



THE UNIVERSITY
of ADELAIDE

Industry Specialization of Investment Banks in M&A Activities

Thesis for M.Phil. in Finance

Prepared

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Abstract

In recent years, industry specialization has been widely pursued by investment banks as a point of differentiation to attract new mergers and acquisitions (M&A) advisory business. This study is the first to examine the role of industry-specialized financial advisors in M&As. We use a comprehensive measure, the *Additive Revealed Comparative Advantage* (ARCA) index, to determine advisors' respective specialization levels in the acquirer and the target industry prior to the announcement date. We find that advisor industry specialization leads to lower fees, suggesting that specialized advisors pass some cost savings achieved through economies of industry specialization onto their bidder clients in order to compete for market share. We further find that industry specialization gives advisors superior capability to complete deals. Specialization, however, does not enable advisors to create additional value for their bidder clients, nor does it help them to work faster. The findings are robust to the control for endogeneity and imply that advisors' specialization effort is potentially distorted by the external rewarding system which encourages deal completion only. Contrary to the traditional perception on the superiority of industry specialists, this study suggests that such perception could be illusory in the M&A advisory market.

Declaration

I, Huizhong Zhang, certify that this work contains no material which has been accepted for the award of any other degree or diploma in any university or other tertiary institution and, to the best of my knowledge and belief, contains no material previously published or written by another person, except where due reference has been made in the text.

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