Target's Cash Flows and Acquirer's Advisor Choice in M&As

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ABSTRACT

This study explores the link between target cash flows and the acquirer's choice of advisor in M&As. Acquirers are more likely to hire advisors, especially those with relationships with the target (informed advisors) or strong reputations (top-tier advisors), when the target has higher cash flows. In the short term, advisors, particularly informed ones, are less likely to close deals or may take longer to finalize them. However, advisors' involvement helps lower deal premiums. On the other hand, top-tier advisors are associated with higher premiums. Regarding post-merger outcomes, firms involved in deals with advisors, regardless of advisor categories, tend to have better access to bank finance and lower investment inefficiencies post-merger. These findings underscore the role of advisors in helping acquirers navigate the deal process and integrate successfully, leading to improved financial and investment outcomes for the combined firms.

Keywords: M&As, financial advisors, operating cash flows, post-merger outcomes, access to bank finance, investment efficiency

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1. INTRODUCTION

Mergers and acquisitions (M&As) involve one entity acquiring either entire companies or specific assets from another. Research on M&As indicates that financial synergy is one of the important reasons for firms involving M&As (Chatterjee, 1986).

Financing efficiencies in M&As are examined from two primary perspectives in the literature. The first posits that synergies emerge when acquirers with superior financial resources address the financial shortcomings of their targets. For example, financially distressed targets may be liquidated following acquisition by liquid acquirers within the same industry (Almeida et al., 2011). Similarly, financially constrained targets can alleviate their constraints (Erel et al., 2015), issue new debt, and increase investment levels post-merger (Liao, 2014).

The second perspective proposes that financial synergies can also stem from the target firms' advantages in accessing external financing. For example, private acquirers benefit from the superior equity financing capabilities of public targets headquartered in the U.S. (Asquith and Rock, 2011). Additionally, acquirers can improve credit supply and reduce financing costs by acquiring targets located in states affected by the deregulation of U.S. interstate banking laws (Cornaggia and Li, 2019). This stream of studies suggests that targets with robust access to bank financing appeal to acquirers aiming to enhance financial efficiency.

Building on the target's financial advantage hypothesis proposed by Cornaggia and Li (2019), our study emphasizes a target's access to bank financing as a key driver motivating acquirers in M&As. We concentrate on the target firm's intrinsic attributes, particularly the cash flows, that may enhance its borrowing capacity from banks, since a firm's operational cash flows have been highlighted in earlier studies as having a positive impact on its borrowing capacity (Townsend, 1979; Stiglitz and Weiss, 1981; Holmstrom and Tirole, 1997). Recent studies further affirm the significance of borrowers' cash flows in reducing borrowing costs (Diamond and Rajan, 2000; Santos and Winton, 2019) and enhancing credit line access (Sufi, 2009; Lian and Ma, 2021).

Accordingly, firms aim to enhance financing efficiency through acquiring target companies with abundant cash flows, as this suggests strong borrowing capacity. However, acquiring targets with substantial cash flows could present potential challenges for the acquiring firms. The first potential challenge is securing the target's willingness to participate in the deal. M&As are documented as a means of overcoming financial distress for both acquirers (Shrieves and Stevens, 1979; Hotchkiss, 1995; Hotchkiss and Mooradian, 1997, 1998) and targets (Pastena and Ruland, 1986). In line with target side, target firms that initiate mergers, by reaching out to potential acquiring firms and manifesting their inclination to be acquired, often exhibit signs of financial constraints and economic distress (Masulis and Simsir, 2018). Hence, firms with ample cash flows may be less inclined to be acquired due to possessing financial flexibility and diverse capital-raising avenues beyond mergers.

Second, while it is commonly accepted that cash-rich firms are generally easier to value, another potential challenge arises as acquirers must offer a reasonable price to purchase such targets.

Acquisitions involve a negotiation process where the bidder aims to acquire the target at fair or sufficiently low prices for value creation (Bradley et al., 1988; Haunschild, 1994;), yet high enough for competitive success (Humphery-Jenner and Powell, 2011). However, the hubris hypothesis (Roll, 1986) posits that acquiring firms may overestimate their ability to extract value, leading to excessively high bids. Furthermore, targets with more liquid assets tend to attract more bidders, which intensifies competition and subsequently raises offer prices (Amit et al., 1989). Likewise, the involvement of multiple bidders can enhance the target's bargaining power (Shams, 2021), enabling it to command a higher premium.

Since targets with abundant cash flows may be resistant to merger and potentially associated with high purchase prices, we wonder whether the involvement of financial advisors is necessary for the acquirers in this scenario. That is, will acquirers increase the possibility of hiring financial advisors when the targets have higher cash flows and what is the M&A performance? Indeed, the pivotal roles of advisors in M&As are extensively documented. Financial advisors collect and share vital information (Servaes and Zenner, 1996); offer negotiation support and navigate challenges (Kale et al., 2003); provide their clients with better services (Castelli et al., 2012; Golubov et al., 2012); and facilitate and finalize the deal (Rau, 2000; Hunter and Jagtiani, 2003; Kisgen and Song, 2009; Song et al., 2013). Hence, advisors could assist acquirers in persuading targets with a reasonable offer price in M&A deals involving such targets with plentiful cash flows. Therefore, we propose the first hypothesis that *target's cash flows increase the acquirer's likelihood of hiring advisors in M&As*.

Moreover, the literature on advisor selection in M&As has explored two distinct categories of advisors, each offering specific advantages: (i) advisors with established relationships with either of the two M&A parties, leveraging their informational advantages gained through various business connections, particularly with the merger counterparty (Allen et al., 2004; Ertugrul and Krishnan, 2014; Chang et al., 2016; Graham et al., 2017; Nguyen and Tsai, 2024); and (ii) reputable advisors recognized for their professional skills and expertise, derived from extensive experience in advising on M&As (Bowers and Miller, 1990; Rau, 2000; Hunter and Jagtiani, 2003; Ismail, 2010; Guo et al., 2020). Accordingly, we further examine acquirers' preferences for these two types of advisors when targeting firms with ample cash flows. This leads to the further two sub-hypotheses that the *target's cash flows increase the acquirer's likelihood of hiring advisors who have relationship with the targets;* and *target's cash flows increase the acquirer's likelihood of hiring advisors who have relationship with the targets.*

Extensive research has documented various benefits that advisors provide to acquirers, including: increasing the likelihood of deal completion (Rau, 2000; Hunter and Jagtiani, 2003; Kisgen and Song, 2009; Song et al., 2013); reducing search time, transaction costs, and completion time (Ertugrul and Krishnan, 2014); lowering the purchase price (Song et al., 2013; Chang et al., 2016); and securing higher synergies and greater announcement returns (Chang et al., 2016; Graham et al., 2017; Guo et al., 2020). Therefore, we anticipate that advisors hired by acquirers in these scenarios

could facilitate faster deal finalization at lower purchase prices. Thus, we propose the hypothesis regarding the short-term impact of advisors that *acquirers hiring advisors in deals involving targets with ample cash flows achieve more favorable outcomes.*

In a scenario where acquirers aim to improve financial efficiency by targeting firms with strong access to bank financing, as indicated by high cash flows, we further investigate whether the involvement of advisors can enhance the acquirers' financial performance in the post-acquisition phase. Studies show that financially constrained targets have been found to issue new debt within two years following the mergers (Liao, 2014), and acquirers have been shown to increase bank debt usage and reduce financing costs after deals (Cornaggia and Li, 2019). However, the potential impact of advisors on such post-merger outcomes remains relatively underexplored. Therefore, we expect that advisors hired by acquirers in these scenarios could play a role in improving their clients' post-merger performance and we further propose the hypothesis that *acquirers hiring advisors in deals involving targets with ample cash flows achieve more favorable post-merger outcomes*.

To answer the two research questions, we utilize a sample of 2,808 deals of U.S. listed firms from 1990 to 2020. According to the first question, we firstly identify whether the acquirer hires at least one advisor. Then, within deals handled by advisors, we further classify whether the acquirer's advisor has any business relationship (i.e., lending, M&A advising, underwriting) with the target within five years before the current M&A deal to determine the acquirer's *Informed advisor*; and whether the acquirer's advisor is one of the top ten largest acquirer's advisors to categorize the acquirer's *Top-tier advisor*. In terms of target's cash flows, we generate two proxies as OCF ratio (operating cash flow ratio) and the Relative OCF ratio (target's OCF ratio minus acquirer's OCF ratio). The results from a series of Probit regressions show that the target's cash flows increase the likelihood of the acquirer hiring an advisor regardless of advisor categories. These results support our arguments that advisors are employed due to their information role in M&As, especially in a specific case of purchasing targets with plentiful cash flows.

The second research question concerns the impact of acquirer's advisor choice on M&A outcomes. In which, we examine the outcomes in both the short-run and the long-run perspectives. However, this question may be affected by two potential endogenous problems as omitted variables and selection bias. To solve the potential endogenous concerns, we apply Two-stage-least-square regression (2SLS), and robust by the Heckman two-stage selection model. In both 2SLS and Heckman two-stage selection model, three instrument variables (IVs) corresponding to three advisor classifications are employed. We follow Chang et al. (2016) to use the number of advisor candidates as our IVs to the acquirer's choice to hire advisors in M&As.

The first-stage results of the 2SLS regressions indicate that all three IVs are significantly and positively associated with the likelihood of the acquirer hiring corresponding advisors. The second-stage results reveal that acquirer advisors influence deal outcomes in several ways. In terms of the short-run outcomes, advisors are found to reduce the likelihood of deal completion. Deals managed by informed advisors are less likely to close, take longer to finalize, and involve lower premiums.

Conversely, top-tier advisors are associated with higher premiums. In terms of post-merger outcomes, firms involved in deals managed by acquirers' advisors experience improved credit ratings following the merger. Specifically, top-tier advisors are associated with a reduction in unused debt capacity. Additionally, advisors, particularly top-tier ones, help the combined firms mitigate investment inefficiency. Robustness tests using the Heckman two-stage selection model generally confirm these findings for both informed and top-tier advisors.

Finally, sensitivity analyses reveal that the target's cash flow continues to exert a significant impact on the acquirer's choice of advisor across various perspectives related to the acquirer's financial position. However, this influence is slightly stronger for acquirers facing greater financial difficulties. Such more financially difficult acquirers also benefit slightly more from hiring top-tier advisors, as they experience a higher probability of deal completion and are better positioned to avoid inefficient investments post-acquisition.

Our study could contribute to the literature on five perspectives. The first key point is that we extend the study by Cornaggia and Li (2019), particularly the target's financial advantage hypothesis. This study highlights that a firm's comparative advantage in accessing bank finance increases its appeal as an acquisition target, which subsequently enhances the bank credit supply and decreases the financing costs of the combined firm. Expanding on this, our study assumes that targets with superior financial positions, characterized by strong access to bank finance, may pose potential challenges for acquirers. These challenges include the target's reluctance to proceed with the merger and their ability to demand a higher premium. Consequently, the involvement of advisors becomes critical for acquirers to negotiate, facilitate, and finalize such deals while ensuring certain benefits for their clients. Thus, our study complements the literature by proposing that targets with strong bank financing access can drive acquirers to seek advisor assistance.

Second, we contribute to the existing literature on advisor selection in M&As, with a particular focus on the acquirer's choice of advisors. Indeed, the determinants of advisor's involvement are widely documented such as characteristics of advisors include reputation (Forte et al., 2010) or skills (Song et al., 2013), and relationships with client firms (Forte et al., 2010) or relationships with the merger counterparty (Chang et al., 2016). Another factor relates to the characteristics of the deal such as complexity level (Forte et al., 2010), type (Francis et al., 2014), payment method and transaction value (Cao and Madura, 2014). Firm characteristics can also be considered, such as the firm's own financial weakness (Nguyen and Tsai, 2024), firm industry (Cao and Madura, 2014), firm's prior M&A experience (Servaes and Zenner, 1996), and the merger counterparty's features (Cao and Madura, 2013). While various determinants of advisor choice are widely pointed out, financial advantages, especially ones of the targets, seem to be rarely discussed in the relevant literature as their interconnection is almost unexplored. Hence, our study could contribute to the existing M&A literature, particularly the specific topics of M&A advisors, by highlighting the target's comparatively financial advantages of access to bank finance, indicating by its ample cash flows, as a determinant influencing advisor selection of the acquirer.

Third, our findings add more evidence to the acquirer's preference for advisors who have relationships with the targets. Relevant literature examines not only the firm's own relationship banks such as lending banks (Allen et al., 2004; Nguyen and Tsai, 2024) or underwriters (Ertugrul and Krishnan, 2014), but also the merger counterparty's relationships banks such as target's exadvisor (Chang et al., 2016). While previous studies look at each relationship category separately, our study synthesizes all three relationships (i.e., lending, M&A advising, and underwriting). This combination underscores the advantage of advisors in leveraging familiarity, understanding, and prior knowledge obtained through a wide range of established relationships with the merger counterparty. This enables them to handle transactions better. Thus, an advisor's expertise in information is highlighted even more in M&A transactions. Furthermore, we also explore the preference for reputable advisors independently, our study analyzes these two categories side by side within the same context. This approach allows us to evaluate their roles and impacts simultaneously, highlighting the distinct incentives, advantages, and contributions each advisor type brings to the M&A process.

Forth, our study contributes to the body of literature indicating the exceptional performance of prestigious advisors. The significant role of top-tier advisors is widely acknowledged. In addition to their superior service (Golubov et al., 2012), high likelihood of completing deals in shorter timeframes (Hunter and Jagtiani, 2003), and ability to generate greater abnormal returns (Ma, 2013), our research provides novel evidence demonstrating that such reputable advisors continue to deliver value after deal completion. By guiding towards appropriate targets, top-tier advisors assist acquirers (subsequently, the combined firms) in gaining higher credit ratings, utilizing more unused debt capacity, and avoiding post-merger inefficient investment.

Finally, our study might provide novel evidence for advisor's impacts on post-merger outcomes, which is rarely discussed in M&As research. Various measurements of post-merger outcomes are investigated by a large number of researches such as operating performance (Switzer, 1996; Kumar, 2009; Ertugrul and Krishnan, 2014; Chemmanur et al., 2019), divestiture likelihood (Ertugrul and Krishnan, 2014), abnormal returns (Agrawal et al., 1992), asset productivity (Healy et al., 1992), and shareholder wealth (Malatesta, 1983). Our study might enhance the relevant literature by examining the post-merger outcomes through the access to bank finance and investment efficiency of the combined firms, under the influences of advisors employed by the acquirers in the previous merging phase. We find that over the three years following the acquisitions, combined firms of deals handled by advisors, especially the reputable advisors, exposes to better access to bank finance (i.e., higher credit ratings, and lower unused debt capacity), and are less likely to make inefficient investments. This underscores the critical role of advisors in the long term as their expertise and experience may help navigate and facilitate the integration process after deal completion.

The remaining contents of this study are as follows. Section 2 briefly reviews the literature and develops hypotheses. Section 3 describes the sample selection and variable measurement. Section 4 analyzes the empirical models and results. And the last section concludes the main findings.

2. LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

2.1. M&As financial synergy, cash flows and access to bank finance

M&As encompass the acquisition of entire companies or specific assets by another entity. Empirical studies on M&As have identified various potential reasons for their occurrence, with the pursuit of synergies emerging as a prominent motive. Goold and Campbell (1998, p. 133) define that "The word *synergy* is derived from the Greek word *synergos*, which means *working together*". Neoclassical economic theory, which surfaced in the 1990s, posits that synergy gains result from the combined entity being more productive than the sum of its individual parts. Synergy is categorized into three types: (i) collusive synergy, which involves scarce resources enhancing market power; (ii) operational synergy, where scarce resources contribute to production and/or administrative efficiencies; and (iii) financial synergy, which involves scarce resources leading to reductions in capital costs (Chatterjee, 1986).

Particularly in the context of financial synergy, financing efficiencies are generated through the superior financial positions of merger counterparties. One well-established perspective highlights that financial synergies arise when acquirers with strong financial resources address the deficiencies of their targets. This perspective is supported by extensive research. For example, bidders benefit not only from acquiring publicly traded targets but also from acquiring private firms, which often have weaker bargaining positions due to informational asymmetries, agency issues, and costly access to external capital markets for financially distressed targets are acquired by liquid bidders within the same industry to reallocate liquidity, preventing inefficient liquidation caused by liquidity shortages (Almeida et al., 2011). Similarly, financially constrained targets can alleviate financial frictions (Erel et al., 2015), issue new debt and equity, and increase investment expenditures following the mergers (Liao, 2014).

Another, less explored, perspective suggests that financial synergies can also arise from the target's advantageous financial position, particularly its access to external financing in term of equity (Asquith and Rock, 2011) or bank debt (Cornaggia and Li, 2019). Specifically, due to their comparative advantage in accessing equity financing, U.S. targets are attractive in reverse mergers involving U.S.-based public targets and private foreign acquirers (Asquith and Rock, 2011). Regarding access to bank financing, the deregulation of U.S. interstate banking laws represents a plausibly exogenous shock that increases credit availability for firms in deregulated states (Kerr and Nanda, 2009; Amore et al., 2013). Consequently, firms headquartered in these deregulated states become attractive acquisition targets, enabling merged entities to enhance credit supply and reduce financing costs (Cornaggia and Li, 2019).

The firm's access to bank financing is influenced not only by external factors, such as deregulation events, but also by its internal characteristics. Among these internal attributes, operational cash flows have been extensively studied and are consistently shown to have a strong positive relationship with the firm's borrowing capacity (Townsend, 1979; Stiglitz and Weiss, 1981; Holmstrom and Tirole, 1997). Supporting this view, recent research further highlights the critical role of a firm's cash flows in securing bank loans. For instance, a study by Lian and Ma (2019) highlight that in the U.S. corporate borrowing market, a significant portion of corporate debt, from 1996 to 2015, is mostly based on cash flows. Specifically, up to 80% of corporate debt is cash-flowbased lending, which depends on the going-concern value of the firm's operational cash flows. Meanwhile, only 20% of corporate debt is asset-based lending, which relies on the liquidation value of physical assets (such as real estate, inventory, equipment, and receivables), both in terms of total debt outstanding and for typical large non-financial firms. Similarly, Sufi (2009) shows that banks often use cash flow-based financial covenants for lines of credit. Since cash flow-based covenants are more common than other types, borrowers must maintain strong cash flows to remain in compliance. Additionally, banks may limit access to credit facilities if a borrower violates a covenant, reducing the firm's credit line capacity by 15% to 30%.

2.2. Cash flows and the demand for financial advisors in M&As

In M&A deals involving targets with weaker financial conditions, acquirers often achieve more favorable outcomes. For instance, acquirers can realize positive excess returns when acquiring private targets, as the heightened uncertainty and agency problems associated with these targets diminish their bargaining power (Mantecon, 2008). Moreover, acquirers tend to pay lower purchase prices in transactions initiated by targets experiencing financial distress and constraints (Masulis and Simsir, 2018).

Given that firms aiming to enhance financing efficiencies through M&As may target firms with strong access to bank financing, indicating by their substantial cash flows. Such deals, however, could present potential challenges for the acquiring firms. The first challenge might occur due to the target's unwillingness to the merger. While M&A transactions aiming for synergies like economies of scale, resource complementarity, or diversification generally assume proactive involvement from the acquiring party (Andrade et al., 2001), it is observed in many instances that target firms themselves instigate takeovers (Boone and Mulherin, 2007; Heitzman, 2011; Fidrmuc and Xia, 2019). These initiating targets often find themselves vulnerable to financial distress and constraints, particularly evident during economic downturns (Masulis and Simsir, 2015), aligning with earlier studies suggesting that M&As serve as a mechanism for firms to address financial difficulties (Shrieves and Stevens, 1979; Pastena and Ruland, 1986; Hotchkiss, 1995; Hotchkiss and Mooradian, 1997, 1998). This suggests that distressed firms aim to avoid bankruptcy costs, financially constrained ones seek stronger partners, and underperforming firms become more receptive to takeovers during recessions. If so, companies with ample cash flows may be less inclined to be

acquired, as they possess financial flexibility, are less constrained, and have diverse avenues to raise capital rather than relying on mergers for funding.

The second challenge might be how to define a competitively reasonable price. Acquisitions fundamentally entail a negotiation process wherein the bidder, acting rationally, aims to acquire its target at prices considered "fair" (Bradley et al., 1988) or sufficiently low (Haunschild, 1994) to enable value creation, yet competitively high enough to secure victory in the auction against other bidders (Humphery-Jenner and Powell, 2011). Consequently, thorough evaluation of the target's information relative to that of the acquirer becomes imperative to determine reasonable premiums. Among the plethora of information, operating cash flows offer insights into assessing a company's liquidity, solvency, performance, and overall financial health (Framework, 1989). However, the information inherent in cash flow patterns is often inadequately incorporated by investors, (Dickinson, 2011). Besides, acquirers may offer excessively high prices due to an overestimation of their ability to extract value from the targets, as suggested by the hubris hypothesis (Roll, 1986). Furthermore, research by Amit et al. (1989) indicates that target firms with a higher proportion of liquid assets tend to attract more potential bidders. If so, the competition among these bidders can drive up the offer price due to the competitive dynamics. Additionally, targets may secure higher premiums by leveraging their strong bargaining power, which stems from the presence of multiple bidders (Shams, 2021).

In short, acquiring targets with robust cash flows can be a complex and challenging process because target firms may resist the deals and demand high premiums, while acquirers must also navigate competitive bidding to secure the transaction. Hence, acquirers may need to consider alternative strategies or seek out additional advice and support to help navigate these challenges, negotiate with the targets and ensure a successful acquisition over the competitive bidders. As intermediaries, financial advisors collect and share information between acquirers and targets in M&As (Agrawal et al., 2013), reduce transaction costs caused by information asymmetry (Servaes and Zenner, 1996), navigate potential acquirers or targets as well as arrange better deals for their clients (Kale et al., 2003), faster the speed of deal completion (Ertugrul and Krishnan, 2014), and so on. Therefore, we propose our **first hypothesis** about advisors in M&As (H1a).

Among lots of candidates for advisor positions, different types of advisors are selected such as high-reputation advisors (Bowers and Miller, 1990; Rau, 2000; Hunter and Jagtiani, 2003; Ismail, 2010; Guo et al., 2020), the merger counterparty's ex-advisor (Chang et al., 2016), and firm's own lending banks (Allen et al., 2004; Nguyen and Tsai, 2024) or firm's own underwriters (Ertugrul and Krishnan, 2014). Generally, the advisors in M&As can be classified into two categories: (i) the advisors having relationships with any merger counterparties; and (ii) the reputable advisors.

Through lasting relationships, banks can provide their clients with more effective and efficient services (Castelli et al., 2012). Using relationship advisors can reduce search time and costs compared to hiring external advisors (Ertugrul and Krishnan, 2014). Moreover, the information role

of advisors is highlighted even more if they have relationships with the firm's merger counterparty. For example, the target's ex-advisors hired by the acquirers complete the deal with lower takeover premiums and more merger synergies for their clients (Chang et al., 2016). Furthermore, Chang et al. (2016) also found that hiring acquirers' ex-advisors did not result in more favorable outcomes for targets. The information advantage, thus, seems to favor the acquirer side rather than the target side. Consequently, the information accumulated through previous relationships with target firms becomes more critical as the target's strength in terms of cash flows may trigger the deals' complexities and difficulties as argued above. As a result, advisors having relationships with targets appear ideal for acquirers to work with. Therefore, we extend the **first hypothesis** in a further dimension, which states that: *Target's cash flows increase acquirer's likelihood of hiring advisors who have relationships with the targets (H1b)*.

When it comes to prestigious investment banks, they have notable expertise in identifying firms for which an acquisition would produce substantial economic benefits (Bowers and Miller, 1990). Top-tier investment banks are supposed to provide superior service to their clients (Golubov et al., 2012). Moreover, top-tier advisors are more likely to complete deals and take shorter time than lower-tier advisors (Hunter and Jagtiani, 2003) and are associated with greater target abnormal returns when being hired by the targets as well (Ma, 2013). Therefore, the acquirers might also prefer top-tier advisors, along with the advisors who having relationships with targets mentioned above. Hence, we continue extending the **first hypothesis** in case of prestigious advisors, which states that: *Target's cash flows increase acquirer's likelihood of hiring advisors who have high reputations (H1c)*.

2.3. Financial advisors and M&A outcomes

2.3.1. Short-term outcomes

Given the first challenges in acquiring targets with substantial cash flows, where such targets may be reluctant to engage in M&A transactions, we consider completion likelihood and completion time as critical short-run outcomes in these deals. To our knowledge, quite few studies in the M&A field have examined these two short-term outcomes in depth.

Hunter and Jagtiani (2003) examined the effort of advisors by measuring their ability to complete deals and the time required to finalize them. More recently, the importance of completion time has been highlighted in studies by Song et al. (2013) and Ertugrul and Krishnan (2014), which explore how advisor characteristics influence both completion probability and speed. These studies find that top-tier advisors are more likely to complete deals and do so more quickly than lower-tier advisors (Hunter and Jagtiani, 2003). Similarly, advisors who also act as underwriters for acquirers achieve faster completion times (Ertugrul and Krishnan, 2014). In contrast, "boutique" advisors, often specialized in specific industries, tend to require more time due to extended due diligence and negotiation efforts (Song et al., 2013).

In addition to these factors, the complexities of assessing the business value of targets and determining appropriate pricing make deal price another crucial short-run outcome. Numerous studies suggest that M&A deal prices are significantly influenced by the bargaining power of the involved firms. On the target side, factors such as antitakeover measures (Comment and Schwert, 1995), lockup options (Burch, 2001), employing top-tier advisors (Ertugrul, 2015), cash reserves (Upadhyay and Zeng, 2017), and competitive bidding environments (Shams, 2021) enhance the target's bargaining power, enabling them to secure higher abnormal returns and deal premiums. For acquirers, factors like political connections (Bertrand et al., 2016), political stability in the target's country (Lee, 2018), and pre-merger market dominance (Hussain et al., 2022) bolster their bargaining power, resulting in greater share gains and reduced acquisition costs.

Ultimately, the final deal price reflects the relative bargaining power of the involved parties, with the stronger party more likely to achieve favorable outcomes and realize superior returns from the deal (Lee, 2018). Building on the initial question regarding acquirers' demand for advisors in deals involving targets with ample cash flows, we further explore whether the presence of acquirer advisors enhances their bargaining power. This, in turn, could influence short-run outcomes such as deal completion probability, completion time, and deal premiums.

In short, various benefits regarding the short-term outcomes provided by advisors to acquirers have been documented, including higher deal completion likelihood (Rau, 2000; Hunter and Jagtiani, 2003; Kisgen and Song, 2009; Song et al., 2013), shorter transaction durations (Ertugrul and Krishnan, 2014), and lower deal prices (Song et al., 2013; Chang et al., 2016). Accordingly, we anticipate that advisors hired by acquirers in such scenarios can facilitate quicker deal finalization at reduced purchase prices. Thus, we propose the **second hypothesis** regarding the impacts of advisors that: *Acquirers hiring advisors in deals involving targets with ample cash flows achieve more favorable outcomes (H2a)*.

2.3.2. Post-merger outcomes

The M&A process does not conclude with the purchase of a company; rather, it typically unfolds in two or three phases: pre-merger, (during), and post-merger or implementation phases (Schweiger and Weber, 1992; Appelbaum et al., 2000a, 2000b;). Among these, post-merger integration involves combining and reorganizing business activities to realize the synergies and efficiencies that often drive mergers and acquisitions (Larsson and Finkelstein, 1999). However, inefficient integration can lead to the failure of a significant proportion of M&A deals (Zollo and Meier, 2008; Cording et al., 2008; Bauer and Matzler, 2014). Additionally, organizational differences between merger counterparts frequently contribute to suboptimal performance outcomes (Sarala, 2010; Oh et al., 2014; Oh and Johnston, 2021).

Focusing on the specific scenario where acquirers seek improved financial efficiencies by targeting firms with good access to bank financing, as evidenced by high cash flows, we examine the combined firms' post-merger performance in terms of accessing bank financing. This type of post-merger outcome has been explored in prior studies. For instance, Liao (2014) finds that 9% of

financially constrained targets issue new debt within two years following the mergers. Similarly, Cornaggia and Li (2019) show that acquirers benefit from increased bank debt usage and reduced financing costs when acquiring targets with strong bank access.

In the context of issuing debt, credit ratings serve as a signal of the issuer's creditworthiness to investors (Drago and Gallo, 2018). Research consistently shows that bond ratings influence municipal debt interest costs, with lower-rated bonds requiring higher yields compared to higher-rated ones (Johnson and Kriz, 2005). Similarly, banks tend to offer lower spreads to firms with credit ratings from multiple agencies (Drago and Gallo, 2018). Furthermore, firms with non-investment-grade bond ratings generally face greater challenges in accessing external financing compared to their investment-grade counterparts (Hoberg et al., 2014). That is to say, higher credit ratings often indicate that firms are more likely to secure external financing under more favorable conditions.

What is more? The free cash flow theory (Jensen, 1986) highlights potential challenges, suggesting that diversified firms may face higher agency costs due to easier access to cash. Following an acquisition, the expanded cash flows might increase cash availability, potentially exacerbating agency costs through overinvestment and excessive perquisites. This raises questions about the impact of M&As on investment performance, an additional post-merger outcome worthy of further investigation.

The literature explores various post-merger outcomes, including buy-and-hold abnormal returns (Hartmann et al., 2023), stock returns (Agrawal et al., 1992), operating performance (Healy et al., 1992; Ertugrul and Krishnan, 2014; Chemmanur et al., 2019), and the likelihood of divestiture (Ertugrul and Krishnan, 2014). Additionally, several studies investigate the impact of advisors on post-merger outcomes. For instance, acquirers engaging advisors with extensive deal experience tend to achieve higher post-merger operating performance (Chemmanur et al., 2019). In contrast, acquirers employing underwriters as advisors often face adverse outcomes, including lower operating performance, an increased likelihood of divestiture, and the divestment of acquired divisions (Ertugrul and Krishnan, 2014).

To the best of our knowledge, the impact of advisors on post-merger outcomes, particularly regarding a firm's access to bank financing and investment efficiency, remains relatively underexplored. Thus, we aim to contribute evidence in this area. Specifically, given the critical role advisors play in guiding the selection of suitable merger counterparts, we anticipate that their expertise also facilitates the post-merger integration process. This, in turn, is expected to enhance post-merger performance, particularly by improving access to bank financing and promoting greater investment efficiency for the combined firms. Therefore, we extend the second hypothesis regarding the impact of advisors that: *Acquirers hiring advisors in deals involving targets with ample cash flows achieve more favorable post-merger outcomes (H2b).*

3. DATA AND VARIABLE

3.1. Data

We firstly collect the M&A deals of the U.S. listed firms from 1990 to 2020 from Thomson Financial's Securities Data Company (SDC) Platinum database. The initial sample is then filtered by a set of restrictions: (i) the acquirers and the targets are not the same firms; (ii) deals are not exchange offers, buybacks, recapitalizations, rumors, or having unknown status; (iii) the acquirer owns less than 50% of targets' shares prior to the deal announcement; (iv) both the acquirers and the targets are not financial firms (SIC 6000-6999) and utilities firms (SIC 4900-4999). Next, we retrieve data of lending banks from DealScan and link with data of advisors from SDC to define advisor categories. We also require the non-missing data for the two main proxies for the explanatory variable. The final sample utilized in this study comes up with 2,808 deals.

3.2. Variable measurement

3.2.1. M&A financial advisor

At first, each M&A financial advisor is commonly called "*Advisor*". Accordingly, any deal in which the acquirer hires at least one advisor will be defined as a "*Deal with advisor*". Conversely, a "*Deal without advisor*" is a deal in which the acquirer does not hire any advisors.

Further, within the group of deals with advisor, we classify advisors at a more specific level based on 2 categories:

(1) The relationship between the advisors and the target firms: The acquirer's advisor who has had any relationships (i.e., lending, M&A advising, or underwriting) with the target within five years before the current deal is called "*Informed advisor*". Based on that, a "*Deal with informed advisor*" is a deal in which the acquirer is advised by at least one informed advisor; otherwise, a "*Deal without informed advisor*" is a deal in which the acquirer hires at least one advisor but none of the advisors is the informed advisor.

(2) The advisor's reputation: Following Golubov et al. (2012) and Guo et al. (2020), we define the reputation of a certain advisor by its ranking measured by the transaction value of all the deals handled by that advisor. The acquirer's advisor belongs to the list of the top ten biggest acquirer financial advisors from 1990 to 2020⁴ is called *"Top-tier advisor"*. Based on that, a *"Deal with top-tier advisor"* is a deal in which the acquirer hires at least one Top-tier advisor; otherwise, a *"Deal without top-tier advisor"* is a deal in which the acquirer hires at least one advisor but none of the advisors is the top-tier advisor.

3.2.2. Target's cash flows

We begin by estimating operating cash flows (OCF) as the sum of earnings before interest, taxes, depreciation, and amortization (EBITDA). To represent the cash flows of target firms in our analysis, we calculate the OCF ratio, defined as the target's OCF divided by its total assets. Next, we compute the Relative OCF ratio by subtracting the acquirer's OCF ratio from the target's OCF ratio. This

⁴ The lists of the top 10 biggest financial advisors of the acquirer during the period from 1990 to 2020 are briefly reported in Appendix A.

metric captures the relative difference in cash flows levels between the two merger counterparties. Both proxies are measured at the fiscal year-end preceding the current deal.

3.2.3. M&A outcomes

Our second research question explores the impact of advisor selection on M&A deal outcomes, analyzed across two dimensions: short-run outcomes and post-merger outcomes.

3.2.3.1. Short-run outcomes

Completed is the likelihood of completing the deal (Rau, 2000; Hunter and Jagtiani, 2003; Kisgen and Song, 2009; Song et al., 2013; Guo et al., 2020).

Duration is the natural logarithm of number of days between deal effective date and deal announcement date (Hunter and Jagtiani, 2003; Song et al., 2013; Ertugrul and Krishnan, 2014; Guo et al., 2020).

Premium is the ratio between the offer price and the target's trading price 4 weeks prior M&A announcement date (Ertugrul and Krishnan, 2014).

3.2.3.2. Post-merger outcomes

To measure post-merger outcomes, we calculate the average value of each proxy over the three years following deal completion. This three-year period is consistent with prior studies examining post-acquisition performance (Chen et al., 2007; Ertugrul and Krishnan, 2014). We evaluate post-merger outcomes from two perspectives: (i) access to bank finance and (ii) investment inefficiency.

i. Post-merger access to bank finance

The first proxy for access to bank finance is credit rating. Using the S&P credit ratings data from the Compustat database, we assign integer values to each credit rating level based on availability. For long-term credit ratings (22 levels), the highest rating, "AAA," is assigned a value of 22, while the lowest rating, "D," is assigned a value of 1, and firms without ratings are assigned a value of 0. Similarly, for short-term credit ratings (11 levels), the highest rating, "A-1+," is assigned a value of 11, the lowest rating, "D," is assigned a value of 1, and firms without ratings are assigned a value of 0. Two corresponding variables, *Long-term ratings* and *Short-term ratings*, are created for subsequent analysis.

Next, since firms cannot borrow beyond their debt capacity, any increase in bank borrowing reduces the firm's unused debt capacity. To examine a firm's actual borrowing actions, we analyze unused debt capacity as the second proxy for the firm's access to bank finance. Following Ang and Smedema (2011), debt capacity is defined as the expected debt amount minus the observed total debt. Here, the expected debt is calculated as the lagged industry (2-digit SIC) median total debt-to-equity ratio multiplied by the firm's lagged equity. We then compute the *Unused debt ratio* as the debt capacity divided by total assets, adjusted by the industry median ratio.

ii. Post-merger investment inefficiency

Following relevant literature (Chen et al., 2011; Biddle et al., 2009), we firstly estimate the level of investment as below:

$$Invetment_{i,t} = \beta_0 + \beta_1 Sale \ growth_{i,t-1} + \varepsilon_{i,t}$$
(1)

where, $Invetment_{i,t}$ is firm *i*'s capital expenditures over its lagged total assets in year *t*; Sale growth_{*i*,*t*-1} is the percentage of change in sales from year *t*-2 to year *t*-1 of firm *i*.

Following Benlemlih and Bitar (2018), we estimate Eq. (1) annually for each two-digit SIC industry. The residuals from these cross-sectional regressions capture deviations from the expected level of investment, representing the idiosyncratic inefficiency in each firm's investment decisions. We use the absolute value of these residuals as a proxy for total investment inefficiency (*Total INEFF*).

Additionally, we analyze investment inefficiency in two specific dimensions: *Under-investing*, occurs when a firm invests less than the expected level, represented by the absolute value of negative residuals; and *Over-investing*, on the other hand, occurs when a firm invests more than the expected level, represented by the absolute value of positive residuals.

3.3.4. Control variables

In all specifications, firm characteristics and deal characteristics are added as the control variables (Allen et al., 2004; Ertugrul and Krishnan, 2014; Chang et al., 2016). Specifically, we control for: market-to-book ratio of both the acquirer (*Acquirer MB ratio*) and the target (*Target MB ratio*); the ratio between the target's total assets over the acquirer's total assets (*Target bargaining power*); the ratio between the deal value and acquirer's market capitalization (*Relative size*); the percentage of the deal value paid in cash (*Cash financing*); a dummy variable capturing whether the acquirer involves in more than one M&A deal within the whole period from 1990 to 2020 (*Serial acquirer*); and four indicators as *Tender*, *Hostile*, *Competing*, and *Diversifying*.

Additionally, the involvements of the target's advisors are considered. When estimating the probability of the acquirer hiring an advisor, we control for whether the target also engages an advisor. Similarly, when assessing the likelihood of the acquirer hiring an informed advisor, we include the target's relationship advisor (advisors who also serve as the target's relationship banks) as a control variable. Likewise, when analyzing the likelihood of the acquirer hiring a top-tier advisor, the presence of the target's top-tier advisor is incorporated into the model. Definitions of all variables are provided in Appendix B, and an overview is presented in Table 1.

[Insert Table 1 here]

Among the 2,808 M&A deals, approximately 60.7% (1,704 deals) were managed by the acquirer's financial advisors, 9.8% (275 deals) by informed advisors, and 26.1% (733 deals) by toptier advisors. These figures indicate that acquirers are less likely to hire informed advisors compared to top-tier advisors in M&As.

The target firms, based on their cash flows, show operational inefficiency, with an average negative OCF ratio of -0.007, suggesting that their expenses exceed earnings before the deal.

Additionally, the negative Relative OCF ratio of -0.118 indicates that the target's operational performance is also weaker than that of the acquirer.

In terms of short-run M&A outcomes, around 81.8% of deals are completed, with these deals typically closing within an average of 67 days⁵. Acquirers offer, on average, less than half (47.5%) of the target's trading price four weeks before the M&A announcement.

Post-merger, the average long-term and short-term credit ratings are 8.548 and 2.761, respectively, indicating that the combined firms have lower-than-average ratings in both categories. The average unused debt ratio is just 2.7%, indicating that the combined firms make significant use of debt and have minimal remaining debt capacity. In terms of investment activity, the total investment inefficiency is 0.042, with under-investing and over-investing inefficiencies at 0.042 and 0.35, respectively, indicating that the combined firms are more likely to under-invest, compared to over-invest, after the deal.

When examining firm characteristics, acquirers are generally younger firms with higher marketto-book ratios (2.062 vs. 1.722) compared to targets. The target's bargaining power (0.436) and relative size (0.387) show that the target firm is smaller than the acquirer in both book and market value. Among the 2,808 deals, 81.4% are tender offers, 7.4% are hostile, and 6.6% are competitive bids. Additionally, 36.9% of deals involve acquirers and targets from different industries, and 50.54% of the transaction value is paid in cash. Nearly 47% of acquirers were involved in multiple deals during the 1990-2020 period. Targets appear to rely more on advisors than acquirers, with 78.2% of deals being managed by target advisors. Specifically, the probabilities of hiring target relationship advisors and top-tier advisors are 27.5% and 25%, respectively.

4. EMPIRICAL MODELS AND RESULTS

4.1. Target's cash flows and the acquirer's choice of financial advisors in M&As

4.1.1. Univariate test

Table 2 presents the statistical differences in the mean values of all variables across deals guided by different advisors. In Panel A, deals where acquirers hire advisors, compared to those without advisors, involve targets with a higher OCF ratio. Regarding the Relative OCF ratio, although both deal groups show negative mean values, the deals with acquirer's advisors exhibit a less negative value than those without advisors. Similar patterns are observed in Panel B, where deals are classified based on the involvement of informed and top-tier advisors. The differences in mean values in both Panels A and B are strongly significant at the 1% level, while the difference in OCF ratio in Panel C is weakly significant at the 10% level.

In terms of short-run outcomes, while deals with advisors are more likely to be completed than those without advisors, deals with informed advisors are less likely to close compared to those

 $^{^{5} \}ln (66.49) = 4.197$

without informed advisors. However, both groups of deals are completed within a longer timeframe and offer lower premiums.

Regarding post-merger credit ratings, deals involving informed and top-tier advisors tend to receive higher long-term and short-term ratings, while deals with advisors generally show slightly lower short-term ratings. Furthermore, deals with advisors, especially top-tier advisors, tend to have smaller unused debt capacity.

In terms of post-merger investment, deals handled by top-tier advisors are less likely to exhibit investment inefficiencies, showing lower levels of total inefficiency, under-investing, and over-investing. A similar pattern is observed in deals with advisors, though this is only the case for over-investing. Conversely, deals with informed advisors exhibit a bit higher levels of total inefficiency and under-investing.

Additionally, the characteristics of firms and deals assisted by different advisors also differ statistically. Notably, the target's choice of advisor strongly correlates with the acquirer's choice of advisor. Acquirers are more likely to hire an advisor, informed advisor, or top-tier advisor in transactions where the target has hired the corresponding type of advisor.

Based on the statistical distributions in Table 2, it appears that the acquirer's advisor choice may be influenced by the target's cash flows and other firm and deal characteristics. These varying advisor choices are linked to different deal outcomes and levels of investment inefficiencies in the combined firms post-merger.

[Insert Table 2 here]

4.1.2. The likelihood of hiring financial advisor in M&As (Probit regression)

To examine the impacts of the target's cash flows on the acquirer's choice of advisors, we apply a series of Probit regression models as follows:

$$Pr(Acquirer's \ advisor \ choice = 1 | \ Target's \ cash \ flows, Controls)_{i,t}$$
$$= F(\beta_{0i,t} + \beta_1 Target's \ cash \ flows_{i,t-1} + \beta_2 Firm \ characteristics_{i,t-1} + \beta_3 Deal \ characteristics_{i,t})$$
(2)

Our dependent variable, *Acquirer's advisor choice* is the acquirer's decision to hire *Advisor*, *Informed advisor* and *Top-tier advisor* in a given M&A deal. Our explanatory variable, *Target's cash flows*, is presented by *OCF ratio*, and *Relative OCF ratio*. Other control variables are described in detail in section 3.2.

Table 3 presents the coefficients estimated from Eq. (2). Panel A reports the likelihood of acquirers hiring an advisor across the entire sample. The results show that acquirers are more likely to hire an advisor when acquiring targets with higher OCF and Relative OCF ratios. Panels B and C display the results for the acquirer's choice of informed and top-tier advisors, respectively, given that the acquirer hires at least one advisor. Similar to the findings in Panel A, acquirers' preferences for these two types of advisors are influenced by the target's cash flows. However, informed advisors

show a stronger effect, with the coefficients for both cash flow proxies being significantly positive. In contrast, top-tier advisors are positively and significantly associated with the OCF ratio only.

Additionally, other firm and deal characteristics also influence advisor selection to some degree. For instance, acquirers are more likely to engage advisors in non-tender offers, deals with larger relative sizes, deals with less cash payment, and deals where the target also hires advisors. Top-tier advisors are favored in transactions involving younger targets with higher M/B ratios and in competitive deals. Furthermore, acquirers involved in multiple deals tend to prefer informed and top-tier advisors.

[Insert Table 3 here]

As shown in Table 3, the advisor selections of acquirers are positively correlated with the target's cash flows, supporting our first hypothesis. Specifically, acquirers are more likely to hire advisors (H1a), particularly those with relationships to the target (H1b) or high reputations (H1c), when acquiring targets with robust cash flows. A similar pattern is observed when acquirers choose advisors for deals where the target has higher cash flows than the acquirer.

4.2. Impacts of acquirer's advisors on the M&A outcomes

4.2.1. Potential endogenous issue and research designs

The common and simplest model to test acquirer advisors' impacts on M&A outcomes is the Original-least-square (OLS). However, while we follow relevant existing studies to control for firm and deal characteristics that might impact M&A outcomes, there may still be unobservable variables that affect both M&A outcomes and the decision to hire advisors. Thus, the OLS estimates might become endogenous.

To deal with this endogenous problem, we employ the Two-stage-least-square (2SLS) model. To be more specific, an instrument variable (IV) is added to the first-stage regression to estimate the probability of hiring advisors:

$$Pr(Acquirer's advisor choice = 1 | IV, Target's cash flows, Controls)_{i,t}$$
$$= F(\beta_{0i,t} + \beta_1 IV_{i,t} + \beta_2 Target's cash flows_{i,t-1} + \beta_3 Firm characteristics_{i,t-1} + \beta_4 Deal characteristics_{i,t})$$
(3)

Then, the fitted value of hiring advisor likelihood, *Acquirer's advisor choice*_{*i*,*t*}, which is derived from Eq. (3) is added in the second-stage of 2SLS to test the advisor's impacts on the M&A outcomes:

 $M\&As \ outcomes_{i,t} = \beta_{0i,t} + \beta_1 Acquirer's \ \widehat{adv} isor \ choice_{i,t} + \beta_2 Target's \ cash \ flows_{i,t-1} + \beta_3 Firm \ characteristics_{i,t-1} + \beta_4 Deal \ characteristics_{i,t}$ (4)

where, *M&A outcomes* are short-run outcomes (i.e., *Completed, Duration,* and *Premium*), and postmerger access to bank finance (i.e., *Long-term ratings, Short-term ratings,* and *Unused debt ratio*), and post-merger investment inefficiency (i.e., *Total INEFF, Under-investing,* and *Over-investing*). Other control variables are described detail in section 3.2.

We encounter challenges in defining appropriate instrumental variables (IVs) for the model in equation (3) above. Chang et al. (2016) suggest that the number of advisors hired by the target in the five years prior to a given M&A deal (i.e., the target's ex-advisors) increases the likelihood that the acquirer will employ the target's ex-advisor in the current transaction. Based on this, we predict that the availability of advisor candidates will enhance the likelihood of firms hiring advisors. In this study, we categorize advisors into different types and generate advisor candidates for each category. Specifically, we define the following IVs:

(i) *Advisor candidates* (IV for advisors): The total number of the acquirer's and/or target's relationship banks within the five years preceding the current deal.

(ii) *Informed candidates* (IV for inform advisors): The total number of the target's relationship banks within the five years before the current M&A deal.

(iii) *Top-tier candidates* (IV for top-tier advisor): The total number of advisors from the top ten largest acquirer M&A advisors who have worked with the acquirer in the five years before the current M&A deal.

We predict that the greater the number of advisor candidates available, the higher the probability that the acquirer will hire the corresponding type of advisor for the current M&A deal.

4.2.2. Acquirer's advisors and M&A outcomes

Tables 4, Table 5, and Table 6 present the effects of the acquirer's advisors on M&A outcomes. The first-stage results, which are not displayed, show that the instrumental variables (IVs) are positively and significantly correlated with the acquirer's selection of advisors across all specifications. This supports our argument that acquirers are more likely to hire advisors when more candidates are available.

Table 4 examines the effects of the acquirer's advisors on the short-run outcomes. The secondstage results indicate that the probability of deal completion is negatively influenced by the presence of advisors. Specifically, deals involving informed advisors are less likely to be completed and tend to take longer to finalize. In contrast, premiums are negatively impacted by informed advisors but positively influenced by top-tier advisors.

[Insert Table 4 here]

Table 5 explores the impact of the acquirer's advisors on post-merger access to bank finance. The second-stage results show that deals involving advisors, regardless of category, are associated with higher long-term and short-term credit ratings post-merger. These results are statistically significant at the 1% level. Notably, deals advised by top-tier advisors are linked to lower unused

debt capacity, though this result is significant at the 5% level and only when the relative OCF ratio is used as a proxy for the target's cash flows.

[Insert Table 5 here]

Table 6 examines the effects of the acquirer's advisors on post-merger investment inefficiency. The second-stage results reveal that deals involving advisors, particularly top-tier advisors, are significantly and negatively associated with all three dimensions of investment inefficiency in the combined firms. In contrast, informed advisors do not show any significant impact on post-merger investment inefficiency.

[Insert Table 6 here]

In short, Tables 4, 5, and 6 suggest that the choice of advisor impacts both short-run and postmerger outcomes. These results generally align with hypotheses H2a and H2b, indicating that advisors can help acquirers achieve favorable outcomes. Although deals involving advisors may be less likely to be completed, acquirers who hire advisors tend to achieve higher credit ratings and experience lower levels of investment inefficiency after the merger.

Specifically, informed advisors are less likely to complete deals and take longer to finalize them, but they can help reduce deal premiums. This could suggest that informed advisors engage in more extensive due diligence and negotiation, allowing acquirers to acquire targets at lower prices. Additionally, acquirers who hire informed advisors show higher post-merger credit ratings, suggesting that these advisors, leveraging their relationships and knowledge of the target, help acquirers navigate suitable targets and improve post-merger bank financing.

On the other hand, top-tier advisors offer substantial benefits to their clients. They increase the likelihood of deal completion, and while acquirers may need to pay higher premiums, they achieve significantly better post-merger outcomes, including higher long-term and short-term credit ratings, increased use of bank debt, lower unused debt capacity, and reduced investment inefficiency (both under-investing and over-investing). These results imply that top-tier advisors, with their expertise and reputation, are better positioned to identify ideal targets. The higher premiums could lead to a higher probability of successful acquisitions involving such target firms. The short-run costs of higher deal prices are then compensated by the improved financial and investment performance of the combined firms following the acquisition.

4.3.Robustness tests

Since the investigation of how informed advisors and top-tier advisors affect the deal outcomes is conducted in a controlled sample in which each acquirer receives advice from at least one financial advisor, so that the acquirer's choice of advisor may be self-selected. Therefore, the potential selection bias might affect our empirical results.

To deal with this potential endogenous problem, we employ the Heckman two-step selection model. Specifically, the fitted value of hiring advisor likelihood, $Acquirer's advisor choice_{i,t}$,

and the inverse-Mills ratio, *Lambda* – controlling for the potential selection bias, derived from Eq. (3) is added in the second stage of the Heckman two-step selection model to examine the impacts of hiring advisors on M&A outcomes:

M&As outcomes_{i,t}

$$= \beta_{0i,t} + \beta_1 Acquirer's \ advisor \ choice_{i,t} + \beta_2 Target's \ cash \ flows_{i,t-1} + \beta_3 Firm \ characteristics_{i,t-1} + \beta_4 Deal \ characteristics_{i,t} + Lambda$$
(5)

where, *M&A outcomes* are short-run outcomes (i.e., *Completed, Duration,* and *Premium*), and postmerger access to bank finance (i.e., *Long-term ratings, Short-term ratings,* and *Unused debt ratio*), and post-merger investment inefficiency (i.e., *Total INEFF, Under-investing,* and *Over-investing*). Other control variables are described detail in section 3.2.

Table 7 presents robustness tests examining the effects of informed and top-tier advisors on M&A outcomes. The results, while consistent with those in Tables 4, 5, and 6, show somewhat weaker associations. Specifically, informed advisors are found to be linked with a lower likelihood of deal completion, longer completion times, lower premiums, and higher post-merger credit ratings. Top-tier advisors are positively associated with premiums and post-merger credit ratings, but negatively correlated with post-merger unused debt and inefficient investments. These findings further support our hypotheses H2a and H2b, which suggests that acquirers who hire informed and top-tier advisors achieve some favorable outcomes both in the short run and post-acquisition.

[Insert Table 7 here]

4.4.Sensitivity analysis

Our study is based on the target's financial advantage hypothesis that acquirers seeking financial efficiencies may aim to acquire targets with good access to bank finance. This further raises the question of whether the main results found in the previous section hold across acquirers with varying levels of financial difficulties, which could influence their access to external financing. To explore this further, we divided the entire sample into two groups based on the acquirer's financial difficulties, as proxied by the KZ index: (1) acquirers with more financial difficulties, and (2) acquirers with fewer financial difficulties. In this classification, acquirers in the first group have a KZ index above the sample median, while those in the second group have a KZ index below the sample median.

Table 8 presents the results from Probit regressions (similar to those in Table 3) examining the impact of the target's cash flows on the acquirer's advisor choice within the two sub-samples defined by the acquirer's financial constraints. The findings are largely consistent with those reported in Table 3, showing that target cash flows increase the likelihood of acquirers hiring advisors in M&As. The results are slightly stronger for acquirers with more financial difficulties, as indicated by the larger coefficients and higher significance levels.

Tables 9, 10, and 11 present the results estimated from 2SLS regressions (similar to those in Tables 4, 5, and 6) to examine the effects of the acquirer's advisors, informed advisors, and top-tier advisors on M&A outcomes, respectively, within the two sub-samples based on the acquirer's financial constraints.

Table 9 reveals that the effects of informed and top-tier advisors differ depending on the acquirer's financial constraints. Specifically, deals involving less financially constrained acquirers advised by informed advisors are less likely to be finalized and take longer to complete. Conversely, top-tier advisors assist acquirers with greater financial difficulties in completing deals, while advising acquirers with fewer financial constraints to offer higher prices.

[Insert Tables 9 here]

Table 10 shows that acquirers from both groups, those with more and fewer financial constraints, experience higher credit ratings after the merger. However, the results are a bit stronger for acquirers with fewer financial difficulties. This suggests that an ideal scenario when a less financially constrained acquirer works with advisors, the post-merger outcomes, as reflected in credit ratings, tend to be much more favorable.

[Insert Tables 10 here]

Table 11 shows that only top-tier advisors help acquirers avoid inefficient investment postmerger, with the effect being more pronounced for acquirers with greater financial difficulties. These results highlight the expertise of top-tier advisors, particularly in supporting acquirers with weaker financial positions.

[Insert Tables 11 here]

In summary, the sensitivity analyses reveal that acquirers with different levels of financial constraints may have distinct preferences when selecting advisors based on the target's cash flows in M&As. Consequently, these acquirers experience varying outcomes from their advisor choices. Two key implications arise from these analyses: (1) the acquirers' own financial characteristics can amplify the favorable outcomes produced by advisors, particularly when acquiring financially robust targets; and (2) reputable advisors, with their expertise, play a crucial role in helping clients, especially those with weaker financial positions, achieve better M&A outcomes.

5. CONCLUSION

This study investigates the relationship between the target's cash flows and the acquirer's advisor choice in M&As, as well as the impacts of acquirer's advisors on the M&As outcomes. Initially, we define the acquirer's advisor choice at a general level by referring to any financial advisor hired by the acquirer in a given deal as "Advisor". Acquirer's advisors then are further classified into two categories based on the relationship with the target and the advisor's reputation, which are: (i) Informed advisor is the one who has relationship(s) with the target within five years before the current M&A deal; and (ii) Top-tier advisor is the one within the ten biggest financial

acquirer advisors ranked by all deals' value advised by each advisor from 1990 to 2020. We measure cash flows by the ratio of cash flows generated from operating activities over the total assets. Additionally, we also consider the superior position of cash flows of the target compared to the acquirer.

Our first research question is that whether the target's cash flows affect the acquirer's decision to hire advisors in M&As. To answer this, a series of Probit regressions are conducted to examine the probability of the acquirer hiring advisors influenced by the target's cash flows. We find evidence showing that the increased likelihood of acquirer's advisors is associated with a better level of the target's cash flows. This effect is amplified in the case of advisors having relationships with target firms or having high reputations. Moreover, acquirers also prefer hiring advisors when their own cash flows are relatively lower than that of the targets. In short, in this specific case of buying target companies with abundant cash flows, these results support our argument that advisors are hired because of their information, skills and expertise in M&As.

Our second question examines whether the acquirer's advisors influence M&A outcomes in both the short run (i.e., completion likelihood, completion time, and premium) and the long run (i.e., postmerger access to bank finance and post-merger investment inefficiency). To address potential endogeneity issues (i.e., omitted variables and selection bias), we apply 2SLS regressions and robust Heckman two-step selection models.

Our findings indicate that acquirers who hire advisors tend to show higher credit ratings and lower investment inefficiency, although deals involving advisors are less likely to be completed. Informed advisors, while slowing down deal finalization and reducing completion likelihood, help reduce deal premiums through thorough due diligence and negotiation. They also enhance acquirers' post-merger credit ratings by guiding them toward suitable targets.

Top-tier advisors, on the other hand, increase the likelihood of deal completion and lead to higher premiums. Despite this, they result in significantly better post-merger outcomes, including higher credit ratings, improved use of bank debt, and reduced investment inefficiency. Their expertise and reputation help identify optimal targets, and the higher premiums are offset by stronger financial and investment performance in the long run.

Additionally, the sensitivity analyses show that acquirers with varying financial constraints have different preferences for selecting advisors based on target cash flows. This leads to differing outcomes from their advisor choices. Key implications include: (1) the acquirer's financial situation enhances the favorable outcomes secured by their advisors, especially when acquiring targets with more financial advantage; and (2) reputable advisors play a crucial role in helping clients, particularly those with weaker financial positions, achieve better M&A outcomes.

---End----

Appendix A: Top 10 acquirer financial advisors within the period 1990-2020

This table reports the top ten largest financial advisors of acquirer ranked by the total deal value advised by each advisor within the whole period 1990-2020. Data is retrieved from Thomson Reuters SDC database.

Ranking	Advisor name	Deal value (\$M)
1	JP Morgan	5,441,934.1
2	Bank of America Securities Inc	5,338,184.6
3	Goldman Sachs and Co	4,581,355.1
4	Morgan Stanley	4,442,635.9
5	Citi	4,130,444.9
6	Credit Suisse	3,400,435.1
7	Barclays	3,266,849.9
8	Deutsche Bank	2,009,835.4
9	Lazard	1,532,139.6
10	UBS	1,485,347.0

Variable	Definition
Acquirer's advisor choice	
Advisor	Dummy variables, equals 1 if acquirer hires at least one advisor in the current M&A deal, equals zero otherwise
Informed advisor	Dummy variables, equals 1 if at least one acquirer's advisor has relationship (i.e., lending, advising, underwriting) with target within 5 years before the current M&A deal, equals zero otherwise
Top-tier advisor	Dummy variables, equals 1 if at least one acquirer's advisor is in top-10 financial advisors of acquirer ranked by deal value advised by each advisor for the whole period 1990-2020, equals zero otherwise
Target's operating cash fl	ow
OCF ratio	Earnings before interest, taxes, depreciation, and amortization (EBITDA) over total assets, estimated for the target at the fiscal year end prior the current M&A deal
Relative OCF ratio	Target's OCF ratio minus acquirer's OCF ratio
Short-run outcomes	
Completed	Dummy variables, equals 1 if the deal is completed, equals zero otherwise
Duration	The natural logarithm of total number of days between the M&A effective date and M&A announcement date
Premium	The percentage premium of offer price to target trading price 4 weeks before the M&A announcement date
Access to bank financing	(average 3 years post-merger)
Long-term ratings	The S&P long-term credit ratings recorded in the Compustat database
Short-term ratings	The S&P short-term credit ratings recorded in the Compustat database
Unused debt ratio	The amount of debt a firm can borrow over the total asset, adjusted by the industry median
Investment inefficiency (a	werage 3 years post-merger)
Total INEFF	The absolute value of all deviations from the expected investment level
Under-investing	The absolute value of negative deviations from the expected investment level
Over-investing	The absolute value of positive deviations from the expected investment level
Firm characteristics	
Acquirer MB ratio	Market value of total assets divided by book value of total assets of the acquirer at the fiscal year end prior the M&A deal
Target MB ratio	Market value of total assets divided by book value of total assets of the target at the fiscal year end prior the M&A deal
Deal characteristics	
Target bargaining power	Total asset of target divided by total assets of acquirer at the fiscal year end prior the M&A deal
Relative size	The transaction value of the M&A deal divided by the market capitalization of the acquirer at the fiscal year end prior the M&A deal
Tender	Dummy variable, equals to 1 if the deal is a tender offer, equals to 0 otherwise
Hostile	Dummy variable, equals to 1 if the deal is hostile, equals to 0 otherwise
Competing	Dummy variable, equals to 1 if the deal is a competing deal, equals to 0 otherwise

Appendix B: Variable definition

Variable	Definition
Diversifying	Dummy variable, equals 1 if the acquirer and target have different two-digit SIC codes reported by SDC, equals to 0 otherwise
Cash financing	The percentage of the deal transaction value paid by cash
Serial acquirer	Dummy variable, equals to 1 if the acquirer involves in more than one M&A deals in the whole sample, equals to 0 otherwise
Target's Advisor	Dummy variables, equals 1 if target hires at least one advisor in the current M&A deal, equals zero otherwise
Target's Relationship advisor	Dummy variables, equals 1 if target hires at least one of its own relationship banks (i.e., lending, advising, underwriting) as advisor the current M&A deal, equals zero otherwise
Target's Top-tier advisor	Dummy variables, equals 1 if at least one target's advisor is in top-10 financial advisors of targets ranked by deal value advised by each advisor for the whole period 1990-2020, equals zero otherwise
Instrument variable	
Advisor candidates	Number of advisors who have relationships with acquirer and target within 5-year before the current M&A deal
Informed candidates	Number of advisors who have business relationships with target within 5-year before the current M&A deal
Top-tier candidates	Number of advisors who are top-ten acquirer's M&A advisors and have advised acquirer within 5-year before the current M&A deal

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Table 1: Summary of acquirer's advisor choiceThis table reports the acquirer's choice to hire advisors in 2,808 M&A deals of U.S. listed firms from 1990 to 2020. Sample restrictions are described in Section 3. Relevant data is retrieved from SDC, DealScan, and Compustat databases. Variables are defined in Appendix B.

	Ν	Mean	std.
Acquirer's advisor choice			
Advisor	2,808	0.607	0.488
Informed advisor	2,808	0.098	0.297
Top-tier advisor	2,808	0.261	0.439
Target's operating cash flows			
OCF ratio	2,808	-0.007	0.307
Relative OCF ratio	2,808	-0.118	0.289
Short-run outcomes			
Completed	2,808	0.818	0.386
Duration	2,297	4.197	1.381
Premium	2,300	0.475	0.495
Access to bank financing (average	3 years post-mer	ger)	
Long-term ratings	2,066	8.548	7.440
Short-term ratings	2,066	2.761	4.395
Unused debt ratio	2,073	0.027	0.065
Investment inefficiency (average 3	years post-merge	er)	
Total INEFF	2,048	0.042	0.058
Under-investing	1,564	0.044	0.060
Over-investing	484	0.035	0.050
Firm characteristics			
Acquirer MB ratio	2,747	2.062	2.226
Target MB ratio	2,743	1.722	2.094
Deal characteristics			
Target bargaining power	2,808	0.436	0.752
Relative size	2,609	0.387	0.565
Tender	2,808	0.814	0.389
Hostile	2,808	0.074	0.261
Competing	2,808	0.066	0.247
Diversifying	2,808	0.369	0.483
Cash financing	2,370	50.542	45.718
Serial acquirer	2,808	0.471	0.499
Target's Advisor	2,808	0.782	0.413
Target's Relationship advisor	2,808	0.275	0.447
Target's Top-tier advisor	2,808	0.250	0.433

Table 2: Statistical comparisons among different advisor choices

This table compares the mean of all variables among deals with different advisor choices. Panels A, B, and C reports the statistical mean difference between deals with and without Advisor, with and without Informed advisor, and with and without Top-tier advisor, respectively. The sample contains 2,808 M&A deals of U.S. listed firms from 1990 to 2020. Sample restrictions are described in Section 3. Relevant data is retrieved from SDC, DealScan and Compustat databases. Continuous variables are winsorized at 1% of both tails. Variables are defined in Appendix B.

	Panel A: Comparisons by acquirer's advisor		Panel B: C Informed	lel B: Comparisons by acquirer's prmed advisor			Panel C: Comparisons by acquirer's Top- tier advisor					
	Deals without Advisor N=1,10 3	Deals with Advisor N=1,705	Difference		Deals without Informed advisor N=1,431	Deals with Informed advisor N=274	Difference		Deals without Top-tier advisor N=971	Deals with Top-tier advisor N=734	Difference	
	Mean [1]	Mean [2]	[1] - [2]	t-value	Mean [3]	Mean [4]	[3] - [4]	t-value	Mean [5]	Mean [6]	[5] - [6]	t-value
Target's cash flow	[*]	1.10uii [2]	[*] [=]	t fuide	1110001 [0]			t fulue	[0]	inean [0]		t fuide
OCF ratio	-0.09	0.04	-0.13***	(-11.31)	0.03	0.12	-0.09***	(-5.60)	0.04	0.06	-0.02*	(-1.83)
Relative OCF ratio	-0.19	-0.07	-0.11***	(-10.17)	-0.08	-0.02	-0.07***	(-4.59)	-0.07	-0.08	0.01	(1.25)
Short-run outcomes				<u>`</u>				× /				
Completed	0.73	0.88	-0.15***	(-10.01)	0.89	0.82	0.06***	(2.99)	0.87	0.88	-0.01	(-0.34)
Duration	3.53	4.55	-1.02***	(-18.02)	4.52	4.76	-0.24***	(-4.42)	4.53	4.59	-0.06	(-1.56)
Premium	0.50	0.46	0.04*	(1.86)	0.48	0.37	0.11***	(3.53)	0.47	0.46	0.01	(0.53)
Access to bank financing (ave	rage 3 years	post-merger)									
Long-term ratings	8.31	8.69	-0.38	(-1.12)	8.29	11.13	-2.84***	(-5.10)	7.24	10.81	-3.57***	(-9.29)
Short-term ratings	3.07	2.59	0.48**	(2.39)	2.46	3.35	-0.89***	(-2.64)	1.91	3.57	-1.66***	(-7.08)
Unused debt ratio	0.03	0.02	0.01***	(2.86)	0.03	0.02	0.01	(1.57)	0.03	0.02	0.01***	(4.27)
Investment inefficiency (avera	ge 3 years p	ost-merger)										
Total INEFF	0.04	0.04	0.00	(1.56)	0.04	0.05	-0.01*	(-1.76)	0.05	0.03	0.01***	(4.54)
Under-investing	0.05	0.04	0.00	(0.67)	0.04	0.05	-0.01*	(-1.90)	0.05	0.04	0.01***	(3.38)
Over-investing	0.04	0.03	0.01**	(2.47)	0.03	0.03	0.00	(0.24)	0.04	0.02	0.02***	(3.39)
Firm characteristics												
Acquirer MB ratio	2.11	2.03	0.08	(0.87)	2.15	1.44	0.70***	(4.87)	2.01	2.06	-0.06	(-0.53)
Target MB ratio	1.67	1.75	-0.08	(-0.98)	1.87	1.18	0.69***	(5.26)	1.61	1.95	-0.34***	(-3.45)
Deal characteristics												
Target bargaining power	0.38	0.47	-0.08***	(-2.90)	0.45	0.57	-0.11**	(-2.50)	0.53	0.39	0.13***	(3.88)
Relative size	0.22	0.48	-0.26***	(-11.73)	0.46	0.62	-0.17***	(-4.32)	0.52	0.44	0.08***	(2.78)
Tender	0.89	0.76	0.13***	(8.83)	0.75	0.83	-0.08***	(-2.78)	0.77	0.76	0.00	(0.24)
Hostile	0.07	0.08	-0.01	(-0.64)	0.07	0.12	-0.06***	(-3.27)	0.07	0.09	-0.02*	(-1.67)
Competing	0.04	0.08	-0.03***	(-3.64)	0.07	0.10	-0.03	(-1.54)	0.07	0.10	-0.03**	(-2.15)
Diversifying	0.43	0.33	0.11***	(5.72)	0.34	0.28	0.05	(1.64)	0.34	0.31	0.03	(1.38)
Cash financing	58.03	47.02	11.00***	(5.50)	46.89	47.74	-0.86	(-0.28)	38.97	57.39	-18.42***	(-8.39)
Serial acquirer	0.49	0.46	0.02	(1.29)	0.45	0.54	-0.10***	(-3.01)	0.38	0.57	-0.19***	(-7.85)
Target's Advisor	0.51	0.96	-0.45***	(-33.50)	0.96	0.97	-0.01	(-0.70)	0.94	0.99	-0.05***	(-4.92)
Target's Relationship advisor	0.13	0.37	-0.25***	(-14.88)	0.33	0.60	-0.27***	(-8.77)	0.34	0.41	-0.07***	(-2.90)
Target's Top-tier advisor	0.09	0.35	-0.26***	(-15.97)	0.31	0.57	-0.26***	(-8.47)	0.27	0.46	-0.19***	(-8.36)

Table 3: Target's cash flows and acquirer's advisor choice (Probit)

This table reports the results of the Probit regression to examine the acquirer's advisor choice considering the target's cash flows. Panels A, B, and C report the acquirer's choice of *Advisor*, *Informed advisor*, and *Top-tier advisor*, respectively. *OCF ratio* and *Relative OCF ratio* as two measures of target's cash flows are included in models (1) and (2), respectively. The sample contains 2,808 M&A deals of U.S. listed firms from 1990 to 2020. Sample restrictions are described in Section 3. Relevant data is retrieved from SDC, DealScan, and Compustat databases. Continuous variables are winsorized at 1% of both tails. Industry fixed-effect and year fixed-effect are included in all regressions. The symbols ***, **, and * denote the 1%-, 5%-, and 10% significant levels, respectively. Variables are defined in Appendix B.

	Panel A: A	dvisor	Panel B: 1 advisor	Informed	med Panel C: Top- advisor	
	(1)	(2)	(1)	(2)	(1)	(2)
OCF ratio	0.892***		0.917***		0.591***	
	(7.20)		(2.72)		(3.47)	
Relative OCF ratio		0.852***		0.697**		0.089
		(6.28)		(2.38)		(0.52)
Acquirer MB ratio	0.027	0.038*	0.008	0.017	0.034	0.033
	(1.44)	(1.95)	(0.26)	(0.55)	(1.55)	(1.48)
Target MB ratio	0.015	0.012	-0.068*	-0.072*	0.068***	0.067***
	(0.78)	(0.65)	(-1.66)	(-1.75)	(2.82)	(2.82)
Target bargaining power	-0.136*	-0.199***	-0.018	-0.036	-0.145*	-0.152*
	(-1.78)	(-2.64)	(-0.20)	(-0.42)	(-1.83)	(-1.91)
Relative size	0.711***	0.740***	0.178*	0.189**	0.017	0.043
	(6.11)	(6.35)	(1.90)	(2.05)	(0.20)	(0.50)
Tender	-0.619***	-0.614***	0.102	0.105	0.165*	0.189*
	(-6.73)	(-6.72)	(0.84)	(0.86)	(1.66)	(1.91)
Hostile	-0.176	-0.172	0.171	0.169	-0.007	-0.003
	(-1.34)	(-1.32)	(1.08)	(1.06)	(-0.04)	(-0.02)
Competing	-0.073	-0.066	-0.114	-0.108	0.360**	0.367**
	(-0.55)	(-0.51)	(-0.72)	(-0.69)	(2.51)	(2.57)
Diversifying	-0.046	-0.050	-0.052	-0.049	-0.108	-0.110
	(-0.67)	(-0.71)	(-0.54)	(-0.51)	(-1.37)	(-1.39)
Cash financing	-0.007***	-0.006***	-0.001	-0.001	0.002*	0.002**
	(-7.09)	(-6.46)	(-0.96)	(-0.53)	(1.73)	(2.11)
Serial acquirer	-0.014	0.023	0.175*	0.186**	0.345***	0.367***
	(-0.21)	(0.34)	(1.93)	(2.07)	(4.61)	(4.93)
Target's Advisor	1.702***	1.724***				
	(14.04)	(14.24)				
Target's Relationship advisor			0.441***	0.467***		
			(5.16)	(5.45)		
Target's Top-tier advisor					0.159**	0.185**
					(2.02)	(2.37)
Constant	-0.871**	-0.757**	-0.855**	-0.787**	-1.401***	-1.319***
	(-2.52)	(-2.18)	(-2.23)	(-2.04)	(-3.15)	(-2.93)
<u>Control for:</u>						
Industry fixed-effects	Y	Y	Y	Y	Y	Y
Year fixed-effects	Y	Y	Y	Y	Y	Y
No. of observations	2274	2274	1542	1542	1559	1559
Pseudo R2	0.2741	0.2706	0.1898	0.1871	0.1891	0.1837

Table 4: Impacts of acquirer's advisors on deal outcomes (2SLS)

This table reports the 2nd-stage results of the 2SLS regression to examine the impacts of acquirer's *Advisor* (Panel A), *Informed advisor* (Panel B), and *Top-tier advisor* (Panel C) on the short-run outcomes (i.e., *Completed, Duration*, and *Premium*). *OCF ratio* and *Relative OCF ratio* as two measures of target's cash flows are included in models (1) and (2), respectively. The sample contains 2,808 M&A deals of U.S. listed firms from 1990 to 2020. Sample restrictions are described in Section 3. Relevant data is retrieved from SDC, DealScan, and Compustat databases. Continuous variables are winsorized at 1% of both tails. Industry and year fixed-effects, firm and deal characteristics are included in all regressions. The symbols ***, **, and * denote the 1%-, 5%-, and 10% significant levels, respectively. Variables are defined in Appendix B.

	Completed		Duration		Premium	
	(1)	(2)	(1)	(2)	(1)	(2)
	2nd-stage	2nd-stage	2nd-stage	2nd-stage	2nd-stage	2nd-stage
Panel A: Acquirer's a	dvisor and d	eal outcomes				
Advisor	-0.855***	-0.870***	0.025	0.139	-0.088	-0.128
	(-3.40)	(-3.19)	(0.09)	(0.52)	(-0.49)	(-0.76)
OCF ratio	-0.146		0.333**		-0.219***	
	(-0.93)		(2.41)		(-2.66)	
Relative OCF ratio		-0.125		0.272**		-0.204**
		(-0.78)		(2.04)		(-2.46)
<u>Control for:</u>						
Firm characteristics	Y	Y	Y	Y	Y	Y
Deal characteristics	Y	Y	Y	Y	Y	Y
Industry fixed-effects	Y	Y	Y	Y	Y	Y
Year fixed-effects	Y	Y	Y	Y	Y	Y
No. of observations	2274	2274	1933	1933	2058	2058
Adjusted R2	0.0902	0.0900	0.2976	0.2955	0.0920	0.0877
Panel B: Acquirer's I	nformed advi	isor and deal outo	comes			
Informed advisor	-0.747***	-0.737***	0.466***	0.469***	-0.211**	-0.215***
	(-2.66)	(-2.72)	(3.62)	(3.60)	(-2.54)	(-2.60)
OCF ratio	-0.161		0.152		-0.203**	
	(-0.70)		(1.29)		(-2.39)	
Relative OCF ratio		-0.219		0.095		-0.241***
		(-0.91)		(0.83)		(-2.78)
<u>Control for:</u>						
Firm characteristics	Y	Y	Y	Y	Y	Y
Deal characteristics	Y	Y	Y	Y	Y	Y
Industry fixed-effects	Y	Y	Y	Y	Y	Y
Year fixed-effects	Y	Y	Y	Y	Y	Y
No. of observations	1559	1559	1350	1350	1456	1456
Adjusted R2	0.0000	0.0000	0.2988	0.2970	0.1087	0.1106
Panel C: Acquirer's T	Cop-tier advis	or and deal outco	omes			
Top-tier advisor	0.577*	0.548	0.121	0.087	0.333**	0.344***
	(1.75)	(1.63)	(0.80)	(0.60)	(2.51)	(2.62)
OCF ratio	-0.253		0.154		-0.285***	
	(-1.07)		(1.33)		(-3.32)	
Relative OCF ratio		-0.249		0.130		-0.261***
		(-1.02)		(1.10)		(-2.94)
<u>Control for:</u>						
Firm characteristics	Y	Y	Y	Y	Y	Y
Deal characteristics	Y	Y	Y	Y	Y	Y
Industry fixed-effects	Y	Y	Y	Y	Y	Y
Year fixed-effects	Y	Y	Y	Y	Y	Y
No. of observations	1559	1559	1376	1376	1471	1471
Adjusted R2	0.0380	0.0382	0.3130	0.3127	0.0595	0.0561

Table 5: Impacts of acquirer's advisors on post-merger access to bank finance (2SLS)

This table reports the 2nd-stage results of the 2SLS regression to examine the impacts of acquirer's *Advisor* (Panel A), *Informed advisor* (Panel B), and *Top-tier advisor* (Panel C) on the post-merger access to bank finance (i.e., *Long-term ratings, Short-term ratings, and Unused debt*). *OCF ratio* and *Relative OCF ratio* as two measures of target's cash flows are included in models (1) and (2), respectively. The sample contains 2,808 M&A deals of U.S. listed firms from 1990 to 2020. Sample restrictions are described in Section 3. Relevant data is retrieved from SDC, DealScan, and Compustat databases. Continuous variables are winsorized at 1% of both tails. Industry and year fixed-effects, firm and deal characteristics are included in all regressions. The symbols ***, **, and * denote the 1%-, 5%-, and 10% significant levels, respectively. Variables are defined in Appendix B.

	Long-term	ratings	Short-term	ratings	Unused de	bt ratio
	(1)	(2)	(1)	(2)	(1)	(2)
	2nd-stage	2nd-stage	2nd-stage	2nd-stage	2nd-stage	2nd-stage
Panel A: Acquirer's ad	visor and pos	t-merger access	to bank finan	ce		
Advisor	4.442***	6.282***	3.495***	4.207***	-0.019	-0.020
	(2.72)	(3.90)	(3.49)	(4.18)	(-1.10)	(-1.17)
OCF ratio	2.234***		0.631		0.003	
	(3.29)		(1.54)		(0.41)	
Relative OCF ratio		-1.073		-0.785*		0.003
		(-1.53)		(-1.84)		(0.38)
<u>Control for:</u>						
Firm characteristics	Y	Y	Y	Y	Y	Y
Deal characteristics	Y	Y	Y	Y	Y	Y
Industry fixed-effects	Y	Y	Y	Y	Y	Y
Year fixed-effects	Y	Y	Y	Y	Y	Y
No. of observations	1728	1728	1728	1728	1750	1750
Adjusted R2	0.3151	0.2805	0.2028	0.1824	0.1009	0.1001
Panel B: Acquirer's Inf	formed advise	or and post-mer	ger access to b	ank finance		
Informed advisor	9.012***	9.395***	6.327***	6.478***	0.005	0.005
	(5.68)	(5.71)	(5.40)	(5.44)	(0.36)	(0.37)
OCF ratio	4.068***		1.089**		-0.008	
	(4.92)		(2.08)		(-0.67)	
Relative OCF ratio		-0.262		-0.787		-0.010
		(-0.28)		(-1.38)		(-0.87)
<u>Control for:</u>						
Firm characteristics	Y	Y	Y	Y	Y	Y
Deal characteristics	Y	Y	Y	Y	Y	Y
Industry fixed-effects	Y	Y	Y	Y	Y	Y
Year fixed-effects	Y	Y	Y	Y	Y	Y
No. of observations	1178	1178	1178	1178	1219	1219
Adjusted R2	0.2904	0.2698	0.1834	0.1783	0.1311	0.1315
Panel C: Acquirer's To	p-tier adviso	r and post-merg	er access to ba	ank finance		
Top-tier advisor	10.318***	10.866***	5.113***	5.497***	-0.023	-0.030**
	(5.04)	(5.26)	(3.74)	(4.02)	(-1.54)	(-2.08)
OCF ratio	2.468**		0.292		-0.003	
	(2.48)		(0.52)		(-0.20)	
Relative OCF ratio		0.005		-0.594		-0.009
		(0.01)		(-1.12)		(-0.74)
<u>Control for:</u>						
Firm characteristics	Y	Y	Y	Y	Y	Y
Deal characteristics	Y	Y	Y	Y	Y	Y
Industry fixed-effects	Y	Y	Y	Y	Y	Y
Year fixed-effects	Y	Y	Y	Y	Y	Y
No. of observations	1204	1204	1204	1204	1245	1245
Adjusted R2	0.2950	0.2792	0.2353	0.2256	0.1299	0.1226

Table 6: Impacts of acquirer's advisors on post-merger investment inefficiency (2SLS)

This table reports the 2nd-stage results of the 2SLS regression to examine the impacts of acquirer's *Advisor* (Panel A), *Informed advisor* (Panel B), and *Top-tier advisor* (Panel C) on the post-merger investment inefficiency (i.e., *Total INEFF, Under-investing*, and *Over-investing*). *OCF ratio* and *Relative OCF ratio* as two measures of target's cash flows are included in models (1) and (2), respectively. The sample contains 2,808 M&A deals of U.S. listed firms from 1990 to 2020. Sample restrictions are described in Section 3. Relevant data is retrieved from SDC, DealScan, and Compustat databases. Continuous variables are winsorized at 1% of both tails. Industry and year fixed-effects, firm and deal characteristics are included in all regressions. The symbols ***, **, and * denote the 1%-, 5%-, and 10% significant levels, respectively. Variables are defined in Appendix B.

	Total INE	F	Under-inv	esting	Over-inves	ting
	(1)	(2)	(1)	(2)	(1)	(2)
	2nd-stage	2nd-stage	2nd-stage	2nd-stage	2nd-stage	2nd-stage
Panel A: Acquirer's adv	visor and post	-merger investme	ent inefficien	cy		
Advisor	-0.036***	-0.030***	-0.023**	-0.015	-0.025**	-0.026**
	(-3.62)	(-3.16)	(-2.17)	(-1.50)	(-2.08)	(-2.22)
OCF ratio	0.010		0.008		0.003	
	(1.61)		(1.02)		(0.36)	
Relative OCF ratio		0.010		0.007		0.001
		(1.58)		(0.96)		(0.07)
<u>Control for:</u>						
Firm characteristics	Y	Y	Y	Y	Y	Y
Deal characteristics	Y	Y	Y	Y	Y	Y
Industry fixed-effects	Y	Y	Y	Y	Y	Y
Year fixed-effects	Y	Y	Y	Y	Y	Y
No. of observations	1729	1729	1325	1325	383	383
Adjusted R2	0.0285	0.0328	0.0323	0.0389	0.1097	0.1083
Panel B: Acquirer's Info	ormed advisor	r and post-merge	er investment	inefficiency		
Informed advisor	-0.001	-0.001	0.020	0.021	-0.011	-0.010
	(-0.13)	(-0.09)	(1.56)	(1.62)	(-1.20)	(-1.15)
OCF ratio	0.008		0.011		-0.007	
	(1.33)		(1.41)		(-0.55)	
Relative OCF ratio		0.009		0.012		-0.007
		(1.37)		(1.45)		(-0.60)
<u>Control for:</u>						
Firm characteristics	Y	Y	Y	Y	Y	Y
Deal characteristics	Y	Y	Y	Y	Y	Y
Industry fixed-effects	Y	Y	Y	Y	Y	Y
Year fixed-effects	Y	Y	Y	Y	Y	Y
No. of observations	1206	1206	905	905	206	206
Adjusted R2	0.0577	0.0578	0.0510	0.0504	0.1680	0.1682
Panel C: Acquirer's Top	p-tier advisor	and post-merger	· investment i	nefficiency		
Top-tier advisor	-0.042***	-0.040***	-0.047***	-0.046***	-0.018**	-0.018**
	(-4.98)	(-4.79)	(-4.54)	(-4.37)	(-1.99)	(-2.03)
OCF ratio	0.014**		0.019**		0.002	
	(1.98)		(2.24)		(0.17)	
Relative OCF ratio		0.011		0.014*		-0.000
~		(1.64)		(1.73)		(-0.02)
<u>Control for:</u>		**	**		* 7	
Firm characteristics	Y	Y	Y	Y	Y	Y
Deal characteristics	Y	Y	Y	Y	Y	Y
Industry fixed-effects	Y	Y	Y	Y	Y	Y
Year fixed-effects	Y	Y	Y	Y	Y	Y
No. of observations	1231	1231	945	945	278	278
Adjusted R2	0.0396	0.0401	0.0312	0.0311	0.1725	0.1723

Table 7: Robustness tests: Impacts of acquirer's Informed advisor and Top-tier advisor (Heckman)

This table reports the 2nd-stage results of the Heckman two-step selection model to examine the impacts of acquirer's *Informed advisor* and *Top-tier advisor* on the short-run outcomes (Panel A), the post-merger access to bank finance (Panel B), and the post-merger investment inefficiency (Panel C). *OCF ratio* and *Relative OCF ratio* as two measures of target's cash flows are included in models (1) and (2), respectively. The sample contains 2,808 M&A deals of U.S. listed firms from 1990 to 2020. Sample restrictions are described in Section 3. Relevant data is retrieved from SDC, DealScan, and Compustat databases. Continuous variables are winsorized at 1% of both tails. Industry and year fixed-effects, firm and deal characteristics are included in all regressions. The symbols ***, **, and * denote the 1%-, 5%-, and 10% significant levels, respectively. Variables are defined in Appendix B.

	(1)	(2)	(1)	(2)	(1)	(2)				
	2nd-stage	2nd-stage	2nd-stage	2nd-stage	2nd-stage	2nd-stage				
Panel A: Impacts of Informed advisors and Top-tier advisors on deal outcomes										
	Completed		Duration		Premium					
Panel A1: Informed ad	lvisor									
Informed advisor	-0.108*	-0.110*	0.473***	0.476***	-0.177*	-0.179**				
	(-1.81)	(-1.85)	(3.75)	(3.78)	(-1.95)	(-1.98)				
Lambda	0.036	0.037	-0.201***	-0.201***	0.080	0.080				
	(1.04)	(1.08)	(-2.78)	(-2.80)	(1.53)	(1.54)				
Panel A2: Top-tier ad	visor									
Top-tier advisor	0.077	0.071	0.071	0.056	0.284**	0.283**				
	(0.93)	(0.86)	(0.43)	(0.34)	(2.15)	(2.14)				
Lambda	-0.043	-0.040	0.005	0.018	-0.179**	-0.183**				
	(-0.86)	(-0.80)	(0.05)	(0.18)	(-2.24)	(-2.30)				
Panel B: Impacts of Informed advisors and Top-tier advisors on post-merger access to bank finance										
	Long-term	ratings	Shor-term	ratings	Unused del	ot ratio				
Panel B1: Informed ad	lvisor									
Informed advisor	8.292***	8.635***	5.938***	6.053***	0.001	0.001				
	(5.54)	(5.68)	(6.00)	(6.10)	(0.09)	(0.10)				
Lambda	-4.199***	-4.353***	-3.109***	-3.156***	-0.006	-0.006				
	(-5.04)	(-5.14)	(-5.68)	(-5.74)	(-0.73)	(-0.74)				
Panel B2: Top-tier adv	visor									
Top-tier advisor	10.665***	11.243***	5.588***	5.913***	-0.025	-0.031*				
-	(5.34)	(5.55)	(4.48)	(4.72)	(-1.34)	(-1.69)				
Lambda	-5.015***	-5.268***	-2.615***	-2.789***	0.010	0.014				
	(-4.20)	(-4.35)	(-3.51)	(-3.72)	(0.91)	(1.26)				
Panel C: Impacts of In	nformed advi	sors and Top-tier a	dvisors on po	st-merger investme	nt inefficienc	y				
	Total INEF	F	Under-inve	sting	Over-inves	ting				
Panel B1: Informed ad	lvisor									
Informed advisor	0.003	0.003	0.024	0.025	-0.011	-0.010				
	(0.29)	(0.33)	(1.12)	(1.22)	(-1.05)	(-0.98)				
Lambda	0.002	0.001	-0.013*	-0.013*	0.007	0.006				
	(0.28)	(0.24)	(-1.80)	(-1.90)	(0.79)	(0.69)				
Panel B2: Top-tier adv	visor									
Top-tier advisor	-0.042***	-0.040***	-0.047***	-0.045***	-0.016*	-0.016*				
-	(-4.92)	(-4.68)	(-4.47)	(-4.26)	(-1.79)	(-1.78)				
Lambda	0.023***	0.022***	0.028***	0.026***	0.001	0.001				
	(4.28)	(4.04)	(4.19)	(3.98)	(0.10)	(0.12)				

Table 8: Sensitivity analysis: Target's cash flows and acquirer's advisor choice (Probit)

This table reports the results of the Probit regression to examine the relationship between the target's cash flows and the acquirer's advisor choice (i.e., *Advisor, Informed advisor*, and *Top-tier advisor*) within two sub-samples of acquirers with more financial difficulties (Panel A), and acquirers with fewer financial difficulties (Panel B). *OCF ratio* and *Relative OCF ratio* as two measures of target's cash flows are included in models (1) and (2), respectively. The sample contains 2,808 M&A deals of U.S. listed firms from 1990 to 2020. Sample restrictions are described in Section 3. Relevant data is retrieved from SDC, DealScan, and Compustat databases. Continuous variables are winsorized at 1% of both tails. Industry and year fixed-effects, firm and deal characteristics are included in all regressions. The symbols ***, **, and * denote the 1%-, 5%-, and 10% significant levels, respectively. Variables are defined in Appendix B.

	Panel A: Advisor		Panel B: advisor	Panel B: Informed advisor		Top-tier
	(1)	(2)	(1)	(2)	(1)	(2)
Panel A: Sub-sample of	of acquirers	with more fina	ncial difficul	ties		
OCF ratio	1.266***		0.937**		0.825***	
	(6.61)		(1.98)		(3.31)	
Relative OCF ratio		1.002***		0.696		0.280
		(5.14)		(1.64)		(1.09)
<u>Control for:</u>						
Firm characteristics	Y	Y	Y	Y	Y	Y
Deal characteristics	Y	Y	Y	Y	Y	Y
Industry fixed-effects	Y	Y	Y	Y	Y	Y
Year fixed-effects	Y	Y	Y	Y	Y	Y
No. of observations	1222	1222	841	841	856	856
Pseudo R2	0.3288	0.3150	0.2051	0.2028	0.2454	0.2382
Panel B: Sub-sample of	of acquirers	with fewer fina	ancial difficul	ties		
OCF ratio	0.572***		0.795*		0.574**	
	(3.28)		(1.70)		(2.39)	
Relative OCF ratio		0.712***		0.787		0.011
		(3.72)		(1.26)		(0.05)
<u>Control for:</u>						
Firm characteristics	Y	Y	Y	Y	Y	Y
Deal characteristics	Y	Y	Y	Y	Y	Y
Industry fixed-effects	Y	Y	Y	Y	Y	Y
Year fixed-effects	Y	Y	Y	Y	Y	Y
No. of observations	1052	1052	642	642	693	693
Pseudo R2	0.2757	0.2786	0.3003	0.3000	0.1933	0.1878

Table 9: Sensitivity analysis: Impacts of acquirer's advisors on deal outcomes (2SLS)

This table reports the 2nd-stage results of the 2SLS regressions to examine the impacts of impacts of acquirer's *Advisor* (Panel A), *Informed advisor* (Panel B), and *Top-tier advisor* (Panel C) on the short-run outcomes (i.e., *Completed, Duration,* and *Premium*) within two sub-samples of acquirers with more and fewer financial difficulties. *OCF ratio* and *Relative OCF ratio* as two measures of target's cash flows are included in models (1) and (2), respectively. The sample contains 2,808 M&A deals of U.S. listed firms from 1990 to 2020. Sample restrictions are described in Section 3. Relevant data is retrieved from SDC, DealScan, and Compustat databases. Continuous variables are winsorized at 1% of both tails. Industry and year fixed-effects, firm and deal characteristics are included in all regressions. The symbols ***, **, and * denote the 1%-, 5%-, and 10% significant levels, respectively. Variables are defined in Appendix B.

	Completed		Duration Premium		•	
	(1)	(2)	(1)	(2)	(1)	(2)
	2nd-stage	2nd-stage	2nd-stage	2nd-stage	2nd-stage	2nd-stage
Panel A: Impacts of adviso	or					
Panel A1: Sub-sample of ac	quirers with	more financial d	lifficulties			
Advisor	-0.686	-0.763	0.526	0.591	-0.058	-0.152
	(-1.29)	(-1.32)	(1.31)	(1.53)	(-0.20)	(-0.58)
No. of observations	1222	1222	1024	1024	1076	1076
Adjusted R2	0.1377	0.1386	0.2975	0.2899	0.1146	0.0963
Panel A2: Sub-sample of ac	cquirers with	fewer financial d	lifficulties			
Advisor	-0.228	-0.173	0.174	0.179	0.067	0.079
	(-0.21)	(-0.14)	(0.57)	(0.57)	(0.40)	(0.45)
No. of observations	1052	1052	909	909	963	963
Adjusted R2	0.0787	0.0790	0.3174	0.3165	0.1125	0.1150
Panel B: Impacts of Inform	ned advisor					
Panel B1: Sub-sample of ac	quirers with	more financial d	lifficulties			
Informed advisor	-0.546	-0.491	0.306**	0.317**	-0.122	-0.123
	(-1.29)	(-1.17)	(2.06)	(2.07)	(-1.20)	(-1.22)
No. of observations	866	866	734	734	794	794
Adjusted R2	0.0015	0.0015	0.3012	0.2986	0.1492	0.1507
Panel B2: Sub-sample of ac	cquirers with	fewer financial d	lifficulties			
Informed advisor	-0.887**	-0.887**	0.613***	0.611***	-0.189	-0.190
	(-2.05)	(-2.09)	(3.06)	(3.06)	(-1.46)	(-1.46)
No. of observations	693	693	551	551	607	607
Adjusted R2	0.0000	0.0000	0.3843	0.3819	0.1596	0.1611
Panel C: Impacts of Top-ti	er advisor					
Panel C1: Sub-sample of ac	equirers with	more financial d	lifficulties			
Top-tier advisor	1.322***	1.356***	0.095	0.042	0.109	0.128
	(4.20)	(4.12)	(0.43)	(0.20)	(0.68)	(0.78)
No. of observations	866	866	734	734	794	794
Adjusted R2	0.0693	0.0672	0.3116	0.3061	0.1270	0.1212
Panel C2: Sub-sample of ac	cquirers with	fewer financial d	lifficulties			
Top-tier advisor	-0.701	-0.847	-0.017	-0.006	0.382*	0.384*
	(-1.36)	(-1.63)	(-0.07)	(-0.03)	(1.83)	(1.83)
No. of observations	693	693	616	616	654	654
Adjusted R2	0.0185	0.0181	0.3814	0.3803	0.0988	0.0987

Table 10: Sensitivity analysis: Impacts of acquirer's advisors on post-merger access to bank finance (2SLS)

This table reports the 2nd-stage results of the 2SLS regressions to examine the impacts of impacts of acquirer's *Advisor* (Panel A), *Informed advisor* (Panel B), and *Top-tier advisor* (Panel C) on the post-merger access to bank finance (i.e., *Long-term ratings, Short-term ratings,* and *Unused debt*) within two sub-samples of acquirers with more and fewer financial difficulties. *OCF ratio* and *Relative OCF ratio* as two measures of target's cash flows are included in models (1) and (2), respectively. The sample contains 2,808 M&A deals of U.S. listed firms from 1990 to 2020. Sample restrictions are described in Section 3. Relevant data is retrieved from SDC, DealScan, and Compustat databases. Continuous variables are winsorized at 1% of both tails. Industry and year fixed-effects, firm and deal characteristics are included in all regressions. The symbols ***, **, and * denote the 1%-, 5%-, and 10% significant levels, respectively. Variables are defined in Appendix B.

	Long-term ratings		Short-term ratings		Unused debt ratio						
	(1)	(2)	(1)	(2)	(1)	(2)					
	2nd-stage	2nd-stage	2nd-stage	2nd-stage	2nd-stage	2nd-stage					
Panel A: Impacts of advisor											
Panel A1: Sub-sample of acquirers with more financial difficulties											
Advisor	3.278*	6.413***	2.348**	3.633***	0.018	0.001					
	(1.71)	(3.17)	(2.15)	(3.09)	(0.75)	(0.06)					
No. of observations	906	906	906	906	924	924					
Adjusted R2	0.3047	0.2613	0.2227	0.1911	0.1007	0.1161					
Panel A2: Sub-sample of acquirers with fewer financial difficulties											
Advisor	4.958**	5.530**	4.329***	4.673***	-0.007	0.002					
	(2.17)	(2.44)	(2.98)	(3.22)	(-0.32)	(0.08)					
No. of observations	822	822	822	822	826	826					
Adjusted R2	0.3897	0.3753	0.2625	0.2499	0.1716	0.1747					
Panel B: Impacts of Inf	ormed advis	or									
Panel B1: Sub-sample o	f acquirers w	ith more financia	l di <u>ff</u> iculties								
Informed advisor	8.488***	9.105***	5.290***	5.543***	0.003	0.004					
	(3.71)	(3.79)	(2.93)	(2.99)	(0.21)	(0.25)					
No. of observations	633	633	633	633	662	662					
Adjusted R2	0.2241	0.2042	0.1702	0.1670	0.1621	0.1629					
Panel B2: Sub-sample of acquirers with fewer financial difficulties											
Informed advisor	8.561***	8.633***	5.885***	5.865***	-0.001	0.001					
	(4.27)	(4.21)	(4.32)	(4.26)	(-0.04)	(0.03)					
No. of observations	480	480	480	480	497	497					
Adjusted R2	0.4365	0.4225	0.3449	0.3381	0.2022	0.2118					
Panel C: Impacts of Top-tier advisor											
Panel C1: Sub-sample of acquirers with more financial difficulties											
Top-tier advisor	9.221***	9.608***	3.494**	3.775**	-0.024	-0.024					
-	(3.42)	(3.39)	(2.07)	(2.16)	(-1.09)	(-1.05)					
No. of observations	634	634	634	634	663	663					
Adjusted R2	0.2450	0.2321	0.2589	0.2525	0.1560	0.1569					
Panel C2: Sub-sample of acquirers with fewer financial difficulties											
Top-tier advisor	11.120***	11.388***	6.107***	6.455***	-0.027	-0.036*					
-	(3.35)	(3.50)	(2.74)	(2.91)	(-1.25)	(-1.69)					
No. of observations	545	545	545	545	559	559					
Adjusted R2	0.3948	0.3855	0.3197	0.3075	0.1850	0.1801					

Table 11: Sensitivity analysis: Impacts of acquirer's advisor on post-merger investment efficiency (2SLS)

This table reports the 2nd-stage results of the 2SLS regressions to examine the impacts of impacts of acquirer's *Advisor* (Panel A), *Informed advisor* (Panel B), and *Top-tier advisor* (Panel C) on post-merger investment inefficiency (i.e., *Total INEFF, Under-investing,* and *Over-investing*) within two sub-samples of acquirers with more and fewer financial difficulties. *OCF ratio* and *Relative OCF ratio* as two measures of target's cash flows are included in models (1) and (2), respectively. The sample contains 2,808 M&A deals of U.S. listed firms from 1990 to 2020. Sample restrictions are described in Section 3. Relevant data is retrieved from SDC, DealScan, and Compustat databases. Continuous variables are winsorized at 1% of both tails. Industry and year fixed-effects, firm and deal characteristics are included in all regressions. The symbols ***, **, and * denote the 1%-, 5%-, and 10% significant levels, respectively. Variables are defined in Appendix B.

	Total INEFF		Under-investing		Over-investing						
	(1)	(2)	(1)	(2)	(1)	(2)					
	2nd-stage	2nd-stage	2nd-stage	2nd-stage	2nd-stage	2nd-stage					
Panel A: Impacts of advisor											
Panel A1: Sub-sample of acquirers with more financial difficulties											
Advisor	-0.017	-0.013	-0.000	0.009	-0.013	-0.014					
	(-1.45)	(-1.12)	(-0.03)	(0.75)	(-0.84)	(-0.86)					
No. of observations	946	946	709	709	167	167					
Adjusted R2	0.0598	0.0624	0.0586	0.0576	0.1156	0.1159					
Panel A2: Sub-sample of acquirers with fewer financial difficulties											
Advisor	-0.001	0.001	-0.018	-0.018	0.003	0.004					
	(-0.11)	(0.10)	(-1.18)	(-1.13)	(0.31)	(0.36)					
No. of observations	783	783	603	603	115	115					
Adjusted R2	0.0306	0.0297	0.0371	0.0398	0.1099	0.1067					
Panel B: Impacts of Info	rmed advisor	•									
Panel B1: Sub-sample of acquirers with more financial difficulties											
Informed advisor	0.002	0.003	0.029	0.030	0.013	0.015					
	(0.13)	(0.19)	(1.29)	(1.34)	(0.61)	(0.71)					
No. of observations	658	658	455	455	31	31					
Adjusted R2	0.0722	0.0729	0.0530	0.0532	0.3907	0.3673					
Panel B2: Sub-sample of acquirers with fewer financial difficulties											
Informed advisor	-0.000	-0.000	0.006	0.006	-0.000	-0.006					
	(-0.02)	(-0.04)	(0.46)	(0.48)	(-0.00)	(-0.14)					
No. of observations	490	490	357	357	14	14					
Adjusted R2	0.0364	0.0363	0.0692	0.0694	0.6521	0.5791					
Panel C: Impacts of Top-tier advisor											
Panel C1: Sub-sample of acquirers with more financial difficulties											
Top-tier advisor	-0.033***	-0.029***	-0.037***	-0.035***	-0.032***	-0.031***					
-	(-3.59)	(-3.26)	(-2.95)	(-2.73)	(-2.62)	(-2.64)					
No. of observations	659	659	499	499	134	134					
Adjusted R2	0.0640	0.0653	0.0472	0.0461	0.1369	0.1363					
Panel C2: Sub-sample of acquirers with fewer financial difficulties											
Top-tier advisor	-0.037***	-0.037***	-0.027***	-0.026**	-0.008	-0.006					
	(-3.10)	(-3.04)	(-2.65)	(-2.59)	(-0.81)	(-0.60)					
No. of observations	550	550	428	428	82	82					
Adjusted R2	0.0140	0.0142	0.0245	0.0256	0.1826	0.1897					