fixed effects	Yes	Yes	Yes	Yes	Yes	Yes
Year-industry fixed effects	Yes	Yes	Yes	Yes	Yes	Yes

Table 6. The impact of top-tier advisor distraction on bidder CARs
The table presents results of the cross-sectional OLS regression analysis of bidder CARs on advisor distraction and reputation, and other bidder- and deal-specific characteristics for a sample of U.S. acquisitions announced over the period 1996 to 2007. Variables are defined in Appendix A. All regressions control for advisor, year, industry and year-industry fixed effects whose coefficients are suppressed. Industries are defined on a two-digit Industry Classification Benchmark (ICB) level. ***, ** and * denote statistical significance at 1%, 5% and 10% level respectively. The t-statistics reported in parentheses are based on standard errors adjusted for heteroskedasticity.

VARIABLES	(1) CAR(-1;+1)	(2) CAR(-1;+1)	(3) CAR(-1;+1)	(4) CAR(-1;+1)	(5) CAR(-1;+1)	(6) CAR(-1;+1)
Distracted Advisor 4 months	0.009	0.014				
	(0.023)	(0.023)				
Distracted Advisor 5 months			-0.007	0.000		
			(0.025)	(0.024)		
Distracted Advisor 6 months					0.013	0.011
					(0.025)	(0.022)
Top-tier advisor	0.093**	0.064	0.252***	0.064	0.251***	0.047
	(0.044)	(0.045)	(0.022)	(0.041)	(0.022)	(0.043)
Top-tier advisor*Distracted 4 months	-0.083**	-0.092**				
	(0.042)	(0.040)				
Top-tier advisor*Distracted 5 months			-0.066*	-0.082**		
			(0.039)	(0.037)		
Top-tier advisor*Distracted 6 months					-0.073*	-0.078**
					(0.039)	(0.037)
Leverage		0.025*		0.025*		0.025*
		(0.014)		(0.014)		(0.014)
Size		0.000**		0.000**		0.000**
		(0.000)		(0.000)		(0.000)
Market-to-book		-0.001		-0.001		-0.001

		(0.001)		(0.001)		(0.001)
Cash flows-to-sales		-0.000		-0.000		-0.000
		(0.000)		(0.000)		(0.000)
Sigma		-0.004		-0.004		-0.004
		(0.004)		(0.004)		(0.004)
Run-up		-0.000		-0.000		-0.000
		(0.000)		(0.000)		(0.000)
Ln(DealValue)		-0.006*		-0.006*		-0.006*
		(0.003)		(0.003)		(0.003)
Public deals		-0.029**		-0.031**		-0.031**
		(0.012)		(0.012)		(0.012)
Hostile deals		0.013		0.012		0.012
		(0.015)		(0.015)		(0.015)
Same industry deals		0.011		0.012		0.011
		(0.012)		(0.012)		(0.012)
All-cash deals		0.020**		0.021**		0.021**
		(0.010)		(0.009)		(0.010)
All-stock deals		-0.016*		-0.017*		-0.017*
		(0.010)		(0.010)		(0.010)
Constant	-0.062	0.000	-0.221***	-0.001	-0.220***	0.015
	(0.038)	(0.044)	(0.021)	(0.042)	(0.021)	(0.042)
Observations	843	843	843	843	843	843
R-squared	0.350	0.412	0.353	0.416	0.350	0.412
Advisor fixed effects	Yes	Yes	Yes	Yes	Yes	Yes
Year fixed effects	Yes	Yes	Yes	Yes	Yes	Yes
Industry fixed effects	Yes	Yes	Yes	Yes	Yes	Yes
Year-industry fixed effects	Yes	Yes	Yes	Yes	Yes	Yes

Appendix A: Variable Definitions

Variable	Definition
CAR (-1,+1)	Cumulative abnormal return of the biddin firm's stock in the 3-day event window (-1;+1) where 0 is the announcement day. The returns are calculated using the market model with the marker model parameters estimated over the period starting 252 days and ending 20 days prior to the announcement. The S&P 500 index return is the market return.
Top-tier advisor	Dummy variable: one for transactions the lead advisor is one of the top-4 financial advisors with respect to the value of deals in which they are lead advisors by each advisor during the period (1996 to 2017), zero for all other financial advisors. The top-4 financial advisors are Citigroup, JP Morgan, Goldman Sachs and Morgan Stanley.
Distracted Advisor	Dummy variable: one for transactions advised by a lead financial advisor who, at the time of the deal is also the lead advisor in the top 1 percent of the deals done in a particular calendar year according to the deal value. We use three main variations of this variable depending on the number of months (4, 5 or 6) before the announcement of a large deal in which a sample deal was announced.
Leverage	Total debt (long-term debt plus current liabilities) divided by the book value of total assets for the fiscal year prior to acquisition announcement from Datastream.
Size	Market value of the bidder's equity 4 weeks prior to the acquisition announcement from Datastream in US$ million.
Market-to-book	Market value of the bidder's equity divided by the book value of equity at the fiscal year-end prior to the announcement from Datastream.
Cash flow-to-sales	Funds from Operations divided by the Net Sales from Datastream at the fiscal year-end prior to the announcement from Datastream.
Sigma	Standard deviation of the bidding firm's daily returns from Datastream over the period beginning 205 and ending 6 days before deal announcement.
Run-up	Buy-and-hold return of the bidding firm's stock over the period beginning 205 and ending 6 days before deal announcement from Datastream.
Public deals	Dummy variable: one for acquisitions of public firms, zero otherwise.
Hostile deals	Dummy variable: one for deals defined as hostile by Thomson Reuters Eikon, zero otherwise.

Same industry deals	Dummy variable: one for same 4-digit Industry Classification Benchmark (ICB) transaction, zero otherwise.
All-cash deals	Dummy variable: one for pure cash deals, zero otherwise.
All-stock deals	Dummy variable: one for pure stock deals, zero otherwise.
Ln(Deal value)	The natural logarithm of transaction value from Thomson Reuters Eikon in US$ million.