

AMERICAN UNIVERSITY OF BEIRUT

ADVISORY FEES AND SUCCESSIVE M&A DEALS WITHIN
THE SAME INDUSTRY

by
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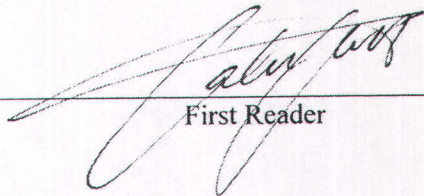
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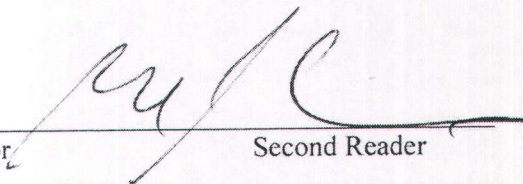
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My love and gratitude to my parents for their continuous belief in me, their support and understanding were invaluable as always.

AN ABSTRACT OF THE PROJECT OF

Elie Kheir Saad Bechara for Master of Business Administration
Major: Business Administration

Title: Advisory Fees and Successive M&A Deals within the Same Industry.

This paper examines the effect of successive Mergers & Acquisitions (M&A) deals completed within a specific industry on advisory fees earned by investment banks. Our study includes 1570 successive deals completed between the period 1987 and 2013. We find a negative relationship between advisory fees generated in one period versus advisory fees generated in prior periods by the same investment bank for M&A deals within the same industry. We relate our finding to a possible “learning mechanism” through which investment banks may develop effective skills and expertise when advising successive deals within the same industry. This learning mechanism may affect the amount of resources and energy that they deploy to execute successful deals which is assumed to be substantially less. As a direct result, advisory fees earned by investment banks may decrease as well.

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To
My Beloved Parents

CHAPTER I

INTRODUCTION

Mergers and acquisitions (M&A) are considered one of the most important restructuring activities in the corporate world. Most firms when faced with an M&A opportunity typically proceed by approaching an investment bank (i.e., advisor) who is in the business of negotiating deals. This would allow firms to (i) remain insulated from the immense distraction of running a business while simultaneously trying to sell it, (ii) avoid the downside of going through an M&A process and coming up short, (iii) and most importantly, to ensure that the selling process will not be conducted naively or ill-prepared.

It is estimated that in 2007 when the last M&A wave peaked, corporations spent close to USD 4.2 trillion on M&A deals worldwide. The total amount of advisory fees that advisors earned during that period exceeded USD 39 billion suggesting that investment banks derive the bulk of their income from advisory fees. According to Kolasinski and Kothari (2008), M&A advisory fees are at least as important as equity underwriting fees, and in some years they significantly exceed them.

According to the data extracted from SNL Financial, acquirers who disclosed their fees paid their advisors on average 0.49% of the deal value in 2003, while targets paid 0.84%. In 2012 acquirer rates had risen to 0.85%, and targets fees to 1.57% (Barba 2013).

This recent increase in fees clearly highlights the fact that deals have been harder to strike since the financial crisis back in 2008. Before the crisis, M&A activity were much easier to complete as investments banks and corporations only worried

about price and cultural differences to complete a successful deal.

Nowadays, both parties, corporations and investment banks, are concerned about the ability of the acquirer to close a transaction, regulators' willingness to approve a deal, and the economy's expected performance between announcement and closing dates. What makes things even worse is that investment banks are facing the same conditions as other corporations and they are by turn consolidating too.

In this paper, we examine the factors that may determine the level of fees charged in M&A transactions. In line with previous studies in the fields of behavioral finance and cognitive thinking at the consumer level where it has been proven that future decision can be based on past experience as well as on the level of satisfaction or regret derived from such experience, (see for example Juliusson, Karlsson and Garling 2005), we aim to study whether there exists any relationship between fees earned by an investment bank in a given industry and prior fees earned by the same investment bank in the same industry. We argue that investment banks would develop adequate experience and sufficient expertise within a particular industry due to prior deals executed, and this in turn would affect the level of the advisory fees charged. Our study extends previous studies (e.g. Chemannur and Fulghieri 1994; Kale *et al.* 2003) which suggest that investment banks gain expertise through advising more M&A deals. However, we contribute to this literature by examining the effect of completing same industry deals on the amount of advisory fees earned. We attempt to relate this phenomenon to a possible "learning mechanism" that investment banks may develop from subsequent deals advised.

To perform our study, we classify all consecutive deals performed by a given investment bank within a specific industry. For identifying the business industry, we use the first digit number of the SIC industry code. We further add other control variables

that may affect advisory fees such as time to complete the deal, transaction value, deal majority, target public status, the percentage of acquisition paid in cash versus stock, and U.S. versus non U.S. targets. Our findings suggest that investment banks charge lower fees for the services they provide whenever prior deals have been conducted in the same industry. However, this relationship weakens once we introduce the effect of deal time completion on advisory fees charged. It appears that time duration of deals advised has a moderating effect on the effectiveness of skills acquired from previous transactions. As a direct result, the longer it takes to close a deal, the less the effect of past experience and skills acquired on the amount of advisory fees charged.

The rest of our study is structured as follows. Section 2 discusses the literature about M&A advisory fees. Sections 3 and 4 present the data and the results of our empirical analysis, respectively. Section 5 concludes.

CHAPTER II

LITERATURE REVIEW AND HYPOTHESIS

A. M&A Advisor Fee Structure

A number of previous studies examine advisory fees generated by investment banks in M&A deals. For example, McLaughlin (1990) examines the level of M&A fees in relation to the size of transaction. His study, which included observations from 1978 to 1985, indicates that advisory fees paid in tender offer averaged 1.29% of deal value. In a follow-up study, McLaughlin (1992) examined the relation between advisory fees generated and the reputation of the investment bank involved in the deal. His study shows that neither the quality of the advisor nor the completion time has any effect on advisory fees generated. In a more recent study, Hunter and Jagtiani (2003) find that top tier advisors earn higher fees than their lower counterparts for M&A transactions between 1995 and 2000. These top-tier investment banks are perceived as experts in capital markets, suggesting that they perform superior services for their clients in return for premium fees relative to low-tier investment banks.

In our study, we aim to take a different approach by examining M&A advisory fees for a given industry and whether there exists any variation in such fees for subsequent deals carried within the same industry. Total advisory fees paid by acquiring firms are used for all completed deals although such advisory fees may be divided into five major subgroups. These subgroup are mainly retainer fees (which corresponds to the fix amount of money that a client agrees to pay in advance to secure the services of an investment bank), upfront fees (which corresponds to fees that are paid at the time of engagement before work has started, usually negotiated between the client and the

bank) success fees (which resembles the amount of money paid to an investment bank or other professional for the successful completion of a transaction), minimum fees (which corresponds to the minimum sum of money that an investment bank requires to accept the engagement), and termination fees (also known as breakup fees or non-completion fees, force the target to pay a specific amount of money in case it violates certain clauses in the deal).

It is worth noting that larger targets have a relatively better bargaining power which increases the transaction costs (Serves and Zenger 1996; Ahern 2008; Fuller *et al.* 2002; Moeller *et al.* 2004, 2005). In order to control for this effect, we compute the amount of advisory fees generated per one dollar of transaction value (Total Advisory Fees/Transaction Value).

B. Measure of Adviser Quality in Relation to Past Performance

Firms usually select investment banks for their ability to provide financial advice at high quality. However, the quality of services provided by an advisor is not readily observable due to the nature of service offered. In economic terms, M&A advisory can be described as an experience good, where the supplier services cannot be judged before arranging the deal. Therefore, high quality advisers need to be able to demonstrate their superiority through other means, mainly through reputation.

Brand building by firms is an effective way to convey quality service to the market (eg. Klein and Leffler 1981; Shapiro 1983). A firm that builds a decent reputation in the market for providing high level services will be able to charge premium fees. By applying the same argument to the investment banking industry, Chemmanur and Funghieri (1994) suggest that the quality of an investment bank should be determined largely by its past performance. This by turn would affect the amount of

advisory fees demanded by such banks in return for the advisory services they provide. Consequently, a premium price would send a signal of high quality.

C. Payment Method Chosen

Acquiring firms generally pay for their acquisitions by cash, by stock, or by a combination of cash and stock. Considerable empirical studies have been conducted on acquisitions' payment method. Several hypotheses have emerged to explain the selection of payment method by acquiring firms, the most known are "The Investment Opportunity Hypothesis" and "The Risk Sharing Hypothesis" as noted by Martin (1996). "The Investment Opportunity Hypothesis" states that firms with excellent investment opportunities should not pay in cash for acquisitions. This is due to the fact that cash is normally financed by issuance of new debt which by turn will reduce discretionary free cash flow. This cash flow should not be used for acquisitions. It should be deployed to finance new investment opportunities that would add value to shareholders rather than fulfill debt obligations.

"The Risk Sharing Hypothesis" states that for high risk transactions, it could be advantageous to pay in stock as the acquired company will have a share in the risk-reward characteristics of the acquiring company.

Still, older hypotheses such as the "Information Content Hypothesis" by Myers and Majluf (1984) are also considered when explaining the payment method by acquiring firms. Myers and Majluf's hypothesis states that an offer to pay in stock for an acquisition will be seen by market participants as a signal for stock overvaluation.

We expect that advisory fees will be positively related to stock payment method since prior research finds that payment by stock increases the deal complexity and thus the transaction costs (see Servaes and Zenner 1996; Chang 1998; Fuller *et al.*

2002; Chang *et al.* 2008; Song and Wei 2009).

D. Same Industry Transactions

It is widely known that managers of corporations on the edge of completing a horizontal M&As (i.e., within the same industry) often cite that the reason behind their decision was to improve productive efficiency and eliminate redundancy in operations (Moeller *et al.* 2004). However, antitrust authorities frequently indicate that such M&As typically put the customer at a significant disadvantage by providing the acquiring firm with an opportunity to engage in monopolistic practices. For instance, the acquiring firm could easily collude with other rival firms and raise prices by restricting output to minimum levels (Stigler 1964). More importantly, the acquiring firm could also lower input prices by restricting purchases to minimum levels from suppliers (Robinson 1933). One of the most recent examples supporting this idea was showcased in the Hewlett Packard-Compaq deal. A significant portion of the USD 3 billion in annual savings was expected to be realized from more aggressive negotiations with suppliers.

In our study, we examine the relationship between advisory fees generated by investment banks and same industry deals. Specifically, we examine whether investment banks revise their fees of advisory services downward due to past experience generated from prior deals within the same industry.

We argue that the amount of resources and energy that advisory firms deploy to complete an M&A deal would be substantially less for subsequent deals, and, therefore their advisory fees would be less relative to earlier deals within the same industry.

E. Majority Deals

In our study, we denote the intended percentage of ownership acquired as a proxy for majority deals. Deals with acquisition percentage greater than 50% are considered majority deals.

We expect majority deals to have a positive effect on fees generated by advisors due to the additional time and effort needed to conduct those deals. Such deals typically involve a majority stake in the target company and require greater analysis and preparation from the side of the investment bank advising the deal. However, this relationship is expected to be weaker for subsequent same industry deals.

F. Completion Time

In line with Rau (2000) and Hunter and Jagtiani (2003), we compare the performance of different investment banks based on the time taken to complete the deals. Completion time is measured as time difference between announcement date and completion date.

Our study examines the completion rates between consecutive deals within the same industry and the effect of such deals on advisory fees generated by investment banks. We expect that advisory fees will be higher as the time duration for deal completion increases.

G. Hostile versus Non-Hostile Bids

Hostility usually makes a bid more difficult to complete and increases the costs to succumb the resistance of the target firm's management (Servaes and Zenner 1996; Schwert 2000). In hostile transactions, acquirer's advisors exert more effort and time to understand the nature of the business of the target due to a lack of proper

communication between the acquirer and target. For example, the investment bank needs to arrange an attractive deal and be able to support it with comprehensive facts and figures in order to entice the target shareholders into accepting the offer.

On a similar note, hostile bids are considered less likely to succeed as they lack the support of the target firm's management. As a result, such deals require more time and effort to execute. Therefore, we expect that advisory fees to be positively related to hostile bids versus friendly bids due to the inherent difficulty in successfully completing such bids.

H. Syndicated Deals

Syndicated deals, also known as "club deals", refer to M&A deals advised by more than one investment bank. In a syndicated deal, the investment banks pool their resources together and collectively provide advisory services for one M&A deal (Houghton Mifflin 2002). This may enable the acquirer to successfully complete a complex deal with less time delays. We expect that advisory fees to be positively related to syndicated deals.

I. Hypothesis

We argue that the advisory fees paid by the acquirer for an investment bank are related to the amount of effort and time exerted by the investment bank to complete the M&A deal. Hence, the greater the amount of effort exerted by the investment bank and the longer it takes the investment bank to complete the deal, the greater would be the amount of advisory fees paid. In this regard, we examine whether investment banks generate economies of scale when advising successive deals within the same industry and subsequently charge lower advisory fees for the services they provide. Specifically,

we examine whether investment banks develop a learning mechanism from advising successive M&A deals within the same industry and alter the level of advisory fees charged for subsequent deals. Our hypothesis is divided into two parts as follows:

Hypothesis 1a (Advisory Fees Effect): Investment Banks learn from their prior advisory deals within the same industry in determining the level of their M&A advisory fees.

Hypothesis 1b (Duration Effect): This learning mechanism of Investment Banks is moderated by the time duration of deals subsequently completed within the same industry.

Our main research question is based on prior research of Chemannur and Fulghieri (1994) and Kale *et al.* (2003) that show investment banks can gain expertise through advising M&A deals. However, our research differs from those of Chemannur and Fulgheiri (1994) and Kale *et al.* (2003) because we examine M&A advisory fees of consecutive periods within the same industry for the same investment bank and check whether investment banks alter their pricing decisions (i.e., advisory fees) based on prior experience. To our knowledge, no prior study has examined the relation between advisory fees and same industry M&A deals.

CHAPTER III

DATA AND METHODOLOGY

A. Data and Data Sources

The sample used in our study consists of all M&A deals completed by U.S. firms from 1987 till 2013 inclusively. We obtain the M&A deals from Thomson One Reuters database. We identify a total of 137,894 M&A deals. Due to missing data on acquirer fees, our sample is reduced to 2410 observations. A further reduction of 35 observations due to missing transaction value, 219 observations due to missing effective dates, and 29 observations due to missing acquirer advisor leave us with a total of 2127 observations. After adjusting for syndicated deals and eliminating single deals advised by an investment bank within a specific industry, our final sample becomes 1570 M&A deals. Table 1 provides a summary of the sample selection process. The sample includes US targets only.

Table 1. Sample Selection

Description	Deals Adjusted	M&As
1. Total M&A sample	-	137894
2. Excluding deals with missing acquirer fees	(135484)	2410
3. Excluding deals with missing transaction value	(35)	2375
4. Excluding deals with missing effective dates	(219)	2156
5. Excluding deals with missing Advisor for acquirer	(29)	2127
6. Adjusting for Syndicated Loans	526	2653
7. Adjusting for same industry consecutive deals	(1083)	1570

Source: Thomson One Reuters database.

B. Model Description

To examine the relationship between advisory fees paid by acquirer to an investment bank in a specific industry and advisory fees paid in prior periods within the same industry (hypothesis 1a), we estimate the following model:

1. Model 1

$$\begin{aligned} & (\text{Acquirer Advisory Fees/transaction Value}) = \\ & \beta_0 + \beta_1 (\text{Ln Fee/transaction value})_{(t-1)} + \beta_2 (\text{completion rate - two consecutive} \\ & \text{deals}) + \beta_3 (\text{Ln Transaction Value}) + \beta_4 (\text{Syndicated Former Deal} + \beta_5 (\% \text{ of shares} \\ & \text{acquired}) + \beta_6 (\text{Target country-US vs. Non US}) + \beta_7 (\text{Acquisition Attitude - Hostile vs.} \\ & \text{other}) + \beta_8 (\text{Acquisition Attitude - Friendly vs. other}) + \beta_9 (\text{Acquisition Attitude -} \\ & \text{Neutral vs. other}) + \beta_{10} (\text{year completion time}) + \beta_{11} (\% \text{ of cash}) + \beta_{12} (\% \text{ of other}) + \\ & \beta_{13} (\% \text{ of stock}) + \beta_{14} (\% \text{ unknown}) \end{aligned}$$

Table 2 reports the definitions of the variables used in the above model. Based on our hypothesis (1a), we expect a significantly negative β_1 coefficient on advisory fees in prior periods for deals within the same industry by the same investment bank. It is worth noting that in our study, we analyze only completed deals because part of the total advisory fees paid to the acquirer investment bank is contingent upon successful completion of the deal. In order to be consistent across all deals, we thus examine completed deals only.

To examine the relationship between advisory fees paid to an investment bank in a specific industry after capturing both the amount of prior advisory fees paid to the same investment bank and time to complete the deal (hypothesis 1b), we estimate the following model.

2. Model 2

$$\begin{aligned} & (\text{Acquirer Advisory Fees/transaction Value}) = \\ & \beta_0 + \beta_1 (\ln \text{ Fee/transaction value})_{(t-1)} + \beta_2 (\text{completion rate} - \text{two consecutive} \\ & \text{deals}) + \beta_3 (\ln \text{ fee}_{(t-1)} \times \text{Time Difference between consecutive deals/same industry/same} \\ & \text{IB}) + \beta_4 (\ln \text{ Transaction Value}) + \beta_5 (\text{Syndicated Former Deal} + \beta_6 (\% \text{ of shares} \\ & \text{acquired}) + \beta_7 (\text{Target country-US vs. Non US}) + \beta_8 (\text{Acquisition Attitude} - \text{Hostile vs.} \\ & \text{other}) + \beta_9 (\text{Acquisition Attitude} - \text{Friendly vs. other}) + \beta_{10} (\text{Acquisition Attitude} - \\ & \text{Neutral vs. other}) + \beta_{11} (\text{year completion time}) + \beta_{12} (\% \text{ of cash}) + \beta_{13} (\% \text{ of other}) + \\ & \beta_{14} (\% \text{ of stock}) + \beta_{15} (\% \text{ unknown}) \end{aligned}$$

Table 2 reports the definitions of the variables used in the above model. Based on our hypothesis (1b), we expect a significantly positive β_3 coefficient on the interaction of advisory fees in prior periods and time difference between consecutive deals within the same industry by the same investment bank. This is the moderation effect of time duration on advisory fees earned by investment banks for subsequent deals that we are trying to capture. Table 2 includes the definitions of the dependent variables used in our multivariate regressions analysis.

Table 2. Definition of Variables

Variable	Definition	Source
Ln Acquirer Advisory Fees/transaction Value	Natural logarithm of acquirer advisory fees divided by total transaction value	Thomson One Reuters
(Ln Fee/transaction value) _(t-1)	Natural logarithm of fees over transaction value for prior period	
completion rate - two consecutive deals	Time difference between announced and completed deals in years	
Ln fee _(t-1) x Time Difference between consecutive deals/same industry/same IB	Natural logarithm of fees for prior period multiplied by the duration to complete the deal in the same industry for a specific IB	
Ln Transaction Value	Natural logarithm of transaction value	
Syndicated Former Deal	Dummy variable (1 for syndicated, 0 otherwise)	
% of shares acquired	% of ownership acquired in the target company	
Target country-US vs. Non US	Dummy variable (1 for US, 0 otherwise)	
Acquisition Attitude - Hostile vs. other	Dummy variable (1 for Hostile, 0 otherwise)	
Acquisition Attitude – Friendly vs. other	Dummy variable (1 for friendly, 0 otherwise)	
Acquisition Attitude – Neutral vs. other	Dummy variable (1 for neutral, 0 otherwise)	
Completion time -yrs.		
% of cash	% acquired through cash transaction	
% of stock	% acquired through stock transaction	
% of other	% acquired through other means	
% unknown	Undisclosed acquisition method	

CHAPTER IV

EMPIRICAL RESULTS

A. Descriptive Statistics

Table 3 shows that the mean transaction value for all completed M&A deals for our sample is USD 2.84 billion. Out of those deals, 62.81% are completed by stock payment. On average, it takes 153 days to complete a deal across all industries (which is close to 4 months) while the time between the announcement and completion time of two consecutive deals in a given industry for a particular investment bank scaled by the total number of days in a year is close to 1.65. Out of our entire M&A deals sample, we have 485 deals (or 31% of our entire sample) whose deal duration is greater than 1.65 years versus 1085 deals whose deal duration (or 69 % of our entire sample) below 1.65 years. This shows that the majority of the investment banks in our sample take on average one year and a half to successfully complete an M&A deal within the same industry.

On average, acquirer and target firms pay closely the same amount of advisory fees (close to USD 6 million). However, when compared to total transaction value, advisory fees paid by the acquirer firm correspond to less than 1% of the total deal value (close to 0.86% of transaction value).

Most deals in our sample are completed by stock (62.8%) versus (27.6%) by cash. Value of transaction varies between USD 2 million and USD 164 billion. Advisory fees vary between 0 and USD 221.6 million. Table 3 reports the descriptive statistics of the main variables used in our analysis.

Table 3. Descriptive Statistics

Variable	N	Mean	Median	Std. Dev.	Min	Max
Acquirer Advisory Fees (\$mil)	1570	6.04	2.1	9.95	0.003	110
Time Difference between consecutive deals/same industry/same IB (in Y),	1570	1.65	0.81	2.28	0	21.23
Value of Transaction (\$mil)	1570	2842	403	9460	2	164747
% of Cash	1570	27.6	0	39.96	0	100
% of Stock ,	1570	62.8	83.04	42.06	0	100
% of Other,	1570	7.52	0	17.59	0	100
% of Unknown,	1570	2.05	0	13.21	0	100
Acquirer Fee/Transaction Value $(t-1)$,	1570	0.009	0.005	0.044	0.000	1.59
Acquirer Fee/Transaction Value,	1570	0.009	0.005	0.044	0.000	1.6
Completion Time	1570	153.2	136	97.84	0	776
Total Advisory Fees (\$mil).	1570	12.32	4.5	20.48	0	221.6

B. Correlation Matrix

Table 4 reports the correlations among our main variables. We find a positive correlation between advisory fees paid by the acquirer and transaction value. This is consistent with our expectation that larger deals typically involve greater time and effort from the side of the investment bank. We also find a negative correlation between the time duration of successive deals and transaction value. This indicates that investment banks spend less time on subsequent deals within a specific industry. This is also consistent with our expectations that investment banks may develop a learning mechanism when involved in successive M&A deals within a given industry.

As to the nature of M&A transaction payment, we find a positive correlation between advisory fees and stock payment but a negative correlation between advisory fees and cash payment. Again, this is in line with our expectation that less risky deals are usually paid by cash which translates into less effort and time from the side of the

investment bank. Table 4 also shows a positive correlation between advisory fees and the completion time for the deal, suggesting that longer deal durations involve greater effort and resources from the side of the investment bank. Table 4 reports the Pearson correlations among the main variables used in our analysis.

C. Multivariate Results

Table 5 reports the multivariate results based on Model 1 and Model 2 respectively. Model 1 shows a negative relation between advisory fees earned by an investment bank in one period versus fees earned in prior periods within the same industry but this relation is not significant. However, Model 2 shows that this relation is significantly negative at the 1% level after we add the interaction of advisory fees in prior periods and the time difference between consecutive deals within the same industry. Hence, results of Model 2 show that investment banks earn lower fees for subsequent deals advised within the same industry, and this is consistent with our hypothesis 1a. However, this relationship is weakened by the duration of deal completion because we have a significantly positive coefficient on the interaction of prior advisory fees and the time difference between consecutive deals within the same industry. We refer to this as the moderation effect of time duration on advisory fees earned (hypothesis 1b).

Furthermore, under Model 2, the time difference between consecutive deals within the same industry is significantly negative at the 1% level indicating that the time spent to complete consecutive deals is lower. This finding suggests that investment banks are able to complete deals more efficiently, in terms of completion time, after acquiring various skills and expertise from prior deals advised within the same industry.

Table 4. Correlation Matrix

	Value of Transaction (\$mil)	Acquirer Total Fees (\$mil)	Acquirer Fee/Transaction Value	Acquirer Total Advisory Fees (\$mil)	Completion Time (in Y)	Time Difference between consecutive deals/same sector/same IB (in Y)	% of Cash	% of Stock	% of Other	% of Unknown	% of Shares Acq.	% of ownership AfterTrans action
Value of Transaction (\$mil)	1.000											
Acquirer Total Fees (\$mil)	0.660	1.000										
Acquirer Fee/Transaction Value (t-1)	-0.006	-0.012	1.000									
Acquirer Fee/Transaction Value	-0.044	-0.028	0.000	1.000								
Total Advisory Fees (\$mil)	0.659	0.956	-0.010	1.000								
Completion Time	0.275	0.330	-0.005	0.313	1.000							
Time Difference between consecutive deals/same sector/same IB (in Y)	-0.007	0.013	0.003	0.004	0.014	1.000						
% of Cash	-0.117	-0.131	-0.018	-0.136	-0.307	-0.038	1.000					
% of Stock	0.103	0.095	0.003	0.109	0.240	0.042	-0.861	1.000				
% of Other	0.045	0.099	-0.006	0.086	0.101	0.010	-0.132	-0.284	1.000			
% of Unknown	-0.033	-0.039	0.055	-0.049	0.028	-0.033	-0.107	-0.201	-0.026	1.000		
% of Shares Acq.	0.083	0.144	0.002	0.169	0.218	0.056	-0.462	0.432	0.053	-0.050	1.000	
% of ownership AfterTransaction	0.061	0.118	0.005	0.145	0.264	0.051	-0.410	0.384	0.040	-0.038	0.856	1.000

The transaction value is negatively related to the level of advisory fees under both models, indicating that advisory fees are lower if the transaction value is larger for same industry deals. Moreover, the completion time in years is positively related to the level of advisory fees earned under both models, indicating that investment banks earn higher fees once the deal completion rate increases.

Results in Table 5 also show that advisory fees earned by investment banks under both models are positively related to “syndicated deals” indicating that advisory fees increase when more than one investment bank is hired to advise the deal.

Moreover, in both of our models, the relationship between the acquisition method and advisory fees charged is positive (although insignificant) for friendly and hostile acquisitions indicating that advisory fees charged by investment banks increase irrespective of both acquisition methods. This is in contrary to our prior expectations where we anticipated a positive relationship between advisory fees charged by investment banks and hostile acquisition methods due to rejections faced from target’s management. Furthermore, we find a negative insignificant relationship between advisory fees and neutral acquisition methods demonstrating that when both the acquirer and target management approve the deal unanimously from the beginning, advisory fees are expected to decrease. Finally, we fail to account for any significance relationship between the payment method and advisory fees charged by investment banks, where under both models, advisory fees charged by investment banks slightly increase by all payment methods chosen. It seems that paying in stock or cash for subsequent deals advised by the same investment bank within a particular industry is not an indication for deal complexity or riskiness, both of which if present could significantly affect the amount of advisory fees charged.

Table 5 reports the results from an ordinary least squares regression of the

advisory fees model.

The dependent variable is the natural logarithm of fees divided by transaction value. Regressions 1 include prior advisory fees paid by investment banks for same industry deals while regression 2 include prior advisory fees paid multiplied by time difference between consecutive deals. $\text{Log}(\text{fee}/\text{transaction value})(t-1)$ is the natural logarithm of advisory fees scaled by transaction value in prior period. Completion rate is the time difference between announced and completion dates. $\text{Log}(\text{transaction value})$ is the natural logarithm of transaction value. Syndicated former deal is a dummy variable taking the value of 1 if more than one investment bank is involved in the deal. % of shares acquired is the percentage of acquisition in the target company. Target country is a dummy variable taking the value of 1 if the target country is US or 0 otherwise. Acquisition attitude (hostile vs. other) is a dummy variable taking a value of 1 if the deal is regarded as a hostile deal or zero otherwise. Acquisition attitude (friendly vs. other) is a dummy variable taking a value of 1 if the deal is regarded as a friendly deal or zero otherwise. Acquisition attitude (neutral vs. other) is a dummy variable taking a value of 1 if the deal is regarded as a neutral deal or zero otherwise. Year completion time is the duration in years for all completed deals. % of cash is the percentage acquired in Target Company through cash payment. % of stock is the percentage acquired in Target Company through stock payment. % of other is the percentage acquired in Target Company neither through cash nor through stock payment. % of unknown is a percentage acquired in target in an unknown way. All regressions are performed including dummy variables for the year of announcement (coefficient values of these are not reported).

Table 5. Regression

Dependent Variable: Acquirer Advisory Fee /Transaction Value				
Independent Variable	Model 1		Model 2	
	Coefficient	Standard Error	Coefficient	Standard Error
Constant	-0.039 (0.944)	0.553	-0.091 (0.867)	0.544
Lnfee _(t-1)	-0.009 (0.720)	0.025	-0.235 *** (0.000)	0.041
Time Difference between consecutive deals/same industry/same IB (in Y)	0.001 * (0.104)	0.000	-0.001 *** (0.007)	0.000
Ln fee _(t-1) x Time Difference between consecutive deals/same industry/same IB (in Y)			0.182 *** (0.000)	0.027
Ln Value Transaction	-0.004 *** (0.000)	0.000	-0.004 *** (0.000)	0.000
Syndicated former deal	0.005 *** (0.003)	0.002	0.005 *** (0.002)	0.002
"% of Shares Acq."	0.000 (0.255)	0.000	0.000 (0.283)	0.000
US (=1) Vs. Non US target	0.003 (0.477)	0.005	0.003 (0.523)	0.005
Attitude (hostile=1 vs. other)	0.000 (0.959)	0.006	0.001 (0.885)	0.006
Attitude (Friendly=1 vs. other)	0.001 (0.753)	0.004	0.002 (0.591)	0.004
Attitude(neutral=1 vs. other)	-0.005 (0.729)	0.015	-0.005 (0.709)	0.014
Year Completion time	0.007 ** (0.030)	0.003	0.007 ** (0.016)	0.003
"% of Cash"	0.001 (0.907)	0.006	0.001 (0.828)	0.005
"% of Other"	0.001 (0.918)	0.006	0.001 (0.841)	0.005
"% of Stock"	0.001 (0.915)	0.006	0.001 (0.837)	0.005
"% of Unknown"	0.001 (0.917)	0.006	0.001 (0.836)	0.005
N	1570		1570	
R2	9.72%		12.41%	

Figures in parentheses denote p-values which are calculated using White robust standard errors. ***, **, * denotes statistical significance at the 1%, 5%, and 10% level respectively.

CHAPTER V

CONCLUSION

A. Conclusion

In this paper, we examine effect of successive M&A deals completed within a specific industry on advisory fees earned by investment banks

Our results indicate that when we incorporate prior advisory fees generated from M&A deals in a given industry scaled by completion time (in years), investment banks are willing to accept lower advisory fees for the services they provide. This is in contrast with prior studies (Anand and Galetovic 2006; Chemmanur and Fulghieri 1994; McLaughlin 1990, 1992) which show that investment banks have incentives to build advisory relationships over successive transactions and are able to earn more fees from further advisory mandates. However, those studies did not examine the impact of same industry deals on advisory fees earned.

We relate our findings to a possible learning mechanism where investment banks benefit from prior deals performed within a given industry and develop adequate skills and expertise. This would increase their efficiency in advising subsequent deals and is consistent with previous studies by Chemmanur and Fulghieri (1994), Kale *et al.* (2003) and Chang *et al.* (2008) which show that the investment banks' skills and access to information are expected to increase as the number of M&A deals advised increase.

Furthermore, we find that investment banks spend less time to complete a merger when a prior deal has been advised within the same industry by the same investment bank. This result is consistent with Rau (2000) and Hunter and Jagtiani (2003) who relate the performance of M&A advisors to their ability to complete deals

and the speed at which those deals are completed.

As an extension or follow-up to this study, it would be interesting to examine the impact of industry-specific characteristics (e.g., competition level, technology level) on the M&A advisory fees, and whether certain industries are more attractive in terms of skill development by investment banks relative to other industries.

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