Are Firm-Advisor Relationships Valuable? A Long-Term Perspective

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October 2014

ABSTRACT

Using an extended history of debt, equity, and merger transactions, we examine long-term firm-advisor relations and find that hard-to-value firms are more likely to maintain dedicated relations (underwriters or merger advisors). Firms that retain predominantly one advisor over their entire transaction history, however, pay higher underwriting/advisory fees, have inferior deal terms, and have lower analyst coverage relative to those that employ many advisors. When we condition on the information environment as a catalyst for why firms stay with a single advisor, riskier firms obtain better terms when they utilize a variety of advisors, but informationally-opaque firms do not. Our results suggest that only some firms benefit from long-term advisor retention.

Keywords: Advisory relationship; underwriters; debt and equity issuance; mergers; fees
JEL Codes: G24; G32; G34

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We would like to thank Renee Adams, Jie Cai, Dong Chen, Jonathan Cohn, Naveen Daniel, Daniel Dorn, Alex Edmans, David Feldman, Ioannis Floros, Kathy Fogel, Michelle Lowry, Vassil Mihov, Greg Nini, Chander Shekhar, as well as seminar participants at Drexel University, University of Melbourne, University of New South Wales, the Eastern Finance Association meetings, the Finance Down Under Conference, the Financial Management Association meetings, the Magnolia Finance Conference, and the Southern Finance Association meetings for their helpful comments. We would also thank the CFO Alliance for their assistance in distributing our survey on advisor usage to their members.

Are long-term investment banking relationships important to firms? To date, the evidence on whether advisor (investment banking or M&A advisors) retention is beneficial for firms has been mixed.[1] It is possible that the mixed results arise because firm characteristics, advisor choice, and costs associated with undertaking a transaction are not exogenously determined. Using the closure of Lehman Brothers in September 2008 as a natural experiment on the loss of an investment banker, Fernando, May, and Megginson (2012b) find that firms that used Lehman in their equity underwriting deals had a loss of approximately 5% of their value in the days around the announcement of Lehman's failure. The authors conclude that when long-term advisor relations are severed, it is significantly value reducing for their clients.

Using each firm's entire history of debt, equity, and merger transactions in the SDC database between 1970 and 2011, we identify that approximately 60% of firms consistently use different advisors across time, while only 40% routinely maintain long-term relations. Given the findings of Fernando et al. (2012), where firms that lose an advisor do worse, our observations on the propensity to move between advisors appear to be at odds with that study. In this paper, we seek to identify why so many firms frequently move between advisors and to determine if there are costs or benefits that accrue to those that do.

On at least some dimensions, we find that firms that retain long-term advisors are different from firms that do not. As firm characteristics may be endogenously related to the advisor retention decision, it may be that firms optimally select their advisors across time. For simplicity, we label long-term retainers of advisors as "static" firms, while firms that consistently use a variety

[1] A number of papers have found that switching advisors reduces per-deal transaction costs, provides more beneficial deal terms, or increases analyst coverage (see, for instance, Rajan, 1992; Krigman, Shaw, and Womack, 2001). Others, however, have found that retained advisors lead to lower fees, shorter transaction times, and improved deal terms (e.g., James, 1992; Carter, 1992; Fernando et al., 2012b).

of advisors are termed as "dynamic" firms. Static firms, on average, are smaller, more profitable, have less leverage, and have higher idiosyncratic risk. They also have fewer deals on average and less analyst coverage than dynamic firms.

When looking at a variety of costs and benefits associated with individual deals, including gross spreads, M&A advisory fees, offer yields, underpricing, premiums, and analyst coverage, we observe that static firms on average pay more in fees, have worse deal terms, and less analyst coverage than dynamic firms.[2] These results could emerge because advisors correctly price deals across static and dynamic firms, and they believe static firms are likely to become riskier or engage in inferior deals. If static firms are indeed riskier, then more costly transactions would be justified. When we examine static firms more closely, however, we do not find that static firms are inherently riskier or become more risky following their deals. Thus, our objective is to try to identify why static firms are willing to accept worse deal terms and lower analyst coverage to retain a single advisor.

We explore whether fundamentals beyond financial characteristics affect the advisor retention choice. In particular, we focus on a firm's information environment and partition this into two distinct, but not mutually exclusive, categories: risk and informational opacity. Riskier firms may be constrained to using the same advisor as others may choose to avoid taking on high-risk clients. On the other hand, riskier firms may be forced to use a variety of advisors as no single advisor may be willing to form a long-term relationship with high risk clients. Thus, it is an empirical exercise to determine whether high-risk firms are more likely to be static or dynamic.

[2] Previous studies generally focus on one dimension of the firm-advisor relationship, such as fees (Burch, Nanda, and Warther, 2005; Sibilkov and McConnell, 2014) or analyst coverage (Krigman, et al., 2001; Sibilkov, Straska, and Waller, 2013). We explore across multiple dimensions since there could potentially be trade-offs that occur (i.e. willingness to pay higher fees in exchange for more analyst coverage).

We measure risk in three ways, two related to financial distress (the Altman's (1968) Z-score and the CHS measure) as well as idiosyncratic risk.

Informational opacity is likely to be related to how difficult a firm is to value or how valuable information is to the firm. In general, we posit that firms that are informationally-opaque are more likely to place a higher value on a single long-term advisor relationship. Advisors may also desire long-term commitments by opaque firms since the "start-up" costs associated with understanding hard-to-value firms are likely to be larger than with easier-to-value firms. We use three measures to capture informational opacity: an index of information asymmetry (discussed in Section II), a measure of product market competition (Asker and Ljungqvist, 2010), and firm complexity as measured by the number of operating segments (Cohen and Lu, 2012).[3]

We find that firm riskiness is not related to the choice of firms to be static or dynamic, but informational opacity is. All three measures of informational opacity are significantly related to the likelihood that a firm maintains static relations with advisors, even when controlling for firm financial characteristics and firm risk. Moreover, when we condition on firm risk, we observe that dynamic firms, regardless of their risk profile, obtain better deal terms and more analyst coverage than static firms. Although firms may be riskier, it appears that advisors may be able to price this increased level of risk into their deal terms. Instead, when we condition on opacity, there is no perceptible difference across static and dynamic firms across most dimensions of deal terms, suggesting that there are few benefits to firms that utilize many advisors when the potential costs of revealing valuable, proprietary information are large.

[3] While we expect most of our measures of informational opacity to be related to the decision to maintain a single advisor, firm complexity is the exception. Complex firms (many operating segments) may choose a single advisor who understands its overall corporate structure. Alternatively, these firms may use many advisors who become specialists about specific firm aspects. Whether complex firms use one or many advisors is an empirical question.

Overall, our findings suggest that for many firms, there are substantial costs associated with long-term advisor retention, contrasting the results presented in Fernando et al. (2012b). Only for firms with high informational opacity does the long-term retention decision appear to be valuable. While 40% of firms maintain static advisor relationships, we find that 33% of firms (25% of deals) are static firms with low informational opacity. These firms, in general, pay the highest fees, have the worst deal terms, and the lowest analyst coverage, relative to other firms. This results implies that these firms may be engaging in costly, suboptimal advisor retention. We further find some evidence that upon CEO replacement, approximately 64%-76% of these firms terminate their long-term advisor relationships and start to use a variety of advisors.

One difficulty with our approach is that firm characteristics, advisor choice, and outcomes can be jointly determined. If static firms have worse deal terms, this could be due to advisors having private information that these firms are inherently riskier. Thus, the firm riskiness would impact deal terms, not the advisor choice, and we may not be able to capture *ex ante* differences in firm risk. Unlike Fernando et al. (2012b), we do not have a unique natural experiment upon which we can rely to examine exogenous shocks to the firm-advisor relationship. We propose an alternative approach to reduce endogeneity concerns by focusing on ex post realizations of firm outcomes, including deal announcement returns, changes in distress measures, drops to below-investment grade status, and delisting of firms in the year following the deal. We find no difference between static and dynamic firms across any of our ex post realizations. On average, it does not appear that static firms are riskier than dynamics, somewhat mitigating concerns that endogeneity drives our results on firm-advisor relations.

Although we have controlled for firm characteristics and the information environment (and in robustness tests firm governance and CEO characteristics), other drivers could affect the firm-

advisor relationship. For instance, professional and social networks have been shown to be important determinants in relationship building (e.g., Kuhnen, 2009; Cohen, Frazzini, and Malloy, 2010; Huang, Jiang, Lie, and Yang, 2014). As banker identities are unavailable in SDC, we cannot examine the impact of these networks on the choice to retain advisors. There are also a myriad of unobservables that could affect the retention decision: advisors may provide consulting services and access to bankers or research, firms may face costs (e.g., time, effort, and uncertainty) associated with moving to new advisors (Colgate and Lang, 2001).[4]

In general, our results provide evidence that there are benefits to firms that maintain dynamic firm-advisor relationships. Although this is in contrast to the findings of Fernando et al. (2012), it is consistent with recent findings by Corwin and Stegemoller (2014) and Humphery-Jenner, Karpavicius, and Suchard (2014), which show that approximately 50% of firms change advisors from one deal to the next (i.e., from the IPO to the first SEO). Further, our findings on deal terms and analyst coverage for dynamic firms are consistent with Krigman et al. (2001), who show that there are benefits to changing advisors. We also provide some evidence for why firms make the advisor retention choice that they do. In particular, we find that firms in highly opaque information environments are more likely to be static firms and can benefit (or at least do no worse) by maintaining a unique long-term advisor relationship.

The remainder of the paper is organized as follows. In Section I, an overview of the long-term relationship literature is presented. Data, sample selection, and methodology are discussed in Section II. Section III models the propensity for firms to be dynamic and provides results on advisory fees and quality, deal terms, and analyst coverage, while Section IV provides

[4] In a survey of over 400 CFOs (conducted through the CFO Alliance), they confirm that advisor retention is likely to occur because the perceived costs to switch exceed anticipated benefits.

explanations for why firms retain advisory associations (risk and information opacity). A discussion of additional analyses, including ex post realizations, tests of inefficiencies, and alternative specifications is given in Section V. Section VI concludes.

I. Literature Review

Early theoretical studies focus on how the relative bargaining power of financial institutions and their customers affects long-term relations as well as the costs and benefits. Kane and Malkiel (1965) propose that long-standing affiliations between lenders and borrowers lead to lower overall borrowing rates, but that benefits depend on the bargaining power of each party. James (1992) argues that the informational setup costs of new relations are large; therefore, advisors can induce repeat interactions by setting lower fees at the outset of the initial contract. Empirically, James (1992) and Carter (1992) show that firms that conduct follow-on offers pay lower initial fees (see also Sibilkov and McConnell, 2014). Numerous papers document cost savings associated with long-term advisor relations. Burch et al. (2005) finds that continuing connections between firms and advisors lead to lower equity underwriting fees. Further, cross-selling across product lines (i.e. lending to underwriting) is related to lower fees (Schenone, 2004; Yasuda, 2005), and can enhance the certification effect associated with the advising relationship (Duarte-Silva, 2010). Using the closure of Lehman Brothers in 2008 as a natural experiment, Fernando et al. (2012b) observe that Lehman's equity underwriting clients suffered significant loss of market value (nearly 5%) in the days surrounding the bank's demise. They conclude that it is detrimental to firms when long-term advisory relations are severed.

In contrast, theory and empirical work also suggest that repeatedly using the same lender can be costly. As borrowers become more dependent on a relation with a given lender, the lender's information monopoly increases to the point that they control the outcomes of projects, which

potentially leads to a hold-up problem (Sharpe, 1990; Rajan, 1992). Thus, to limit the power of any single lender, firms should foster relations with a variety of others. Further, Ongena and Smith (2000) suggest that hold-up issues may be reduced with multiple lender relationships, but firms may face substantial costs (e.g. reduced credit supply) as information acquisition by any given bank becomes costlier to procure (Thakor, 1996). Several empirical studies support this contention; Corwin and Stegemoller (2014), and Francis, Hasan and Sun (2014) document that both debt market and M&A clients have a preference for maintaining associations with multiple advisors. Further, there is some evidence that long-run advisor affiliations are associated with higher debt fees or worse deal terms (Burch et al., 2005).

Financial terms are not the only reasons why firms might seek alternative advisors. A firm may utilize multiple advisors to increase analyst coverage, which has been associated with higher levels of private information acquisition, liquidity, investor recognition, and monitoring (Brennan and Subrahmanyam, 1995; Bhushan, 1989; and Grossman and Stiglitz, 1980). Although analyst optimism does not appear to affect deal flow to particular advisors (Ljungqvist, Marston, and Wilhelm, 2006), firms appear to hire new advisors to obtain analyst coverage (Krigman et al., 2001; Sibilkov et al., 2013). Further, firms appear to pay for coverage through both higher fees (Lee, 2012) and increased underpricing (Cliff and Denis, 2004).

Firms may also switch to obtain more reputable advisors. Advisor reputation is strongly tied to the market share an advisor captures (Rau, 2000; Bao and Edmans, 2011). Several studies show that firms change advisors in order to improve advisor quality (Krigman et al., 2001; Fernando, Gatchev, May, and Megginson, 2012a), but is mixed on whether reputation is costly to firms as measured by advisory fees (Fang, 2005; Fernando et al., 2005; Fernando et al., 2012b).

Much of the extant literature proposes direct costs (fees, deal terms) or benefits (analyst coverage, reputation) for why firms could maintain long-run connections with advisors. Few of these studies, however, examine firm fundamental characteristics that could impact the firm-advisor decision. We propose two distinct, but not mutually exclusive, explanations related to a firm's information environment that could affect the decision about long-term advisor retention: firm risk and information opacity. Both firm risk and opacity are likely to make firms harder to value, thus advisors are likely to provide worse deal terms to these firms.

We use two measures to capture firm risk: financial distress and idiosyncratic risk. As firm quality deteriorates, firms may use more advisors to both reduce potential hold-up costs and counter advisors' reluctance to increase exposure to poor performing firms (Farinha and Santos, 2002). It is possible, however, these firms may have limited outside options and (involuntarily) remain with an advisor (Hoshi, Kashyap, and Scharfstein, 1990). An alternative measure of firm risk is idiosyncratic stock price volatility (Moeller, Schlingemann, and Stulz, 2007). Firms with the lowest idiosyncratic risk are more attractive to (reputable) underwriters and more likely to receive fully underwritten contracts compared to those with high risk (Balachandran, Faff, and Theobald, 2008). These high risk firms may have fewer advisors competing for their business or may be charged higher costs than low risk firms (regardless of the number of advisors).

Firm opacity is an alternative measure of the information environment. Firms that are harder to value or have high product market competition may desire to remain informationally opaque. Bharath, Dahiya, Saunders, and Srinivasan (2007) show that borrowers that are harder to value (e.g., more R&D, greater analyst dispersion) are more likely to retain advisors with which they have prior interactions. Asker and Ljungqvist (2010) find that firms appear unwilling to select underwriters associated with product market rivals due to concerns over information leakage exist.

Complex firms are also more difficult to value (Cohen and Lou, 2012), and could alter the need for long-term advisor relations. These firms may be willing to bear the cost of having one advisor that is well-informed about its business strategy. Alternatively, complex firms could employ numerous advisors, each acting as specialists within a given segment.

II. Sample Construction and Summary Statistics`

II.A. Data and Sample Selection

In order to classify a firm's relation with its advisors, we compile a comprehensive history of a firm's debt, equity, and merger deals.[5] Limiting our analysis to publicly-traded firms, we collect all public and private corporate debt and equity transactions from the Thomson-Reuters Securities Data Corporation (SDC) Global New Issues database from 1970 to 2011. We add completed and withdrawn mergers of public and private targets by public acquirers from SDC's Mergers & Acquisitions database. The initial sample yields 136,846 debt, equity, and merger deals. More than 95% of our sample firms retain at least one advisor for debt and equity transactions, while acquirers of public (private) targets retain advisors in 64% (22%) of deals (in line with Forte, Iannotta, and Navonne, 2010).[6]

We obtain data on lead advisors or underwriters, gross spreads for debt and equity underwriting, total advisory fees paid in M&A deals, yields to maturity, underpricing, and merger premiums from SDC. Other control variables include maturity, transaction value (principal, proceeds, or merger value), toehold, as well as indicators for shelf offerings, senior debt,

[5] We note that papers have examined the deal-to-deal decision between IPOs and mergers (Forte, Iannotta, and Navone, 2010) and SEOs and mergers (Francis, Hasan, and Sun, 2014), while Corwin and Stegemoller (2014) use debt, equity, mergers, and lending to categorize long-term advisor retention.

[6] We consider other types of corporate transactions, such as spinoff and carveouts. Of the 1,000 transactions that meet our basic criterion, only 42 have an advisor identity provided by SDC. In addition, of the 23,336 public or private mergers for US acquirers in SDC, only 33% have an advisor. Of those, only 25% report fees. Once we apply our basic screening criteria, we capture nearly all of the deals in SDC that have merger fee data.

callability, NASDAQ listing, tender offers, horizontal deals, and public targets. Firms are matched to CRSP and Compustat, reducing the sample to 126,896 transactions for 16,516 firms. Returns, market value of equity, firm age, and volatility are constructed from CRSP data. Returns are measured as one-month CARs (-30 to -1) before SEOs and acquirer run-up (CARs -42 to -6 pre-merger announcement). We compute leverage, return on assets, and the market-to-book ratio from Compustat and obtain analyst coverage from IBES. Appendix A provides detailed definitions of all of the variables used throughout the study.

SDC records some debt and equity transactions in multiple steps, which may overstate a firm's relation with a given advisor. To prevent over-counting, we follow the methodology of Burch et al. (2005) to consolidate transactions. Within a seven-day window, all debt offerings of the same type that have the same maturity and same advisor are combined into a single aggregate debt offering. Similarly, SDC occasionally reports a firm having multiple equity offerings with the same advisor within a one- or two-day period. As with debt, these offerings are combined into one aggregate equity offer under this advisor. This consolidation eliminates 4,955 deals.

We next focus on firms that engage in five or more deals to ensure we can clearly categorize the firm-advisor relation (which we discuss more fully in Section II.B). This eliminates 12,868 firms (26,499 transactions) that never use an advisor, use an advisor only one time, report fewer than four total deals, or instances where all deals occur on a single day. Finally, all financial firms are removed since they potentially can act as their own advisor in transactions.[7] The resulting sample consists of 2,639 unique, nonfinancial firms that have at least five total transactions between 1970 and 2011 with 33,167 total transactions.

[7] Less than 2% of our equity deals are IPOs. As the fee structure for IPOs is different than that of SEOs (Chen and Ritter, 2000), we exclude all IPOs from our analyses. Further, we remove 744 financial firms with 62,275 transactions. Fannie Mae and Freddie Mac account for 42,947 of these transactions, the majority of which are debt.

II.B. Firm-Advisor Relationship Classification

In order to track the firm-advisor relation, we identify the lead advisor in each deal over the complete firm history. There are 289 unique advisors in our sample. Although it common for large syndicates to be formed for debt and equity offerings or to have multiple M&A advisors, following the extant literature we focus on lead advisors for each transaction.[8] In order to ensure that advisor changes are not simply driven by mergers or name changes, we track the progression of each bank or advisor. By developing a comprehensive record of all bank mergers (i.e. Bank of America's acquisition of Merrill Lynch in 2008), consolidations, and name changes (i.e. Smith Barney Shearson to Smith Barney to Citigroup), we capture only true changes in advisors.

One of the innovations in our study is the methodology of classifying firms into static, dynamic, and hybrid firms. We use the first four transactions (regardless of deal type) to assign firms into specific categories.[9] We identify static firms as those that consistently use the same advisor(s) for at least 80% of their total transactions.[10] Dynamic firms, on the other hand, are those that use multiple advisors across and within transaction types. Hybrid firms are a mix of the two. Hybrids typically start out static in nature and then over time become dynamic. Few hybrids migrate in the other direction: only 5% start as dynamic and eventually settle as static firms.[11] Based on our classification, 38.7% of firms are static, 23.8% dynamic, and 37.5% hybrid. In

[8] According to SDC, the first advisor for each deal is the lead. We recognize, however, that particularly for M&A deals, there could be multiple lead advisors, thereby overstating our number of static firms. Understating the number of advisors for statics potentially biases against finding any difference between static and dynamic firms.

[9] Although the use of the first four observations may be arbitrary, it is the minimum number of observations needed to identify firm whether firms are static or dynamic. Burch et al. (2005) also use a minimum five-observation truncation in their study as well. In Section VI, we explore the sensitivity of our results to this cutoff. We also assign classifications based on individual rather than aggregate deal types and obtain similar results.

[10] We also examine 100% and 90% static firms. We do not hold to a strict 100% cutoff since a firm may be prohibited from using their long-term advisor due to conflicts with either the counterparty in a merger or a rival firm. Static firms also include those who form a relation with one advisor and over time move to a different advisor, and then maintain a dedicated relation with this new advisor.

[11] Removing these observations from our analyses does not materially affect our findings.

unreported tests, we find that static firms work with an average of two advisors over their entire history, while dynamics, on average, utilize six advisors.

Examples of static, dynamic, and hybrid firms are presented in Appendix B. Static firms may retain a single advisor over their entire history (Intermedia Communications) or may work with one advisor for an extended period and eventually switch to another (Kohl's Corp.). Northeast Utilities depicts the hybrid advisor relation; for the first five deals, Northeast employs Credit Suisse First Boston (FBC), but thereafter utilizes nine additional advisors in the remaining 16 transactions, and only returns to Credit Suisse (CSFB) in one of those deals. Hercules Inc. provides an example of a dynamic firm; from nearly the first transaction it uses a variety of advisors across all types of deals.

We categorize firms as static or dynamic based upon their behavior in time, recognizing that hybrids alter their behavior over time. When hybrid firms remain with one advisor, we classify them as static in that year, but when the hybrid firms begin to use a variety of advisors, they then become identified as dynamic firms. We call this approach the *split* classification. For robustness, we use two alternative classification schemes. In the *ex ante* approach, firms are classified based solely on the advisor relations in their first four transactions, regardless of changes in the firm advisory relation (hybrids are always static). Using the *ex post* method, then entire history is used to classify firms. In this case, hybrids are always dynamic. In order to maintain consistency across classification schemes, we only utilize transactions from the fifth deal on in each sample, although results are robust to including the first four transactions.[12]

[12] To alleviate concerns about when these first four transactions are measured, we include both the number of prior year deals as controls in our analyses. We also replicate the rolling-window methodology in Burch et al. (2005), which requires the classification of deals to all occur in the past 5 years, and obtain qualitatively similar results.

Our methodological approach differs from earlier studies on several dimensions. In particular, we use a comprehensive history across time, but also explore whether relationships persist across different types of transactions (debt, equity, and mergers). While studies that explore the shift in the advisor relationship from one transaction to the next (i.e. from the IPO to the first SEO) are able to capture short-term and deal specific characteristics, it assumes that the shift in the relationship and the benefits that accrue from the switch are driven by deal characteristics rather than at the firm level and are permanent. Without examining subsequent transactions after the shift, it is unclear if there are long-term benefits to moving between advisors.

Even those studies that examine intermediate horizons (three- or five-year rolling windows; see, Corwin and Stegemoller, 2014 and Burch et al., 2005, respectively) may obtain a different classification relative to studying the entire history. Furthermore, the choice of horizon may be relatively ad hoc and the window selected may impact results. For instance, using the long-term loyalty measure of Burch et al. (2005), approximately 38% of their firms categorized as long-term loyal exhibit dynamic behavior when a longer history of transactions is used instead. This potential misclassification may misrepresent the true benefits of maintaining advisor relations. As a result, we characterize all firms in time to capture whether the overall behavior is static or dynamic.

Another aspect that differentiates this paper from prior work is our exploration of why some firms maintain long-run advisor affiliations, while others do not. A firm's information environment (financial distress, idiosyncratic risk, ease of valuation, product market competition, or firm complexity) could lead firms to optimally retain advisors, since the benefits of retention may outweigh the explicit costs associated with staying. We measure financial distress in two ways: Altman's (1968) Z-score (contains five firm measures: working capital, retained earnings, earnings before interest and taxes, and sales scaled by total assets) and market value of equity

scaled by book value of total debt and CHS measure (uses both accounting and market based data to predict distress scores; Campbell, Hilscher, and Szilagyi, 2008). Firms are classified as distressed if they have a z-score below 1.8 (Altman, 1968) or lower than median CHS score (-7.789), which corresponds to a BBB rated firms (Mansi, Maxwell, and Zhang, 2012). Idiosyncratic risk is measured as the monthly average sum of squared errors obtained by regressing rolling weekly returns on the Fama-French three-factor model (Brown and Kapadia, 2007; Fu, 2009). Firms with above median idiosyncratic volatility are categorized as high risk.

Our primary measure of opacity is an index comprised of research and development expenses, capital expenditures, and intangible assets all scaled by total assets (from Compustat) plus the standard deviation of analysts' one-year earnings forecasts (obtained from IBES). We identify high and low information sensitive firms by comparing a firm's value for each of the four components to the median value (above median = 1). Firms with index values greater than 2 (out of 4) are informationally-sensitive. Second, we follow Asker and Ljungqvist (2010) and measure product market competition as the Herfindahl index based on the sum of squared market shares of sales in each firm's industry by four-digit SIC (where sales data are from Compustat). Firms are segmented into high and low product market competition based on the median. Lastly, we measure firm complexity from Compustat's Non-Historical and Historical Segment database (1976-2011), which is available for nearly 90% of our sample. Firms are required to report financial information for any business segment that represents more than 10% of total reported sales. Complex firms are those with more than three segments (the median), although results are robust if we condition based on indicators for single- versus multi-segment firms.

II.C. Summary Statistics

Table I presents deal counts as well as financial and deal characteristics for statics and dynamics based on the split classification.[13] Dynamics take on significantly more debt issuances, total deals, and deals per year (Panel A) and are larger, more levered and less profitable than static firms (Panel B). Consistent with prior research, firms that use many advisors also have more analyst coverage than static firms. In terms of financial distress, dynamic firms have lower Z-scores but a slightly better CHS score (although both are well above levels indicating financial distress). Dynamic firms also have lower idiosyncratic risk and information sensitivity than static firms, but are more likely to be complex (operating segments).

Panels C through E in Table I present the mean deal characteristics by transaction type. In debt transactions, dynamic firms take on larger issuances with lower maturities, gross spreads (fees), and yields than static firms (Panel C). Further, dynamic firms are more likely to issue senior debt and shelf offerings. In Panel D, dynamic firms undertake larger equity issuances, pay lower gross spreads, and are more likely to do shelf offerings than static firms. For mergers (Panel E), dynamics engage in larger deals and pay more in total fees (but less as a percentage of deal value).[14] Table I suggests that dynamic firms differ significantly from statics and these firms appear to reap benefits on at least some dimensions from retaining a variety of advisors.[15]

III. Modeling the Firm-Advisor Choice and Outcomes of the Decision

In this section, we first investigate the likelihood that firms are static or dynamic based on firm characteristics and the information environment. Next, we examine whether there are costs

[13] Table I reports mean firm characteristics. Median firm characteristics are qualitatively similar and differences between static and dynamic firms all remain significant at less than the 1% level.
[14] Some of these deal characteristics may be related to or driven by firm size, although we find no difference in size when only the first four deals are examined. We control for size in our regressions and also split regressions into small and large firms. Results qualitatively hold.
[15] We recalculate Table 1 using only hybrid firms, splitting between static and dynamic portions. The differences in characteristics are effectively the same as those reported in Table 1.

or benefits to long-term relations by testing whether static or dynamic firms have different advisory fees, deal costs, or analyst coverage.

III.A. Likelihood of Dynamic Firm-Advisor Relations

We begin by investigating how firm characteristics and the information environment are related to the decision to have static or dynamic advisor relations. Burch et al. (2005) and Corwin and Stegemoller (2014) provide models of long-term advisor choice using five- or three-year rolling windows on a Herfindahl index of advisor usage, and include log size, market to book, profitability, leverage, and firm age. To prevent look-ahead bias, we use our *ex ante* methodology (for this test only) to identify firms. Under this approach, the first four transactions are used to categorize firms into either static or dynamic (hybrid firms are classified as static).

Using logistic regression, we model the per-deal probability of being dynamic on the log market value of equity, market to book, return on assets, firm leverage, firm age, and year and industry controls (Table II).[16] We include controls for the information environment (Z-score, CHS score, idiosyncratic volatility, information sensitivity index, product market competition, and operating segments). Columns (1)-(3) contain the Z-score as a sole measure of firm risk plus one measure of information opacity. Column (4) contains Z-score and the three opacity measures, Column (5) includes Z-score, idiosyncratic volatility, and the three opacity measures, while Column (6) includes all measures. Results are similar if we use idiosyncratic volatility or the CHS measure as our sole measure of firm risk.

We find no evidence that the choice to be static or dynamic is related to whether firms are risky. Measures of information opacity, however, are significantly negatively related to a firm's

[16] We note that our results are qualitatively consistent if OLS models are used instead of logit models.

choice to be dynamic in their advisor selection.[17] These results suggest that a firm's propensity to be static or dynamic is at least partially related to its information environment. Older and more profitable firms are less likely to be dynamic, while there is some evidence highly levered firms are more likely dynamic. In the next section, we explore the consequences of the advisor choice, and in Section IV, we condition on the effect of the information environment specifically to see whether the costs and benefits of the advisor choice remain for hard-to-value firms.

III.B. Advisory Fees, Deal Terms, and Analyst Coverage

Approximately 60% of our firms choose to utilize a variety of advisors and this decision appears to be linked to firm fundamentals, including the information environment. We now explore whether it is beneficial for firms to maintain relations with many advisors. We begin with an examination of fees paid to advisors, as these are explicit costs borne by firms. For debt and equity offerings, the fees paid are the gross spreads as a percentage of capital raised. For mergers, we use the acquirer total dollar value of fees paid to the advisor divided by total deal value to make it comparable to underwriting gross spreads. These fees are the dependent variables in the OLS regressions presented in columns (1) – (3) of Table III.

Our main variable is whether advisory relations are static or dynamic based on the split classification. We construct an indicator variable equal to one if a firm has a dynamic relation with its advisors, and zero otherwise. The effect of a dynamic relation on fees could be positive or negative depending on whether long-term relations are beneficial. A negative (positive) coefficient would suggest that dynamic firms incur lower (higher) fees than statics. For debt and equity offerings, we include the log of deal size (principal or proceeds raised) and a shelf-

[17] In unreported tests, we include several governance variables: board independence and size, busy board, classified board, CEO tenure, CEO age, and CEO duality and obtain qualitatively similar results to those shown in Table II.

registration indicator.[18] To capture advisor reputation, we rank advisors by their frequency in our dataset across all deals (Rau, 2000) and consider top five advisors to have a high reputation.[19] Based on Burch et al. (2005), we include firm characteristics such as age, market value of equity, return on assets, leverage, and market-to-book ratio (each lagged one year). We also include the total number and value of deals undertaken in the prior year to control for bargaining power. In debt models, we include maturity and indicators for seniority and callability while for equity, we control for Nasdaq listing, relative offer size, prior month CARs, and return volatility. In merger models, we include acquirer run-up and indicators for horizontal deals, public targets, tender offers, and toeholds.[20] Year and industry fixed effects are in all models, and robust standard errors are reported.

Columns (1) - (3) of Table III present regressions for debt, equity, and merger fees, respectively. Across all transactions, dynamic firms pay significantly lower fees (6 to 9 basis points, on average) than static firms. This translates to roughly a per-deal savings of $110,000 for debt, $90,000 for equity, and $850,000 for mergers, which is substantial considering firms in our sample undertake more than one deal per year on average. Contrary to studies such as Fernando et al. (2012b), James (1992), and Sibilkov and McConnell (2014), we find significant cost savings to firms that use many advisors. We also obtain unambiguous results across all types of deals

[18] We do not include deal value in column (3) (merger fees) as the correlation between fees and value is highly significant (55%) leading to a multicollinearity problem in our analysis. The correlations between proceeds and debt or equity gross spreads are only 6.8% and 24.7%, respectively, indicating that issues of collinearity are not as severe in these models. If we exclude proceeds from columns (1) and (2), we obtain quantitatively consistent results.

[19] The top three advisors in total (Goldman Sachs, Merrill Lynch, and Morgan Stanley) are also the top three in debt, equity, and mergers, individually. We utilize this measure rather than League Tables since they are only available from 1998 onward. Our top advisors correspond almost directly to the League Tables. For robustness, we expand the top tier advisors from five to ten as well as use Ritter rankings (http://bear.warrington.ufl.edu/ritter/ipodata.htm), and obtain qualitatively similar results in all cases.

[20] In unreported tests, we eliminate the deal characteristics (to replicate the model of Burch et al. (2005)) and obtain quantitatively similar results.

(unlike Burch et al., 2005), suggesting that one-off switches or intermediate-horizon rolling windows may not fully capture firm-advisor relations.

Contrary to Fang (2005) and Fernando et al. (2012a), we do not observe a long-term premium for reputation. Debt and equity gross spreads decline in deal size and shelf offerings, but debt fees increase in debt maturity. Larger and more profitable firms pay lower fees across all deal types, suggesting some firms may have better negotiating power.

Overall, the results in Table III suggest that dynamic firms benefit from lower advisory fees relative to statics. Our results are not sensitive to the classification methodology or model specification. One concern, however, is that static firms may be willing to pay higher fees to long-term advisors at the outset of a relationship in order to obtain lower fees in the future. In order to determine if loss leaders are driving results, we examine the total aggregate deal fees scaled by the aggregate value of transactions by deal type. In unreported tests, dynamic firms pay lower aggregate fees than static firms for debt and merger transactions. These results reinforce the notion that on average it is costly for firms to retain limited advisor relations.

It is possible that firms substitute higher fees for preferential deal terms. For example, static firms may pay higher fees, but obtain lower yields or premiums than dynamics. Thus, we investigate if trade-offs exist among fees, deal terms, and analyst coverage (columns (4) – (7) in Table III). We examine deal terms most likely under the purview of an advisor: yields on debt offerings in Column (4), equity underpricing in Column (5), and merger premiums in Column (6). On average, even after controlling both for deal and firm characteristics, YTMs are significantly lower for dynamic than for static firms by 10 bps, representing a savings of approximately $230,000 per year. As expected, larger, older, and more profitable firms, as well as those with more prior deal experience, have lower yields. YTMs are increasing in both deal size as well as

leverage (likely measures of risk). As dynamic firms have both lower fees and yields, the costs of maintaining long-term relations with advisors are particularly large when firms raise debt. Unlike debt deal terms, a dynamic firm-advisor relation does not result in less underpricing or lower merger premiums. As equity and merger fees are higher for static firms, it is not necessarily advantageous to maintain dedicated advisor relations.

Firms may also change advisors to obtain additional analyst coverage (Column (7)), which has been shown to improve both the information and the trading environment. The number of analysts in a given year is regressed on the dynamic indicator, lagged values of firm size, profitability, leverage, growth (Yu, 2008), as well as total transactions and total aggregate value of deals in the prior year. Consistent with prior research, firms that employ many advisors have nearly 2 additional analysts per year, yielding a 25% increase above the unconditional average of eight analysts providing coverage. Further, analyst coverage increases in firms with more deals, growth opportunities, profitability, and firm size, but decreases in firm leverage.

Our results suggest that there are significant benefits to firms that use a variety of advisors. We find, however, that nearly 40% of our sample firms maintain consistent relations with their advisors, implying that there must be some benefit derived from the long-term relation (or they bear no greater cost). We next explore whether deal costs and benefits are related to the firm's information environment, conditional on the firm-advisor relation.

IV. The Information Environment: Firm Risk and Information Opacity

We propose that informationally complicated firms may voluntarily (or involuntarily) choose to retain advisors. We select two dimensions, firm risk and information opacity, in order to identify correlations between advisor choice and fees, deal terms, and analyst coverage in high

and low information environments. Riskier firms (distressed or high firm-specific risk) may voluntarily change advisors to reduce the hold-up problem or may involuntarily change if long-term advisors are less willing to continue exposure to low-quality firms. Conversely, these firms may have reduced outside options and may have to retain long-term advisors. Firms operating in highly sensitive information environments (i.e. R&D intensive industries or those with high product market competition) may desire to reduce their exposure to a variety of advisors to prevent potential information leakage to rivals. Firms with multiple business segments, however, may rely on a single advisor that can synthesize the complexity of the multi-segment operations or could employ a variety of specialists that focus on particular segments. Thus, for some firms, the costs associated with many advisors may overshadow the apparent benefits.

We begin by identifying the number of firms categorized as high risk or opaque. Our measures appear to capture a substantial portion of our sample (15%, 19%, 24%, and 37% of the sample is categorized as hard-to-value using Z-score, the CHS measure, the index of information sensitivity, and complexity, respectively). We explore the impact of the firm's information environment in a multiple-regression setting in Tables IV (risk) and V (opacity).

In order to capture the link between the information environment and the firm-advisor relation, we construct interaction terms between each of our information variables and our static and dynamic indicators. For all six of our information environment measures we identify a base case, the low information environment dynamic firms. We compare low information static firms, as well as high information statics and dynamics to this base case. Our main focus, however, is whether a difference in deal terms exists between static and dynamic firms, conditioning on the high information environment. In the final row of each panel in Tables IV and V, we include a test for the difference in coefficients between high information statics and dynamics.

IV.A. Firm Risk and Advisor Choice

Panel A of Table IV examines the interactions of financial distress (Z-score) and the advisor choice indicator. Regardless of a firm's financial health, both distressed and non-distressed statics pay higher fees, higher yields on debt, and have lower analyst coverage than non-distressed dynamics. While we observe some evidence that distress increases a firm's yields and underpricing, even for dynamic firms, distressed dynamics do not pay higher fees to their advisors (see row (3)). As shown in the final row, across the board, distressed statics pay significantly higher fees and yields than distressed dynamics and have lower analyst coverage, indicating the firm-advisor relationship impacts the costs associated with deals even after conditioning on the financial stability of the firm (the p-value for debt fees falls just short of statistical significance at 0.13).

In Panel B, we use our alternative measure of financial distress, the CHS measure. As in Panel A, we find that high CHS-distressed statics and dynamics pay significantly higher fees, have higher yields to maturity, and less analyst coverage relative to non-distressed dynamics. In the final row of Panel B, we test the difference in coefficients between CHS-distressed statics and dynamics. Distressed statics pay higher fees in debt deals (p-value on mergers is 0.12), have higher yields, and less analyst coverage relative to distressed dynamics (final row of Panel B).

The third measure of firm risk is idiosyncratic stock price volatility (Panel C, Table IV). Relative to low-risk dynamic firms, all other firms pay higher debt and equity fees and have significantly lower analyst coverage. Moreover, high-risk statics pay higher merger fees while high risk firms have higher yields to maturity. In general, high-risk statics pay higher debt and equity fees, higher yields, and have less analyst coverage than high-risk dynamic firms (final row of Panel C). Overall, our results from Table IV indicate that riskier firms can benefit from utilizing

a variety of advisors, perhaps because it is relatively easy for an advisor to price risk in setting fees and deal terms for these firms. Firm risk does not appear to provide an explanation for why a considerable portion of our sample firms maintain exclusive long-term relations.

IV.B. Informational Opacity and Advisor Choice

We next examine whether a firm's information opacity can explain the choice of long-term advisor retention. We measure opacity as a firm's informational sensitivity index (Table V, Panel A), product market competition (Panel B), and complexity (Panel C). Relative to the base case of low information sensitivity dynamics (Panel A), all other firms pay higher fees in debt and low information sensitivity statics pay higher fees in equity and mergers. For deal terms, all firms pay higher yields. However, except with analyst coverage, we do not find any significant differences between high information sensitivity statics and dynamics (last row, Panel A). These results suggest that when a firm may be difficult to value (high R&D or analyst forecast dispersion), there appears to be little benefit to utilizing a variety of advisors.

Some firms may retain a single advisor if there are high costs to revealing information (e.g., high product market competition, Panel B). Both high competition statics and dynamics pay higher fees, particularly for equity and mergers, and have lower analyst coverage, but do not have significantly more costly deal terms than low competition dynamics. Low competition statics pay higher fees and debt yields and have lower analyst coverage. We find some evidence that debt fees are lower and analyst coverage is greater for high competition dynamics, although in general there is little difference across most measures. These results suggest that when product market competition is high, firms may not benefit from using many advisors.

Complex firms (many business segments) may be harder to value (Cohen and Lou, 2012) and thus, advise in deals (Panel C). Low complexity statics pay higher fees and yields and have

less analyst coverage relative to the base case of low complexity dynamics. Easy to value firms appear to be penalized for retaining a single advisor.[21] We generally do not find significant differences in the final row of Panel C, suggesting that when complexity is high, the potential benefits of being dynamic are diminished. Together with higher information sensitivity and product market competition, these findings provide some justification why a significant fraction of firms retain long-term advisors, even when the benefits of utilizing many advisors seem large.

V. Additional Analyses

V.A. Ex Post Realizations

One challenge to this study is that potentially endogenous relations among firm characteristics, advisor choice, and outcomes can exist. For instance, if static firms face higher costs in terms of fees or deal terms, this may not be driven by their advisor choice. Static firms may be instead inherently riskier than dynamics; thus, it is the riskiness of the firm that affects deal terms, not the advisor choice. If firm risk drives this relation, then it should be pervasive across all deals, yet we find no difference in the financial, deal, or fee characteristics of statics and dynamics when only the first four deals are examined.

In order to further address endogeneity concerns, we examine *ex post* realizations of firm outcomes. Ideally, we would have a natural experiment (such as closing of a brokerage, Fernando, et al., 2012b) or a set of intuitive instruments to account for possible endogenous relations between firm characteristics, deal terms, and advisor choice. As we are unable to identify these, we explore a variety of *ex post* outcomes, including the deal announcement returns, changes in financial

[21] Complex firms, regardless of whether they are static or dynamic, do not pay significantly higher fees than low-complexity dynamics. Further, complex firms have both lower yields and merger premia, and more analyst coverage than low-complexity dynamics, but this could be an artifact of firm size.

distress (measured by either Z-score or the CHS measure), migrations from investment-grade to non-investment grade debt ratings, and whether the firm delisted in the year following the execution of the deal. If static firms are fundamentally riskier, then we should expect lower announcement returns, higher incidence of financial distress, more non-investment grade firms, and a higher likelihood of delisting.

Results from difference of means and Wilcoxon signed-ranked tests are presented in Table VI. In general, we observe no difference between static and dynamic firms across any of the five *ex post* realization measures. Thus, on average, it does not appear that static firms are riskier than dynamics. While this does not completely resolve potential endogeneity issues, it does provide some evidence that the advisor relation affects the overall costs and benefits to firms around deals, and it is not driven by efficient pricing of firm riskiness.

V.B. Tests of Efficiency

With respect to advisor retention, a substantial portion of our sample firms appear to make efficient decisions. Nearly 33% of firms (25% of deals), however, are static firms with low information opacity. These firms pay the highest average fees, have the least preferential deal terms, and lowest analyst coverage. These firms may be engaging in costly, suboptimal advisor retention. We caution, however, that there are unobservables, such as social and professional networks, "free" services provided by advisors to their clients, and "costs" of switching known only to decision makers that could lead to efficient but unmeasurable retention decisions.

To explore possible issues that could affect the efficiency of the advisor retention decision, we examine three additional tests. First, some firms may face lock-up problems if their advisors (either through proprietary trading or the asset management arm of the bank) maintain large positions in certain types of firms. For instance, a static firm may be compelled to retain an advisor

that holds a significant amount of its outstanding equity. In Panel A of Table VII, we collect data from Thomson Financial 13-F filings from 1995 to 2011 for our sample and examine the aggregate advisor ownership, segmented by firm type. When examining the mean level of ownership, we find no difference in the level of advisor ownership across statics, hybrids, and dynamics. Hybrids and dynamics have larger median advisor-related ownership than statics, indicating that statics are not held captive by large ownership positions by their advisors.

In our second and third tests, we focus on hybrids with a gap of at least one year between their last static deal and first dynamic deal. In Panel B, we examine whether hybrids, as they transition from static to dynamic become less risky or more transparent. Across five of the six measures, we find no measurable difference in a firm's information environment (the exception is number of segments where hybrids become more complex). This suggests that a reduction in costs to hybrids is not due to shifts in the information environment around the transition period.

Last, we examine the effect of CEO turnover (Table VII, Panel C), which could alleviate potential managerial moral hazard. Managers may be reluctant to move to new advisors, as the market may be less likely to penalize them for repeated outcomes, even if the behavior appears inefficient. Further, if managers move to a new advisor, any poor outcome is likely to be seen as their fault. Once a CEO shifts to a new advisor, however, it may be easier to continue this behavior. We attempt to exploit this inefficiency by examining CEO turnover in a sample of hybrid firms. CEO turnover is the number of turnovers scaled by the number of firm-years. The incidence of CEO turnover for hybrids in this transition period is roughly double that for the static and dynamic portions of these firms (23% versus 12% and 15%).[22] Thus, higher incidences of CEO turnover appear to be associated with firms that are willing to alter their advisor relations. Further, a large

[22] In unreported tests, we find the incidence of CEO turnover is lowest for low-opacity statics relative to all others.

majority of hybrids with CEO turnover are classified as low opacity firms prior to the change in CEO (untabulated). These results suggest that new CEOs may correct inefficient firm actions, at least as it pertains to the advisor retention decision.

V.C. Alternative Specifications

As we introduce a new methodology to classify firm-advisor relations, it is possible that the assumptions made and methods used to characterize firms are biased. We implement a variety of different methodologies to capture the firm-advisory relations. Further, we conduct multiple robustness checks. In all of the alternative specifications, results qualitatively hold. First, as there may be concerns that mergers are fundamentally different from capital market transactions, we test each deal type (debt, equity, and mergers) independently. We also drop mergers from the analysis, focusing only on debt and equity deals. In addition, in Table VIII, we present results for the *ex ante* (Panel A) and *ex post* (Panel B) taxonomies of statics and dynamics. We find results generally consistent with those in Table III for fees, deal terms, and analyst coverage when either the *ex ante* or *ex post* methods are implemented.

Next, we use alternative measures to capture firm risk and informational opacity. For financial distress, we remove "grey" firms (Z-scores from 1.80 to 2.99) and use BB or B ratings as cut-offs for the CHS measure. We create a financial deterioration index based on firm size, leverage, market-to-book, profitability, as well as examine each of these separately. In all these cases, results are qualitatively similar to Table IV. As analyst dispersion could represent risk (Diether, Malloy, and Scherbina, 2002), we reconstruct the information sensitivity index excluding analyst dispersion, examine each component individually, and construct an index of complexity based on sales, leverage, and number of segments (Coles, Daniel, and Naveen, 2008). We observe results consistent with Table V when these alternate measures are used.

To test the robustness of our hybrid classification, we re-characterize this relation using the first five, six, or seven deals, exclude hybrids entirely from the analysis, use only hybrids split into their static and dynamic portions, and examine static, hybrid, and dynamic firms individually. These specifications marginally shifts the number of firms classified as hybrid to dynamic but does not qualitatively impact our results. Moreover, our *ex post* classification does not apply a cutoff, but categorizes the static/dynamic relation across all observations. In each of these alternative specifications, results are consistent with our primary analysis.

We also re-examine the threshold for inclusion into our analyses. Consistent with Burch et al. (2005), we require that sample firms undertake a minimum of five total transactions at any point in our study. This limitation, however, may not be sufficient to accurately assess the firm-advisor relation. We increase the cutoff to a minimum of ten or 15 observations. While this increase in the required number of deals shifts a greater percentage of the total firms to hybrid and dynamic, the penalties for retaining long-term advisors continue to hold.

Our sample spans a 41-year horizon, comprised of significant changes to the advisory business, including the repeal of Glass-Steagall in 1999 (a potentially exogenous shock that could shift the number of advisors due to the ability of commercial banks to offer investment banking services). All regressions include time fixed effects. Nonetheless, we split around the Gramm-Leach-Bliley Act. We also split the sample across decades. In all cases, we obtain quantitatively similar results.

A number of other checks are applied. Given the sharp increase in shelf offerings, we separate our regressions for debt and equity issuances based on shelf and non-shelf offerings. Consistent with our main findings, static firms (regardless of offering type) pay significantly higher fees. In addition, some firms have been in existence longer than our sample period. As a

result, some dynamics may have started out static, but shifted behavior pre-1970. To test this, we remove all dynamics with IPOs prior to 1970 and also exclude all dynamic firms. We split by advisor reputation, and find that regardless of whether dynamic firms use a top- or lower-tier advisor, they have significantly better deal terms and more analyst coverage than statics. We use alternative specifications of our independent variables (i.e., replace market value of equity with total assets, and the past three years total number of deals and aggregate deal values instead of past year's values), include additional controls (e.g., investment grade indicators in debt and method of payment in mergers), and segment by deal size, type, number of deals, and firm age. Appendix C provides a detailed list of our robustness checks.

VI. Conclusion

This paper investigates the choice of firms to maintain long-term relations with their debt, equity, and merger advisors. We find that over 60% of our firms engage a variety of advisors across transactions, while the remaining firms maintain consistent relations across their deal history. Both are consistent with studies that suggest benefits to long-term advisor retention as well as those that propose firms benefit from switching to new advisors.

To reconcile these findings, we examine the propensity of firms to stay with the same advisor or use a multitude of advisors by focusing on firm characteristics and information environment. A firm's likelihood of being dynamic is significantly related to our information opacity measures, but not to firm risk, suggesting hard-to-value or firms that value informational discreteness are more likely to retain long-term advisors.

We investigate potential consequences of a firm's advisor choice and find that dynamic firms pay 6 to 9 bps lower advisory fees (debt, equity, or mergers) than statics, controlling for both deal and firm characteristics. Dynamic firms generally have lower yields and greater analyst

coverage, and the magnitudes of these benefits are substantial. For instance, firms that use many advisors save between $90,000 and $850,000 in per-deal fees, up to $2.3 million in interest costs per bond issuance, and gain nearly 25% more analyst following. These results suggest that, overall, it is costly for firms to stay with one advisor; firms (and their shareholders) are better off maintaining relations with a variety of advisors for their transactions over time.

When we condition on a firm's information environment, high risk static firms pay higher fees, have worse deal terms, and lower analyst coverage than high risk dynamics. Alternatively, high informationally opaque firms have no differences for statics and dynamics. There appears to be little benefit to moving among advisors for informationally opaque firms. Moreover, when we explore a variety of future outcomes of statics and dynamics, we observe little differences, suggesting that less preferential deal terms for statics do not speak to firm quality or riskiness. These finding suggest real benefits to firms when many advisors are engaged. Further, we provide some evidence that low-opacity static firms may engage in suboptimal advisor retention.

Overall, our results suggest that the choice of firm-advisor relation is not one size fits all. While many firms can obtain significant and measurable benefits from utilizing a variety of advisors, for some firms, the costs of switching can be large. When informational set-up costs are high, firms place more value on long-term relations. Our findings, however, do not appear to reflect fundamental firms characteristics (i.e. riskiness), but instead suggest that there are real and economically meaningful costs and benefits to the long-term firm-advisor retention decision.

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Appendix A: Variable Definitions

This table provides descriptions of the variables used in our analyses. Variables related to debt and equity issuances and mergers are obtained from SDC. Financial data are collected from Compustat and stock price data are collected from CRSP. Analyst data are from IBES. All firm financial data is for the fiscal year prior to the year of the deal and is winsorized at the 1% and 99% levels.

Variable	Definition
Firm Definitions	
Static	Indicator variable equal to one if a firm consistently uses one or two advisors in 80% of all deals (see Appendix B for further details)
Dynamic	Indicator variable equal to one if a firm uses multiple advisors in all deals (see Appendix B for further details)
Hybrid	Indicator variable equal to one if a firm is classified initially as static but at some point uses multiple advisors (see Appendix B for further details)
Debt Characteristics	
Gross Spread, % Principal	Gross spread as a percent of the principal amount; where gross spread represents total manager's fee (management fee, underwriting fee, and selling concession)
Principal Amount	Principal amount in millions of dollars; GDP adjusted
Maturity	Length of time for the bond to mature in years
Offer Yield to Maturity	Percentage of offer yield to maturity
Shelf Offering	Shelf offering under Rule 415
Senior Debt	Binary variable equal to one if the debt offering is classified as senior debt and not subordinated debt
Callable	Binary variable equal to one if the debt offering is callable
Equity Characteristics	
Gross Spread, % Principal	Gross spread as a percent of proceeds amount; where gross spread represents total manager's fee (management fee, underwriting fee, and selling concession)
Proceeds	Principal amount in millions of dollars; GDP adjusted
Underpricing	Closing price less offer price divided by offer price times 100
Shelf Offering	Shelf offering under Rule 415
NASDAQ	Binary variable equal to one if the firm trades on NASDAQ
Relative Offer Size	Proceeds divided by market cap at t-1 days prior to offering
Volatility	Standard deviation of the closing prices calculated from -30 to -1 days prior to offering
CAR	Cumulative abnormal return calculated from -30 to -1 days prior to offering

Appendix A: Variable Definitions (continued)

Variable	Definition
Merger Characteristics	
Acquirer Total Fees	Total fees paid by acquirer to its advisors upon completion of the deal in millions of dollars; GDP adjusted
Merger Value	Deal value of the merger in millions of dollars; GDP adjusted
Premium	Offer price to target stock price four weeks prior to announcement
Hostile	Binary variable equal to one if the deal is hostile
Run-up	Percentage change in price from day (-42) to day (-6) before the merger announcement date
Percent Cash	Percent of the deal in cash
Percent Stock	Percent of the deal in stock
Tender/Merger	Binary variable equal to one if a tender offer is made
Same SIC	Binary variable equal to one if acquirer and target have the same four-digit sic code
Toehold	Percentage of shares acquirer holds in the target firm prior to merger
Public Target	Binary variable equal to one if the target is public
Financial and Firm Characteristics	
Market Value of Equity	Closing price per share times common shares outstanding
Leverage	Debt divided by assets
ROA	Operating income before depreciation divided by assets
Market to Book	Closing price per share times common shares outstanding divided by common stockholder's equity
Firm Deal Age	Age of firm at time of deal (based on CRSP start date)
Information Sensitivity Index	Comprised of R&D to total assets, intangible to total assets, capital expenditures to total assets, and average standard deviation of analysts' earnings forecasts
Z-score	Altman's (1968) Z-score
Firm Risk	Sum of squared errors from a three-factor Fama French model
CHS Distress Measure	Uses both accounting and market based data to predict distress scores according to reduced form model in Campbell et al. (2008)
Analyst Coverage Per Year	Number of analysts that cover the firm in a given year
Top 5 Advisor	Binary variable equal to one if the firm's advisor is a top 5 advisor
Number of Segments	Number of segments based on reported segment financials in the Compustat Non-Historical and Historical database
Product Market Competition	Based on Herfindahl concentration index; sum of squared market shares of sales for each firm using four-digit SIC industry and year
Number of Deals in Past Year	Aggregate number of deals across debt, equity, and mergers that a firm engaged in during the past twelve months
Value of Deals in Past Year	Aggregate value of deals across debt, equity, and mergers a firm engaged in during the past twelve months; GDP adjusted

Appendix B: Examples of Firm Classifications

This table displays examples of our three classifications of firm-advisor relations. Static firms consistently retain the same advisors for at least 80% of their total transaction history (two examples provided). A hybrid firm initially uses the same advisor for at least the first four transactions, but at some point begins to use multiple advisors. Dynamic firms use at least three advisors in its first four transactions, and then continue using multiple advisors for the remainder of deals. Transaction data are obtained from SDC Mergers and Acquisitions and Global New Issues databases.

Static (#1)			Static (#2)			Hybrid			Dynamic		
#	Type	Advisor	#	Type	Advisor	#	Type	Advisor	#	Type	Advisor
1	Equity	Bear	1	Equity	MS	1	Equity	FBC	1	Debt	LEH
2	Equity	Bear	2	Equity	MS	2	Equity	FBC	2	Equity	LEH
3	Merger		3	Equity	MS	3	Equity	FBC	3	Debt	MS
4	Debt	Bear	4	Equity	MS	4	Equity	FBC	4	Merger	Eberstadt
5	Equity	Bear	5	Debt	MS	5	Equity	FBC	5	Merger	
6	Debt	Bear	6	Debt	MS	6	Equity	WW	6	Debt	Shearson
7	Merger	Bear	7	Equity	MS	7	Equity	BHSS	7	Debt	FBC
8	Debt	Bear	8	Equity	MS	8	Equity	MS	8	Debt	SAL
9	Debt	Bear	9	Debt	ML	9	Equity	PBCF	9	Debt	Smith
10	Merger	Bear	10	Debt	MS	10	Equity	PBCF	10	Merger	
11	Debt	Bear	11	Debt	MS	11	Equity	GS	11	Debt	FBC
12	Debt	Bear	12	Debt	BOA	12	Debt	MS	12	Debt	JPM
13	Debt	Bear	13	Debt	BOA	13	Debt	MS	13	Merger	
			14	Debt	BOA	14	Equity	MS	14	Debt	JPM
						15	Merger	CSFB	15	Debt	JPM
						16	Debt	MS	16	Merger	Warburg
						17	Debt	Barclay	17	Equity	BOA
						18	Debt	MS	18	Debt	CSFB
						19	Equity	LEH			
						20	Debt	JPM			
						21	Equity	JPM			

Intermedia Communications

This firm is involved with 13 deals consisting of 7 debt offerings, 3 equity offerings and 3 mergers. In 1 case, the firm uses no advisors. In the remaining 12 deals, it uses Bear Stearns for every deal.

Kohl's Corp

This firm is involved with 14 deals consisting of 8 debt offerings and 6 equity offerings. It consistently uses MS, except in 1 case, and then switches to BOA for the remainder of deals.

Northeast Utilities

This firm is involved with 21 deals, consisting of 6 debt offerings, 14 equity offerings and 1 merger. It uses FBC for the first 5 deals, but then switches among 9 different banks for the remaining 16 deals.

Hercules Inc.

This firm is involved with 18 deals, consisting of 11 debt offerings, 2 equity offerings and 5 mergers. The firm switches advisors throughout deals with no consistent pattern, using 10 different advisors.

Appendix C: Robustness Specifications

This table provides descriptions of various robustness specifications on our analyses. Robustness tests are conducted on methodology, deal characteristics, alternative specifications, as well as additional or alternate variables for Tables II – VI.

Robustness measure	Rationale
Methodological	
Increase cutoff for statics to 90% or 100%	Current 80% may be too low
Use first five, six, or seven deals	1st four deals may not be enough to observe relation
Increase minimum to10 or 15 observations per firm	Current minimum of 5 observations per firm may be too low to establish relations
Remove all dynamics with IPOs pre-1970	Examine only firms can observe entire history
Include IPOs in all analyses	Examine if current exclusion of IPOs impacts results
Classify firms based on each deal type	Examining relation in aggregate may mix impact
Exclude hybrid firms from analyses	Firms that alter behavior may complicate analysis
Exclude hybrids that transition from dynamic to static	Firms that shift from dynamic to static may be fundamentally different
Run analyses on hybrid firms only	Isolate impact of firms that alter behavior
Define advisory relation based on 2 deals within past 5 years	Replicate prior studies
Eliminate deals without advisors	Limit analysis to only deals with advisors
Calculate short- and long-term measures of advisor loyalty	Examine variation in relation of differing time horizons (replicate prior studies)
Deal Characteristics	
Bifurcate regressions into small/large firms	Impact may vary by firm size
Matched sample (size) for statics and dynamics	Impact may vary by firm size
Segment on deal size, # deals, firm age	Key firm characteristics may impact relation
Exclude proceeds from debt/equity fees	Consistent with merger specification
Separate on shelf offerings (debt & equity)	Dramatic increase in shelf registration in 1990s
Eliminate deal characteristics	Replicate prior studies
Alternative Specifications	
Examine CEO turnover by firm type	Decision to remain static may be related to CEO
Split around the Gramm-Leach-Bliley Act	Potential exogenous shock impact # of advisors
Examine merger death/consolidation	Potential exogenous shock that could alter relation
Examine CAR (-1,1) around mergers	Merger performance may vary by firm type
Examine medians (Table 1)	Outliers may impact relation
Examine completed deals only	Relations may vary if deals not completed
Include governance variables (% independent, board size, G- or E-index, classified board, CEO Duality)	Governance characteristics may impact advisor relation, data available 1996 - 2010 only (1996 - 2007 for G-index)
Rerun all tables 1975 – 2001	Replicate prior studies

Appendix C: Robustness Specifications (continued)

Robustness measure	Rationale
Additional Variables	
Table II – Probability of Being Dynamic	
Use idiosyncratic volatility or CHS measures for all models	Alternate measures of information asymmetry
Include governance variables (% independent, board size, busy board, classified board, CEO duality, CEO tenure, CEO age)	Governance characteristics may impact advisor relation, data available 1996 - 2010 only
Estimate each regression using firm-year specifications	Prevent results from being biased towards firms engaging in mult`iple deals in one year
Table III – Main Specifications	
Use top 10 advisors or Ritter Rankings	Alternate measure of advisor reputation
Market value of equity versus total assets	Alternate measure of firm size
Measure past activity over 3 years or total sample windows	Examine impact of longer horizon of prior deals
Investment grade indicator	Measure of firm quality
Method of payment indicator (mergers)	Merger financing may be related to advisory relation
Control for # of days since last deal and indicator if last deal < 3, 6, or 9 months	Time between deals may impact likelihood of firm type (e.g., static or dynamic)
Control for same day deals	Deals on same days (across types) may be related
Aggregate deal fees scaled by aggregate value of transaction by deal type	Examine whether firms pay higher fees initially to obtain lower pricing later in relation
Table IV – Information Asymmetry	
Remove firms with Z-scores between 1.80 and 2.99, inclusive	Z-scores in this range are "grey", removes near-distress firms
Create financial deterioration index (size, leverage, MTB, and profitability) as well as include each of 4 measures individually	Alternate specifications of financial deterioration
Use CHS cutoff for BB or B ratings	Alternate specifications for financial deterioration
Include measures of financial constraint: dividend payout, long- or short-term debt rating, sales, investment grade	Distinguish between impact of financial constraint as opposed to financial distress
Include negative returns in previous year	Alternate specification for firm risk
Include total firm risk	Alternate specification for idiosyncratic risk

Appendix C: Robustness Specifications (continued)

Robustness measure	Rationale
Additional Variables	
Table V – Informational Opacity	
Exclude analyst dispersion from index	May proxy for risk rather than information
Examine each of the 4 information sensitivity index components individually	Alternate measure of information sensitivity
Classify high product market based on mean	Alternate specification of product market competition
Condition on single vs multi-segment	Alternate specification of firm complexity
Create index of complexity based on sales, leverage, and number of segments as well as include each measure individually	Alternate specification of firm complexity
Table VI – Ex Post Realizations	
Calculate 5-day event CARs	Alternate specification of event returns
Examine percentage change in Z-scores	Alternate specification of Z-score
Examine percent change in CHS	Alternate specification of CHS measure
Use completion date to one year post-completion	Alternate calculation for merger Z-score
Bifurcate each measure by debt/equity/mergers	Examining relation in aggregate may mix impact

Table I: Firm and Deal Characteristics

Panel A details mean statistics for the total number of deals per firm and composition of those deals segmented by firm type: static (698), hybrid (921), and dynamic (510). Panel B presents the mean firm characteristics. All financial data are for the fiscal year prior to the deal. Panels C, D, and E present mean deal characteristics (debt, equity, and mergers, respectively). The static (dynamic) column represents all firms classified as static (dynamic) as well as the static (dynamic) portion of hybrid firms. Variable definitions are detailed in Appendix A. p-values report the significance of the difference between sample means using a difference of means test.

	Static	**Dynamic**	**p-val**		**Static**	**Dynamic**	**p-val**
Panel A: Deal Statistics by Category							
Number Debt Deals	2.34	5.68	**(0.00)**	Number Total Deals	7.80	10.80	**(0.00)**
Number Equity Deals	2.62	2.58	(0.62)	Firm Yrs in Dataset	16.17	19.21	**(0.00)**
Number Mergers	2.84	2.55	**(0.01)**	Deals per Year	1.54	1.76	**(0.00)**
Panel B: Firm Characteristics - All Deals							
MVE	3,791	9,495	**(0.00)**	CHS measures	-8.27	-8.39	**(0.00)**
Leverage	0.33	0.34	**(0.03)**	Info Sensitivity Index	0.27	0.21	**(0.00)**
ROA (%)	12.36	11.71	**(0.01)**	Number of Segments	2.70	3.08	**(0.00)**
Market to Book	2.73	2.90	**(0.02)**	Firm Risk	11.45	10.53	**(0.00)**
Z-score	22.92	16.18	**(0.01)**	Analyst Coverage/Yr	13.50	14.16	**(0.01)**
Panel C: Debt (N)	**(2816)**	**(7011)**					
Principal Amt ($ mil)	181.18	303.80	**(0.00)**	Senior Debt (%)	91.09	95.29	**(0.00)**
Gross Spread, %	0.95	0.79	**(0.00)**	Shelf Offering (%)	59.66	75.00	**(0.00)**
Offer YTM (%)	8.65	7.33	**(0.00)**	Callable Bond (%)	60.51	63.79	**(0.00)**
Maturity (years)	14.48	13.22	**(0.00)**				
Panel D: Equity (N)	**(1440)**	**(2296)**					
Proceeds ($ mil)	112.31	162.50	**(0.00)**	Volatility (-30,-1) (%)	1.33	1.19	**(0.02)**
Gross Spread, %	4.07	3.85	**(0.00)**	CAR (-30 to -1) (%)	2.70	1.84	**(0.05)**
Underpricing (%)	1.97	2.02	(0.75)	Shelf Offering (%)	29.72	45.47	**(0.00)**
Relative Offer (%)	13.87	12.62	**(0.00)**	NASDAQ (%)	28.89	26.35	**(0.09)**
Panel E: Mergers (N)	**(482)**	**(960)**					
Merger Value ($ mil)	1,142	2,093	**(0.00)**	Completion (%)	85.04	88.40	(0.19)
Acquirer Fees ($ mil)	4.56	6.50	**(0.00)**	Public Target (%)	99.79	100.00	(0.16)
Acq. Fees, % of Deal	0.68	0.56	**(0.01)**	Tender Offer (%)	24.27	24.90	(0.80)
Premium (%)	49.05	46.82	(0.34)	Same SIC Code (%)	30.50	30.21	(0.91)
Run-up (%)	4.58	3.58	(0.31)	Toehold (%)	0.75	0.64	(0.61)

Table II: Probability of Being Dynamic

This table details the marginal effects from a logistic regression on the likelihood of a firm being classified as dynamic using the *ex ante* classification. Columns (1) - (4) each include a single measure of risk (Z-score) and the information opacity (information sensitivity index, product market competition, and complexity separately in (1) – (3), and jointly in (4)). Column (5) includes two measures of risk (both Z-score and idiosyncratic volatility) and opacity. Column (6) includes all measures of risk (Z-score, idiosyncratic volatility, and CHS score) and opacity. Variable definitions are detailed in Appendix A. p-values are listed in parentheses.

	(1)	(2)	(3)	(4)	(5)	(6)
Log MVE	0.004	0.004	0.003	0.002	0.002	-0.002
	(0.12)	**(0.05)**	(0.19)	(0.58)	(0.41)	(0.70)
MTB	0.000	-0.003	-0.003	0.000	0.000	-0.000
	(0.96)	**(0.02)**	**(0.01)**	(0.93)	(0.75)	(0.83)
ROA	-0.141	-0.109	-0.144	-0.216	-0.220	-0.244
	(0.00)	**(0.00)**	**(0.00)**	**(0.00)**	**(0.00)**	**(0.00)**
Leverage	0.011	0.039	0.067	0.046	0.032	0.058
	(0.65)	**(0.06)**	**(0.00)**	**(0.05)**	(0.18)	**(0.02)**
Firm Age	-0.002	-0.002	-0.001	-0.001	-0.001	-0.001
	(0.00)	**(0.00)**	**(0.00)**	**(0.01)**	**(0.01)**	**(0.00)**
Z-Score	0.000	0.000	0.000	0.000	0.000	0.000
	(0.42)	(0.37)	(0.18)	(0.20)	(0.23)	(0.39)
Idiosyncratic σ^2					0.075	0.048
					(0.25)	(0.49)
CHS Distress Measure						0.014
						(0.20)
Information Sensitivity Index	-0.027			-0.034	-0.035	-0.032
	(0.00)			**(0.00)**	**(0.00)**	**(0.00)**
Product Market Competition		-0.000		-0.000	-0.000	-0.000
		(0.01)		**(0.05)**	**(0.04)**	(0.98)
Number of Segments			-0.010	-0.011	-0.010	-0.010
			(0.00)	**(0.00)**	**(0.00)**	**(0.00)**
Year Indicators	Yes	Yes	Yes	Yes	Yes	Yes
Industry Indicators	Yes	Yes	Yes	Yes	Yes	Yes
Observations	13,634	18,733	16,993	12,336	12,192	10,442
Pseudo R-squared	0.093	0.087	0.082	0.093	0.093	0.090

Table III: Advisor Fees, Deal Costs and Benefits

This table details OLS regression results on deal costs and benefits using the *split* classification. Columns (1) - (3) detail fees for debt, equity and mergers, while Columns (4) - (6) examine yield to maturity (YTM), equity underpricing, and merger premiums. Analyst coverage is in Column (7). Variable definitions are detailed in Appendix A. p-values are listed in parentheses.

	Fee Regressions			Offer	Under-	Merger	Analyst
	Debt	Equity	Mergers	YTM	pricing	Premiums	Coverage
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Dynamic	-0.06	-0.09	-0.08	-0.10	0.14	-0.00	1.87
	(0.00)	**(0.02)**	**(0.09)**	**(0.00)**	(0.42)	(0.90)	**(0.00)**
Top 5 Advisor	-0.07	-0.13	-0.04	-0.10	-0.09	0.00	
	(0.00)	**(0.00)**	(0.36)	**(0.00)**	(0.58)	(0.83)	
MVE	-0.00	-0.00	-0.00	-0.00	0.00	0.00	0.00
	(0.00)	**(0.00)**	**(0.09)**	**(0.00)**	(0.29)	**(0.02)**	**(0.00)**
MTB	0.00	-0.00	-0.00	-0.01	-0.08	-0.00	0.11
	(0.15)	(0.57)	(0.68)	**(0.08)**	**(0.05)**	(0.78)	**(0.00)**
ROA	-1.08	-1.20	-0.86	-4.82	-1.75	0.20	12.47
	(0.00)	**(0.00)**	**(0.01)**	**(0.00)**	**(0.10)**	**(0.08)**	**(0.00)**
Leverage	0.76	0.02	-0.20	2.46	-0.44	-0.05	-6.66
	(0.00)	(0.86)	(0.26)	**(0.00)**	(0.49)	(0.41)	**(0.00)**
Deal Size	-0.03	-0.45		0.01	-0.60	-0.02	
	(0.00)	**(0.00)**		(0.34)	**(0.00)**	**(0.00)**	
Shelf Offering	-0.41	-0.55			-0.08		
	(0.00)	**(0.00)**			(0.81)		
Maturity	0.01			0.02			
	(0.00)			**(0.00)**			
Senior Debt	-1.08			-1.39			
	(0.00)			**(0.00)**			
Callable				0.35			
				(0.00)			
NASDAQ					1.04		
					(0.00)		
Relative Offer Size					3.66		
					(0.01)		
Volatility (-30,-1)					0.02		
					(0.81)		
CAR (-30,-1)					-1.94		
					(0.08)		
Public Target			-0.19			0.12	
			(0.05)			**(0.05)**	
Tender Offer			0.22			0.12	
			(0.00)			**(0.00)**	
Run-up						0.00	
						(0.00)	
Same SIC						0.00	
						(0.86)	
Toehold						-0.00	
						(0.11)	

Table III: Advisor Fees, Deal Costs and Benefits (continued)

	Fee Regressions			Offer	Under-	Merger	Analyst
	Debt	Equity	Mergers	YTM	pricing	Premiums	Coverage
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Firm Age	-0.00	-0.01	-0.00	-0.01	0.02	-0.00	
	(0.00)	**(0.00)**	**(0.03)**	**(0.00)**	**(0.00)**	**(0.63)**	
# Deals past year	-0.00	-0.06	-0.02	-0.02	0.04	0.01	0.28
	(0.09)	**(0.00)**	**(0.06)**	**(0.00)**	(0.48)	**(0.04)**	**(0.00)**
Prior Year Deal	-0.00	0.00	-0.00	0.00	-0.00	-0.00	0.00
Amount	(0.43)	(0.17)	(0.71)	(0.85)	(0.70)	**(0.00)**	(0.24)
Constant	1.93	6.13	0.76	7.77	2.35	0.60	6.96
	(0.00)	**(0.00)**	**(0.01)**	**(0.00)**	**(0.00)**	**(0.00)**	**(0.00)**
Year Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Industry Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	8,920	3,517	770	9,827	3,736	2,175	12,777
R-squared	0.404	0.415	0.154	0.768	0.126	0.105	0.331

Table IV: Firm Risk

This table details OLS regression results on how firm risk, affects deal costs and benefits. Panel A uses Altman's z-score as a measure of financial distress, Panel B uses the CHS measure of financial distress, and Panel C uses idiosyncratic risk. All firms with a Z-score lower than 1.8 are considered distressed, firms with a CHS score below the median score for BBB rated firms in Mansi et al. (2012) are considered distressed and idiosyncratic risk is measured by the sum of squared errors based on the three-factor Fama-French model. Columns (1) - (3) detail fees for debt, equity and mergers, while Columns (4) - (6) examine the offer yield to maturity (YTM), equity underpricing, and merger premiums. Analyst coverage is presented in Column (7). Variable definitions are detailed in Appendix A. p-values are listed in parentheses.

	Fee Regressions			Offer	Under-	Merger	Analyst
	Debt	Equity	Mergers	YTM	pricing	Premiums	Coverage
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Panel A: Altman's Z-Score							
Distressed	0.10	0.33	0.44	0.75	-0.36	0.08	-2.74
Statics	**(0.02)**	**(0.00)**	**(0.04)**	**(0.00)**	(0.28)	(0.72)	**(0.00)**
Non-distressed	0.05	0.04	0.06	0.06	0.09	-0.01	-1.95
Statics	**(0.00)**	(0.44)	(0.25)	**(0.07)**	(0.71)	(0.57)	**(0.00)**
Distressed	0.04	0.03	-0.02	0.42	0.49	0.07	2.04
Dynamics	(0.14)	(0.68)	(0.89)	**(0.00)**	**(0.09)**	(0.47)	**(0.00)**
Year/Industry FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Firm Characteristics	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Deal Characteristics	Yes	Yes	Yes	Yes	Yes	Yes	No
Observations	7,809	2,866	699	8,653	3,052	1,274	11,433
Adj. R-squared	0.424	0.397	0.162	0.737	0.119	0.142	0.337
Intra-panel: Distressed Statics = Distressed Dynamics							
	(0.13)	**(0.00)**	**(0.05)**	**(0.00)**	**(0.00)**	(0.96)	**(0.00)**
Panel B: CHS Measure							
Distressed	0.55	0.52	0.33	1.28	-0.25	0.03	-8.74
Statics	**(0.00)**	**(0.00)**	**(0.00)**	**(0.00)**	(0.44)	(0.60)	**(0.00)**
Non-distressed	0.03	0.06	0.04	-0.01	0.14	-0.00	-1.28
Statics	**(0.05)**	(0.23)	(0.46)	(0.81)	(0.54)	(0.88)	**(0.00)**
Distressed	0.33	0.51	0.16	0.95	0.27	0.00	-6.46
Dynamics	**(0.00)**	**(0.00)**	**(0.02)**	**(0.00)**	(0.33)	(0.96)	**(0.00)**
Year/Industry FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Firm Characteristics	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Deal Characteristics	Yes	Yes	Yes	Yes	Yes	Yes	No
Observations	7,094	2,671	596	7,936	2,860	1,862	10,962
Adj. R-squared	0.390	0.414	0.091	0.777	0.112	0.117	0.338
Intra-panel: Distressed Statics = Distressed Dynamics							
	(0.00)	(0.91)	(0.12)	**(0.01)**	(0.16)	(0.65)	**(0.00)**

Table IV: Firm Risk (continued)

	Fee Regressions			Offer	Under-	Merger	Analyst
	Debt	Equity	Mergers	YTM	pricing	Premiums	Coverage
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Panel C: Idiosyncratic Risk							
High Risk Statics	0.17 **(0.00)**	0.40 **(0.00)**	0.17 **(0.02)**	0.57 **(0.00)**	0.40 (0.12)	-0.02 (0.57)	-3.93 **(0.00)**
Low Risk Statics	0.04 **(0.01)**	0.11 **(0.08)**	0.07 (0.28)	0.04 (0.25)	-0.13 (0.50)	-0.02 (0.56)	-0.90 **(0.00)**
High Risk Dynamics	0.09 **(0.00)**	0.31 **(0.00)**	0.07 (0.15)	0.43 **(0.00)**	0.52 **(0.02)**	-0.02 (0.52)	-1.56 **(0.00)**
Year/Industry FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Firm Characteristics	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Deal Characteristics	Yes	Yes	Yes	Yes	Yes	Yes	No
Observations	8,834	34428	755	9,710	3,694	1,428	12,625
Adj. R-squared	0.390	0.414	0.091	0.777	0.112	0.117	0.338
Intra-panel: High Risk Statics = High Risk Dynamics	**(0.00)**	**(0.06)**	(0.16)	**(0.01)**	(0.64)	(0.98)	**(0.00)**

Table V: Firm Opacity

This table details OLS regressions on the effect of information opacity on deal costs and benefits using three different measures. Panel A reports information sensitivity, measured by an index based on analyst forecast dispersion as well as scaled R&D, intangibles, and capital expenditures. Panel B measures product market competition based on the Herfindahl Index on sales. Panel C uses firm complexity, measured by the number of operating segments from Compustat. Columns (1) - (3) detail fees for debt, equity and mergers, while columns (4) - (6) examine the offer yield to maturity (YTM), equity underpricing, and merger premiums. Analyst coverage is presented in column (7). Variable definitions are detailed in Appendix A. p-values are listed in parentheses.

	Fee Regressions			Offer	Under-	Merger	Analyst
	Debt	Equity	Mergers	YTM	pricing	Premiums	Coverage
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Panel A: Information Sensitivity							
High Info Sensitive Statics	0.09 **(0.00)**	0.09 (0.29)	0.08 (0.40)	0.28 **(0.00)**	0.45 (0.40)	-0.05 (0.24)	-0.08 (0.82)
Low Info Sensitive Statics	0.11 **(0.00)**	0.15 **(0.01)**	0.16 **(0.02)**	0.18 **(0.00)**	-0.09 (0.69)	0.01 (0.84)	-1.86 **(0.00)**
High Info Sensitive Dynamics	0.05 **(0.00)**	0.09 (0.32)	0.11 **(0.10)**	0.18 **(0.00)**	0.17 (0.70)	-0.01 (0.83)	1.18 **(0.00)**
Year/Industry FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Firm Characteristics	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Deal Characteristics	Yes	Yes	Yes	Yes	Yes	Yes	No
Observations	6,224	2,270	487	7,029	2,415	1,098	12,261
Adj. R-squared	0.426	0.358	0.078	0.732	0.069	0.115	0.333
Intra-panel: High Info Sensitive Statics = High Info Sensitive Dynamics							
	(0.21)	(0.99)	(0.80)	(0.18)	(0.62)	(0.38)	**(0.00)**
Panel B: Product Market Competition							
High Competition Statics	0.05 **(0.02)**	0.33 **(0.00)**	0.11 **(0.10)**	0.03 (0.54)	-0.28 (0.37)	-3.47 (0.32)	-3.68 **(0.00)**
Low Competition Statics	0.07 **(0.00)**	0.16 **(0.00)**	0.22 **(0.00)**	0.21 **(0.00)**	-0.15 (0.40)	-0.98 (0.81)	-2.02 **(0.00)**
High Competition Dynamics	0.01 (0.55)	0.33 **(0.00)**	0.11 **(0.07)**	0.05 (0.29)	-0.17 (0.58)	-2.20 (0.43)	-1.81 **(0.00)**
Year/Industry FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Firm Characteristics	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Deal Characteristics	Yes	Yes	Yes	Yes	Yes	Yes	No
Observations	8,894	3,492	759	9,787	3,712	1,423	12,735
Adj. R-squared	0.402	0.419	0.149	0.770	0.125	0.143	0.335
Intra-panel: High Competition Statics = High Competition Dynamics							
	(0.03)	(0.99)	(0.97)	(0.75)	(0.72)	(0.67)	**(0.00)**

Table V: Firm Opacity (continued)

	Fee Regressions			Offer	Under-	Merger	Analyst
	Debt	Equity	Mergers	YTM	pricing	Premiums	Coverage
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Panel C: Firm Complexity							
High Complexity Statics	-0.00 (0.92)	-0.07 (0.35)	-0.01 (0.89)	-0.13 **(0.01)**	0.12 (0.73)	-0.13 **(0.00)**	0.62 **(0.04)**
Low Complexity Statics	0.08 **(0.00)**	0.14 **(0.00)**	0.12 **(0.06)**	0.12 **(0.00)**	-0.37 **(0.09)**	0.01 (0.65)	-2.76 **(0.00)**
High Complexity Dynamics	-0.01 (0.41)	0.02 (0.74)	-0.03 (0.62)	-0.09 **(0.02)**	-0.20 (0.42)	-0.06 **(0.06)**	0.48 **(0.01)**
Year/Industry FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Firm Characteristics	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Deal Characteristics	Yes	Yes	Yes	Yes	Yes	Yes	No
Observations	7,814	3,068	733	8,631	3,273	1,377	11,737
Adj. R-squared	0.423	0.402	0.085	0.770	0.116	0.119	0.342
Intra-panel: High Complexity Statics = High Complexity Dynamics							
	(0.58)	(0.27)	(0.79)	(0.41)	(0.40)	**(0.06)**	(0.64)

Table VI: Ex Post Realizations

This table provides difference of means and Wilcoxon signed-rank tests for the difference between static and dynamic firms in cumulative abnormal returns around the announcement date of a firm's debt, equity, or merger transactions, the change in a firm's Z-score from the announcement date through one-year post-announcement, the change in a firm's CHS score, the percentage of firm's that change from investment grade to non-investment grade, and the percentage of firm's that delist within the following year. p-values report the significance of the difference between sample means or medians using a difference of means or Wilcoxon signed-rank test.

	Mean			*Median*		
	Static	Dynamic	p-value	Static	Dynamic	p-value
CAR (-1 to +1)	-0.70 %	-0.71 %	(0.90)	-0.31 %	-0.34 %	(0.48)
Observations	*3,610*	*7,118*				
Z-score	-1.04	-1.01	(0.94)	-0.02	0.01	(0.39)
Observations	*2,267*	*4,325*				
CHS score	0.02	0.01	(0.26)	0.04	0.03	(0.43)
Observations	*2,174*	*4,028*				
IG to Non IG	1.25%	1.05%	(0.63)	0.00	0.00	(0.63)
Observations	*883*	*2,296*				
Percent Delisted	1.23%	0.97%	(0.25)	0.00%	0.00%	(0.25)
Observations	*3,080*	*5,661*				

Table VII: Efficiency Tests

This table provides efficiency tests for firms. Panel (A) reports the percentage of investment bank ownership at the time of the deal by the firm's advisor, separated into static, hybrid, and dynamic firms. Panel (B) focuses on hybrid firms and examines the differences in the firm's information environment (for both risk and opacity measures) for the last deal that a firm is static and the first deal it is dynamic. Panel (C) details the number of CEO turnovers scaled by number of years where the transition period (Column 3) represents the period between the last deal that hybrids are static and the first deal hybrids are dynamic. p-values report the significance of the difference between sample means or medians using a difference of means or Wilcoxon signed-rank test.

Panel A: Investment Banker Ownership

	Static	Hybrid	Dynamic	p-value		
	(1)	(2)	(3)	1 vs. 2	1 vs. 3	2 vs. 3
Mean	0.81 %	0.82 %	0.84 %	(0.87)	(0.70)	(0.79)
Median	0.23 %	0.30 %	0.30 %	**(0.01)**	**(0.00)**	(0.28)
(N)	*831*	*3,256*	*1,494*			

Panel B: Hybrid Firms during Transition Period - Opacity

	Static	Dynamic	p-value
Z Score	37.62	35.85	(0.83)
(N)	*620*	*617*	
CHS measure	-8.02	-8.06	(0.42)
(N)	*570*	*599*	
Idiosyncratic Volatility	0.12	0.13	(0.25)
(N)	*346*	*686*	
Information Index	2.04	2.03	(0.92)
(N)	*266*	*515*	
Number of Segments	2.21	2.43	**(0.01)**
(N)	*718*	*698*	
Product Market Competition	657.48	625.67	(0.34)
(N)	*755*	*741*	

Panel C: Hybrid Firms - CEO Turnover

	Static Portion	Dynamic Portion	Transition Period	p-value	
	(1)	(2)	(3)	1 vs. 3	2 vs. 3
Mean	12.04 %	14.58 %	23.14 %	**(0.00)**	**(0.02)**
(N)	*247*	*247*	*98*		

Table VIII: Deal Costs and Benefits: Ex Ante and Ex Post Classifications

This table reports OLS regressions for deal costs and benefits using the *ex ante* classification (Panel A) and *ex post* classification (Panel B). The *ex ante* classification uses the first four deals to classify all firms and maintains that classification for the entire time the firm is in the dataset. The *ex post* classification bases the type of firm-advisor relationship using all firm deals. Columns (1) - (3) detail fees for debt, equity and mergers, while columns (4) - (6) examine the offer yield to maturity (YTM), equity underpricing, and merger premiums. Analyst coverage is detailed in column (7). Variable definitions are detailed in Appendix A. p-values are listed in parentheses.

	Fee Regressions			Offer	Under-	Merger	Analyst
	Debt	Equity	Mergers	YTM	pricing	Premiums	Coverage
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Panel A: Ex Ante Classification							
Dynamic	-0.02	-0.06	-0.13	-0.07	-0.15	-0.02	-0.23
	(0.06)	(0.17)	**(0.00)**	**(0.02)**	(0.37)	(0.41)	(0.16)
Year/Industry FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Firm Characteristics	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Deal Characteristics	Yes	Yes	Yes	Yes	Yes	Yes	No
Observations	8,920	3,517	770	9,827	3,736	2,175	12,777
Adj. R-squared	0.403	0.415	0.157	0.768	0.126	0.105	0.324
Panel B: Ex Post Classification							
Dynamic	-0.06	-0.10	-0.12	-0.10	0.02	0.02	2.23
	(0.00)	**(0.03)**	**(0.04)**	**(0.01)**	(0.94)	(0.57)	**(0.00)**
Year/Industry FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Firm Characteristics	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Deal Characteristics	Yes	Yes	Yes	Yes	Yes	Yes	No
Observations	8,920	3,517	770	9,827	3,736	2,175	12,777
Adj. R-squared	0.403	0.415	0.157	0.768	0.126	0.105	0.331