THE ROLES OF FINANCIAL ADVISERS IN MALAYSIAN MERGERS AND ACQUISITIONS (M&As)

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Prof. Dr. Abu Bakar bin Abdul Majeed
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Dear Profesor,

FINAL RESEARCH REPORT ON " THE ROLES OF FINANCIAL ADVISERS IN MERGERS AND ACQUISITIONS (M&As)"

With reference to the above matter, i am pleased to submit five copies (2 for RMI Shah Alam and 3 for RMU UiTM Sarawak) and a softcopy of the final research report entitled "The Roles of Financial Advisers in Mergers and Acquisitions (M&As)" by the reseach team from UiTM Sarawak.

Thank you.

Yours sincerely,

SONG SAW IMM
Leader
Research Project

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ABSTRACT

Literature in the field of M&A shows that acquirers did not gain from the transaction and the successful rate of takeover was quite low at about 40% in the 1970s and about 60% in the 1990s. So, this study aims to investigate the effects of engaging financial advisers in merger and acquisition (M&A) transactions. It measures whether different tiers of financial advisers with different expertise, experience and information bring different outcome towards their clients' firms in terms wealth effect.

Commonly, the choice of financial advisers to provide M&A advice was essentially determined by their perceived quality or reputation. The determination of the adviser quality was based on the annual adviser league table according to the market share of the advisers for the twelve-month period. Flexible ranking method was used in order to differentiate the quality of advisers. Using flexible ranking method, the financial advisers are ranked every year based on the market share in that particular year. First tier advisers are ranked by 1/3 of the highest market share. Second tier advisers who control another 1/3 of the market share. The rest are third tier advisers. All data were subtracted from Thomson ONE Banker Database.

The results from using a three-tier classification method and ranked using the flexible ranking technique showed financial advisers were not significant in determining the wealth effect of the clients. One possible reason is that using financial advisers is not a popular choice among the potential M&A firms.

CHAPTER 1: INTRODUCTION

1.0 Background of the study

Mergers and Acquisitions (M&As) or takeover activities have increased dramatically over the last decade. This has become part of the worldwide development in corporate restructuring and the general trend all over the world. It is believed that acquisition waves come along with strong economic growth. There are many reasons for firms to engage in M&A such as business expansion, synergy gains, speed to market and financial causes. According to Mat-Nor and Iskandar (1986), the most common reason of acquisition is for diversifying interest. They found that 52 percent of acquisitions reflected this characteristic. Many firms, both large and small, have undergone M&A activities in order to stay competitive in the market. Malaysia is also one of the countries that follow this trend of firms' combinations to improve performance.

A merger is a combination of two or more companies to form a single company, in short two companies become one. Theoretically, mergers involve two firms – the acquiring company or acquirer and target company or acquire. The acquirer usually initiates the action and is larger in size whereas the target company is a firm that another company seeks to acquire. Two common types of mergers are statutory merger and subsidiary merger. Statutory merger refers to the type of business transaction whereby acquiring firms assume the assets and liabilities of the merged firms (Gaughan, 2002). A good example is the proposal by Hong Leong Bank (HLB) to acquire the entire assets and liabilities of the EON Capital Berhad (EON Cap) with RM5.06 billion cash or RM7.30 per share on 21 June 2010. A subsidiary merger is a merger of two companies in which the target company becomes a subsidiary or part of a subsidiary of the parent company (Gaughan, 2002). For example, on 16 February 2005, Opcom Holdings Bhd acquired the entire share capital of Opcom Network Technologies Sdn Bhd, a telecommunication service provider and became a wholly-owned subsidiary of Opcom Holdings Bhd.