



Considerations When Selecting an Investment Banker

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Clients regularly seek advice about and input on hiring a professional to market and sell their business. In the Private Equity (PE) industry, investment bankers are generally chosen by the sponsor team. Attorneys may have personal experience, as well as their own opinions and biases, about bankers they have worked with and faced on the other side of transactions.

Participants in these types of transactions deserve not only unbiased advice, but also insight from deals that have become part of the jurisprudence. Different types of transactions (i.e., merger, purchase, or sale), and the differing positions of the client (buyer or seller) are some of the variables to take into account when making this choice, but there is more to consider.

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Transaction Size and Type

The size, type and complexity of the transaction will be some of the many determining factors one should consider when selecting an

investment banker, and there are several guiding questions one can ask to assist with the selection. For example, is the engagement a buy-side or sell-side assignment? Is it a public company or private company transaction? Is this an asset deal or corporate deal? What is the ownership structure (e.g., family, financial sponsor, joint venture)? Has there been a review of strategic alternatives? Is there a capital raise? Is there a need for balance sheet or liability management?

The client will also want to hire a solution-oriented advisor with directly relevant and recent experience to guide them through the transaction process. For example, if the size of the transaction is significantly larger than the bank's credentials, then the advisor may lack the experience and internal resources to deliver for that client. Conversely, if the size of the transaction is significantly smaller than the bank's typical transactions, then there is a risk the senior banker could lose interest and pass off the transaction to a more junior colleague.

Industry Expertise

A mergers & acquisitions (M&A) advisor with industry expertise adds value to a transaction process. Certain sectors or sub-sectors can be highly specialized, technical, or niche, and require a sophisticated and nuanced understanding of market factors to provide valuable advice. A skilled advisor will leverage their industry relationship network to provide a client with useful insights into current valuation trends (e.g., comparable public company trading metrics and precedent transaction multiples), market intelligence (e.g., competing sell-side product and buy-side process competition), the buyer universe (both strategic and financial) and potential synergies.

A banker with strong industry relationships can provide access to key decision makers for potential buyers or sellers, versus middle managers who do not have authority. This is particularly useful in M&A negotiations when bankers can be used to "back channel" on behalf of their client to facilitate the transaction.

Transaction Experience

M&A processes are often unpredictable and can change in size and scope as the deal progresses. Clients and their advisors should be prepared to adapt as the scenario evolves. An experienced advisor with a breadth of transaction experience will provide valuable counsel to navigate any unforeseen twists and turns along the way.

M&A transactions can fail for a variety of economic, social, or other reasons, so a client will want to hire a problem-solver who has been in the “endzone” previously.

Conflicts of Interest and Product Offerings

One of the most important roles of an advisor, particularly in an M&A scenario, is to provide unbiased advice. When selecting an advisor, a client will want to consider any potential conflicts of interest. Banks active in credit and/or capital markets are incentivized to use M&A to drive additional revenue across additional product lines.

For example, a bank in a sell-side target’s credit facility may influence the company’s decision to accept a lower value in a sale so the bank’s lending commitment can be refinanced by the buyer. If potential conflicts are not an issue, and financing is required as part of the transaction, one may want to select a bulge bracket investment banker who can provide M&A advice, acquisition or staple financing, capital markets execution, etc. all under one roof.

Trust, Relationship and Fit

While the most subjective, the trust, comfort and rapport with an advisor are arguably the most important selection criteria. M&A processes can be lengthy and emotional experiences and a client should partner with an advisor that has their best interests in mind and is worthy of their trust.

One should choose an advisor they are comfortable working with on a day-to-day basis and are confident will advise them with careful perspective and clear judgement. It is typical for potential clients to check references to assess culture fit and level of client service.

Lessons from Litigation Experiences

Some common problems and conflicts can be avoided and are exemplified when clients and their stakeholders seek damages from bankers. Sell-side advisors should not participate as buy-side lenders unless they are a lender of last resort, or their participation results in an increase to the purchase price. The investment bank should not have a financial interest in the outcome of the transaction that is not aligned with the owners or that favors officers and directors that are owners or investors of the bank.

An investment bank that acts as the primary financial advisor of the target company should not act on behalf of interested directors to the detriment of the target, or attempt to capture financing work for the bidders because of its engagement, and should not have an undisclosed financial interest in the success of the acquiring company. And bankers must complete diligence and investigations before recommending a course of action for transaction consideration.

All transactions and clients are important, but the client's relative experiences and perspectives can lead to differing outcomes. There are obvious differences between a client that is a one-time sell-side deal and a recurring buy and build strategy PE fund. The criteria we have listed should provide a basic understanding of how to make this important decision.

For more information, contact any attorney with Frost Brown Todd's [Private Equity](#) industry team.

**John Ed McGee, Senior Vice President at Intrepid Financial Partners, contributed to this article.*

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