Internet Appendix for

"Big Fish in Small Ponds: Human Capital Migration and the Rise of Boutique Banks"

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This online appendix consists of the following discussions and supplemental figures and tables:

IA.1: Variable Definition

Variable	Definition and Data Source
# of Follower Clients	The number of clients of a transitioning banker under the previous employer that follow the banker to his (her) new bank. Sources: Mergermarket, SDC, and FINRA.
# of Follower Colleagues	The number of past colleagues of a transitioning banker in the previous employer that follow the banker to his (her) new bank. Sources: Mergermarket and FINRA.
d(Skilled Banker Arrival)	The change in the number of skilled bankers specializing in industry n joining a boutique bank from $[t-k, t-1]$ to $[t, t+k]$, where $k = 3, 5$. Skilled bankers refer to those whose past 5-year deal volume in an industry ranks at the top tercile among all bankers that cover that industry.
Banker Experience	The number of years that a banker has worked in the M&A advisory industry. Sources: Mergermarket and FINRA.
Bidder's CAR	Bidders' cumulative abnormal announcement period return over [-3, +3] days centered around the deal announcement date, computed from Fama-French 3 factor model. Sources: CRSP and Ken French's Website.
Bidder Size	The natural logarithm of the bidder firm's market value of equity. Source: Compustat.
Bidder Leverage	Bidder firm's total debt (DLC + DLTT) scaled by total assets. Source: Compustat.
Bidder Market to Book	Bidder firm's market value of equity divided by book value of equity. Source: Compustat.
Bidder ROA	Bidder firm's net income divided by total assets. Source: Compustat.
Boutique	A dummy variable set to one if an M&A advisory is a boutique bank, and zero otherwise. Source: Wall Street Oasis.
Deal Duration	The number of days between deal announcement and deal completion/withdrawal. Sources: Mergermarket and SDC.
Deal Growth	The difference in the natural logarithm of one plus the number of M&A deals in an industry advised by a bank from $[t-k, t]$ to $[t, t+k]$ around year t. $k = 3,5$. Sources: Mergermarket and FINRA.
Deal Size	The natural logarithm of one plus transaction value in term of 2012 dollar. Sources: Mergermarket and SDC.
Diversifying Merger	A dummy variable set to one if the target firm's industry is different from the bidder's primary industry, and zero otherwise. Industry classification is based on the 2-digit SIC code. Sources: Mergermarket, SDC, and FINRA.
Exit to Boutique	A dummy variable set to one if a banker leaves his current employer and joins or forms a boutique bank, and zero otherwise. Sources: Mergermarket, FINRA and Wall Street Oasis.
Exit to Bulge Bracket	A dummy variable set to one if a banker leaves his current employer and joins a bulge bracket bank, and zero otherwise. Sources: Mergermarket and FINRA.
Exit to Prestigious Boutique	A dummy variable set to one if a banker leaves his current employer and joins or forms a prestigious boutique bank, and zero otherwise. A boutique bank is considered prestigious if it ranks above median among banks specializing in an industry-year. Sources: Mergermarket, FINRA, and Wall Street Oasis.
Gaining Bank Past Performance	The natural logarithm of one plus the number of deals advised in the past 3 years or 5 years by the bank that experiences the arrival of high-quality

	employees. Source: Mergermarket.
JOBS Spillover	Weighted average of indicator variables for whether a bulge bracket bank has underwritten any IPOs in the pharmaceutical or biotech industries over a 5-year window prior to the JOBS Act. The weights are a bulge bracket bank's share of skilled bankers in a given industry measured in year 2011. Source: SDC.
Less Experienced	A dummy variable set to one if a banker's experience is less than and equal to 8 years, and zero otherwise. Source: Mergermarket.
More Experienced	A dummy variable set to one if a banker's experience is greater than 8 years, and zero otherwise. Source: Mergermarket.
Losing Bank Past Performance	The natural logarithm of one plus the number of deals advised in the past 3 years or 5 years by the bank that experiences a departure of its high-quality employees. Source: Mergermarket.
Lower Ranked	A dummy variable set to one if a banker's job title is analyst, associate, or vice president, and zero otherwise. Source: LinkedIn.
Higher Ranked	A dummy variable set to one if a banker's job title is managing director, head, chairmen of the board, executive, partner, or founder, and zero otherwise. Source: LinkedIn.
Market Share Growth	The difference in the market share of M&A deals of a bank in an industry from $[t-k, t]$ to $[t, t+k]$ around the departure of its employee(s) in year t. k varies in 3 and 5 years, respectively. Sources: Mergermarket and FINRA.
New Industry	A dummy variable set to one if a bank starts advising deals over the next five years, for which the client is in an industry that the bank has not covered before. Source: Mergermarket.
Non-M&A Spillover	Weighted average of *Low Non-M&A Performance*, with the weight being a bulge bracket bank's share of skilled bankers in a given industry. *Low Non-M&A Performance* is an indicator variable for low deal volume in non-M&A departments inside a bulge bracket bank, which is set to one if the deal volume ranks at the bottom tercile for the bank over the sample period. Skilled bankers refer to bankers whose past 5-year deal volume in an industry ranks at the top sample tercile. Sources: DealScan, SDC and Mergermarket.
Non-M&A Volume	The natural logarithm of one plus the total number of non-M&A deals underwritten by a multidivisional bank in the past 3 or 5 years. Sources: DealScan, SDC and Mergermarket.
Past Deals	The logarithm of one plus the number of deals advised by the banker in the past 3 or 5 years. Source: Mergermarket.
Post	A dummy variable equal to one if the year is equal or greater than 2012 – the enactment of the JOBS Act – and zero otherwise.
Success Rate	A dummy variable equal to one if the deal was completed and zero if it failed. Sources: Mergermarket and SDC.
Target's CAR	The target firm's cumulative abnormal announcement period return over [-3, +3] days centered around the deal announcement date, computed from Fama-French 3 factor model. Sources: CRSP and Ken French's Website.

IA.2: A Sample of Bulge Bracket and Boutique Banks

In Table IA.1 below, we provide the list of bulge bracket banks (column 1) and top 20 boutique banks ranked by deal volume (column 2). A boutique bank classification is based on the WSO's definition.

Table IA.1: A Sample of Bulge Bracket and Boutique Banks

Bulge Bracket Banks	**Top 20 Boutique Banks by Deal Volume**
(1)	(2)
Goldman Sachs	Jefferies LLC
Morgan Stanley	Lazard
JP Morgan	Rothschild & Co
Credit Suisse	Sandler O'Neill & Partners, L.P.
Bank of America Merrill Lynch	Robert W. Baird & Co. Incorporated
Barclays Capital	William Blair & Company
Citigroup	Stifel/KBW
Deutsche Bank AG	Centerview Partners
UBS Investment Bank	Moelis & Company LLC
Wells Fargo	Harris Williams
	Greenhill & Co Inc
	Oaklins
	Houlihan Lokey
	Lincoln International LLC
	Keefe, Bruyette & Woods Inc
	Allen & Company LLC
	Guggenheim Partners, LLC
	CIBC World Markets Inc.
	RBC Capital Markets Inc
	Piper Jaffray & Co.

IA.3 Alternative Classification of Boutique Banks

Our main analyses adopt the Wall Street Oasis (WSO) classification for boutique firms. Nevertheless, unlike bulge brackets, there is far less clear consensus as what constitutes as a boutique. As such, we also consider an alternative definition of boutique banks using a "revenue-concentration" approach.

In the context of our analysis, a key distinction between boutique and bulge bracket banks is that the former focus on advising M&A deals whereas the latter also engage heavily in many other types of investment banking businesses such as equity issuance and debt underwriting. Since this feature is pertinent to the institutional friction that we explore in the paper, we define boutique banks as those that do not have substantial non-M&A activities such as IPOs, SEOs, bond and loan underwriting. Specifically, for each bank, we calculate the average ratio of its non-M&A deal volume relative to its M&A volume. This ratio reflects the degree of the bank's business concentration in the M&A advisory industry. We then consider, as a threshold, the minimum non-M&A ratio among the bulge bracket banks identified by the Wall Street Oasis. Only those with a non-M&A ratio falling below the threshold are identified as boutique banks.

Figure IA.1 graphs the market share of boutique banks over time. Market share is defined as the fraction of deals advised by boutique banks relative to the total deals recorded in the Mergermarket database. Compared to Panel A of Figure 1, the market share of boutique banks based on the revenue concentration classification scheme shows an even more dramatic trend, rising from less than 10% of the deals at the beginning of 2000s to nearly 80% of the deals by the end of 2018.

Figure IA.2 repeats the time series variation in the percentage of bankers that work in the boutique advisors. We continue to observe that investment bankers have increasingly migrated to boutique M&A advisors over our sample period: by the end of 2018, 70% of M&A bankers in our sample work for boutique banks based on the revenue concentration definition of boutique banks. Overall, the rise of the boutique sector in terms of its M&A market share and labor market share prevails when we adopt this alternative approach to define boutique banks.

In Table IA.2, we provide a list of top 20 boutique banks by using the WSO (column 1) and revenue-concentration (column 2) classification schemes, respectively. These boutiques are generally much

larger and more notable than a typical sample boutique firm, which tends to be very small and focused. It is evident that the two types of boutique classifications are highly correlated. We note that, boutique banks based on the WSO definition include some large firms such as Lazard, CIBC, and RBC Capital Markets. While those firms are not typically considered to be bulge bracket banks, they are larger and more well-known than an average boutique firm. Lazard, for example, is one of the oldest, elite boutique firms. The boutique classification based on revenue concentration helps exclude more "conglomerate" firms such as RBC capital, but still keeps Lazard because the non-M&A businesses of Lazard are not as important as that for bulge bracket banks. In untabulated analyses, we show that results are robust while removing these large boutique firms such as Lazard and Rothschild.

Using the revenue-concentration classification, we re-estimate the tests examining the exit to boutiques, the heterogeneity of banker exit, and causal effect of institutional friction on the performance of boutique sector using non-M&A volume and JOBS Act. The results from Tables IA.3 indicate that our findings are robust to this alternative classification of boutique banks.

Figure IA.1: Market Share of Boutique Advisors

This figure plots the market share dynamics of the boutique M&A advisors during the 2001-2018 period. We classify a boutique bank based on revenue concentration. Market share is defined as the fraction of deals advised by boutique banks relative to the total deals recorded in the Mergermarket database in a year.

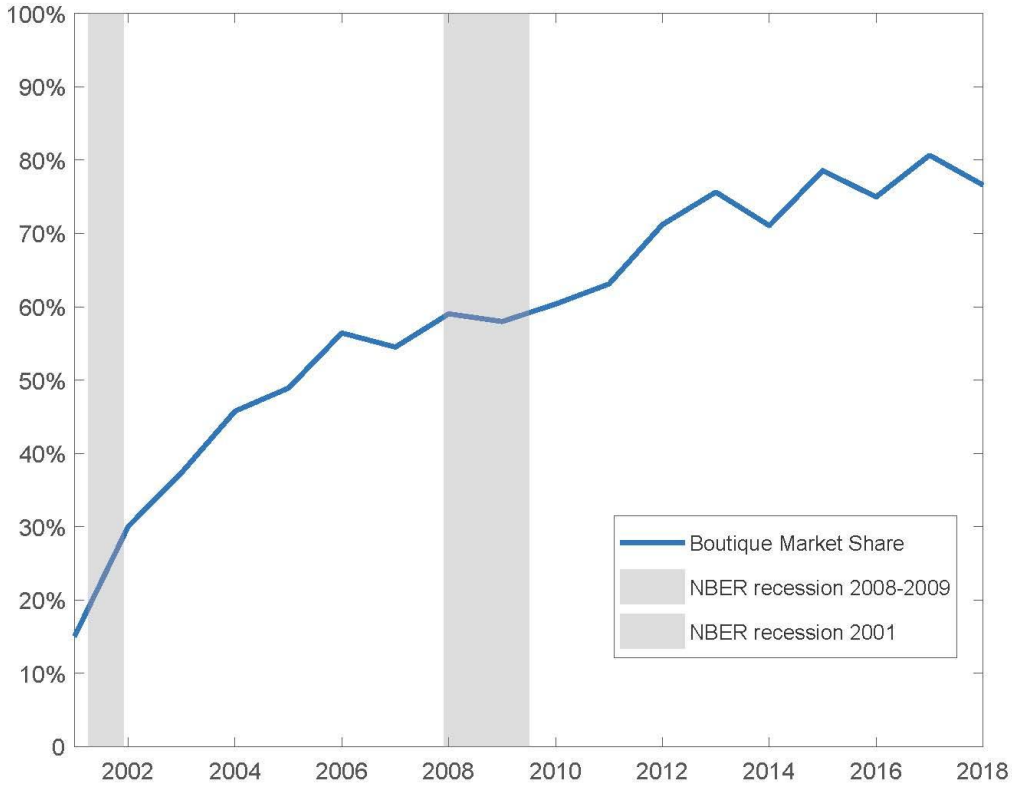

Figure IA.2: Labor Share of Boutique Advisors

This figure plots the labor share dynamics of the boutique M&A advisors during the 2001-2018 period. We classify a boutique bank based on revenue concentration. Labor share is defined as the fraction of M&A bankers who work in the boutique sector.

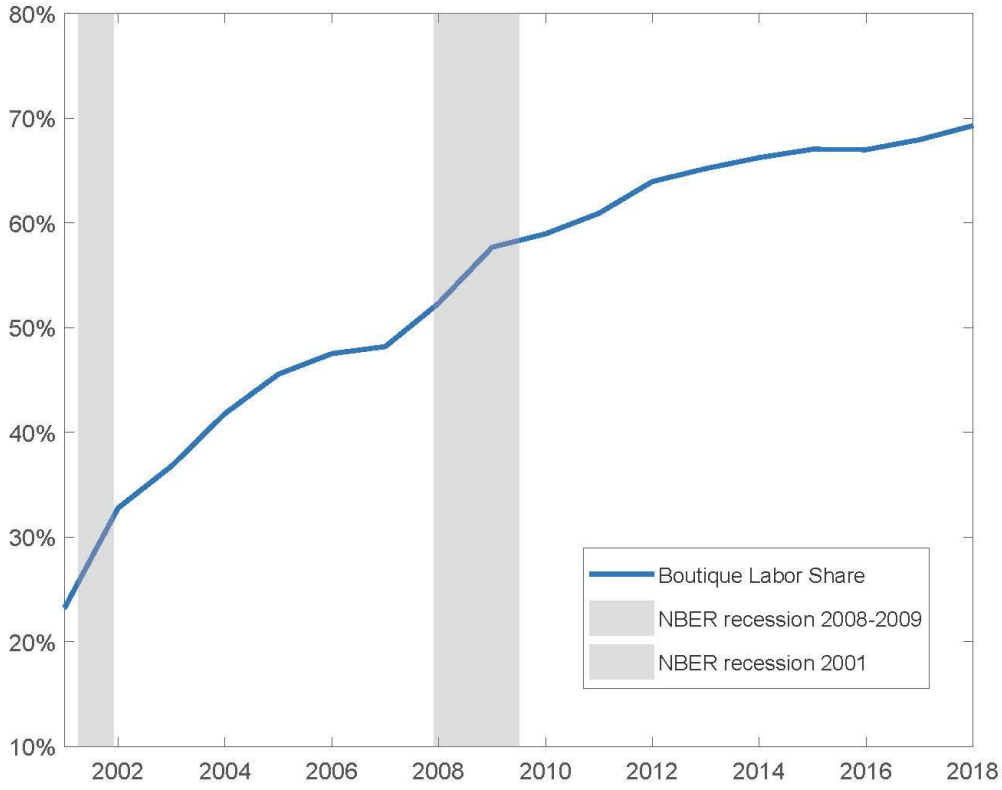

Table IA.2: Top Boutiques Based on WSO and Revenue-Concentration Classifications

We provide the list of top 20 boutique banks ranked by deal volume. A boutique bank classification is based on the WSO's definition (column 1) or on revenue concentration (column 2).

WSO	Revenue Concentration
(1)	(2)
Jefferies LLC	Jefferies LLC
Lazard	Lazard
Rothschild & Co	Rothschild & Co
Sandler O'Neill & Partners, L.P.	Sandler O'Neill & Partners, L.P.
Robert W. Baird & Co. Incorporated	Robert W. Baird & Co. Incorporated
William Blair & Company	William Blair & Company
Stifel/KBW	Stifel/KBW
Centerview Partners	Centerview Partners
Moelis & Company LLC	Moelis & Company LLC
Harris Williams	Harris Williams
Greenhill & Co Inc	Greenhill & Co Inc
Oaklins	Oaklins
Houlihan Lokey	Houlihan Lokey
Lincoln International LLC	Lincoln International LLC
Keefe, Bruyette & Woods Inc	Keefe, Bruyette & Woods Inc
Allen & Company LLC	Allen & Company LLC
Guggenheim Partners, LLC	Guggenheim Partners, LLC
CIBC World Markets Inc.	Tudor, Pickering, Holt & Co LLC
RBC Capital Markets Inc	Qatalyst Group
Piper Jaffray & Co.	DCS Advisory

Table IA.3: Classifying Boutiques by Revenue Concentration

This table reports our baseline results when we adopt an alternative definition of boutique banks based on their revenue concentration. Panel A examines how a banker's past performance affects his tendency of moving to boutique banks. Panel B further analyzes how this sensitivity varies across bankers of different seniority. Panel C investigates how institutional frictions in multidivisional banks drive high-performing bankers to leave for boutique. Panel D establishes the causal effect of institutional frictions in multidivisional banks on the performance of boutique banks. Variable definitions are in the Internet Appendix IA.1. Standard errors clustered by banker in Panels A, B, and C, and by bank in Panel D are in parentheses. *, **, and *** indicate significance at the 10%, 5%, and 1% level, respectively.

Panel A: Exit to Boutique Bank

Dependent Variable: *Exit to Boutique*										
Time Horizon:	3 Years	3 Years	3 Years	3 Years	3 Years	5 Years	5 Years	5 Years	5 Years	5 Years
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Past Deals	0.0634***	0.0247***	0.0098	0.0146**	0.0130**	0.0742***	0.0282***	0.0102*	0.0144**	0.0131**
	(0.006)	(0.005)	(0.006)	(0.006)	(0.007)	(0.005)	(0.004)	(0.006)	(0.006)	(0.006)
Banker Experience				0.0304	0.0324				0.0302	0.0325
				(0.023)	(0.030)				(0.023)	(0.030)
Losing Bank Past Performance				-0.0003					0.0008	
				(0.003)					(0.003)	
Gaining Bank Past Performance				0.0025	0.0002				0.0006	-0.0019
				(0.003)	(0.003)				(0.003)	(0.003)
Banker FE	Yes	No	Yes	Yes	Yes	Yes	No	Yes	Yes	Yes
Year FE	No	No	Yes	Yes	No	No	No	Yes	Yes	No
Losing Bank FE	No	Yes	Yes	Yes	No	No	Yes	Yes	Yes	No
Losing Bank × Year FE	No	No	No	No	Yes	No	No	No	No	Yes
Gaining Bank FE	No	No	No	Yes	Yes	No	No	No	Yes	Yes
Observations	22,171	22,310	22,138	22,110	20,979	22,171	22,310	22,138	22,110	20,979
R-squared	0.149	0.053	0.250	0.286	0.442	0.153	0.054	0.250	0.286	0.442

Table IA.3 continued.

Panel B: Which High-Performing Bankers Exit?

Dependent Variable:	*Exit to Boutique*							
Time Horizon:	3 Years	3 Years	5 Years	5 Years	3 Years	3 Years	5 Years	5 Years
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Past Deals × Less Experienced	0.0349***	0.0282***	0.0344***	0.0283***				
	(0.008)	(0.009)	(0.008)	(0.008)				
Past Deals × More Experienced	-0.0004	0.0017	0.0019	0.0036				
	(0.008)	(0.008)	(0.007)	(0.007)				
Past Deals × Lower Ranked					0.0858***	0.0528***	0.0714***	0.0356**
					(0.019)	(0.019)	(0.019)	(0.018)
Past Deals × Higher Ranked					0.0030	0.0008	0.0072	0.0046
					(0.009)	(0.009)	(0.009)	(0.008)
Losing Bank Past Performance	-0.0005		0.0005		-0.0015		-0.0011	
	(0.003)		(0.003)		(0.004)		(0.004)	
Gaining Bank Past Performance	0.0025	0.0002	0.0006	-0.0019	0.0036	0.0033	0.0020	0.0010
	(0.003)	(0.003)	(0.003)	(0.003)	(0.004)	(0.004)	(0.004)	(0.003)
Banker FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	No	Yes	No	Yes	No	Yes	No
Losing Bank FE	Yes	No	Yes	No	Yes	No	Yes	No
Losing Bank × Year FE	No	Yes	No	Yes	No	Yes	No	Yes
Gaining Bank FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	22,110	20,979	22,110	20,979	13,360	12,368	13,360	12,368
R-squared	0.286	0.442	0.286	0.442	0.307	0.477	0.306	0.476

Table IA.3 continued.

Panel C: Cross-subsidization in Multidivisional Banks and Exit to Boutique

Dependent Variable: *Exit to Boutique*						
Time Horizon:	3 Years	3 Years	3 Years	5 Years	5 Years	5 Years
	(1)	(2)	(3)	(4)	(5)	(6)
Past Deals × Non-M&A Volume	-0.0050**	-0.0056**	-0.0027	-0.0065***	-0.0069***	-0.0059**
	(0.002)	(0.002)	(0.003)	(0.002)	(0.002)	(0.002)
Past Deals	0.0464**	0.0522**	0.0329	0.0662***	0.0710***	0.0669***
	(0.021)	(0.022)	(0.024)	(0.021)	(0.022)	(0.024)
Non-M&A Volume	0.0026	-0.0023		0.0020	-0.0039	
	(0.003)	(0.004)		(0.004)	(0.005)	
Banker Experience		-0.3640	-0.4683		-0.3569	-0.4609
		(0.391)	(0.351)		(0.372)	(0.343)
Losing Bank Past Performance		0.0116**			0.0126**	
		(0.005)			(0.005)	
Gaining Bank Past Performance		0.0002	0.0006		-0.0020	-0.0025
		(0.003)	(0.003)		(0.003)	(0.003)
Banker FE	Yes	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	No	Yes	Yes	No
Losing Bank FE	Yes	Yes	No	Yes	Yes	No
Losing Bank × Year FE	No	No	Yes	No	No	Yes
Gaining Bank FE	No	Yes	Yes	No	Yes	Yes
Observations	14,049	14,039	13,926	14,049	14,039	13,926
R-squared	0.227	0.258	0.348	0.227	0.259	0.349

Table IA.3 continued.

Panel D: Non-M&A Volume and JOBS Act

Dependent Variable:	*Deal Growth*				*Market Share Growth*				*New Industry*	
Time Horizon:	3 Years	5 Years	3 Years	5 Years	3 Years	5 Years	3 Years	5 Years	3 Years	5 Years
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Non-M&A Spillover	0.0051***	0.0066***			0.0061***	0.0098***			0.0056***	
	(0.001)	(0.001)			(0.002)	(0.003)			(0.001)	
JOBS Spillover × Post			-0.0011	-0.0092***			-0.0033	-0.0174***		-0.0064***
			(0.001)	(0.002)			(0.002)	(0.004)		(0.001)
Gaining Bank × Year FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	424,690	373,660	161,736	161,736	424,690	373,660	161,736	161,736	424,690	161,736
R-squared	0.057	0.093	0.036	0.091	0.051	0.097	0.032	0.090	0.114	0.112

IA.4: Does Past Performance Predict Future Deal Activity?

Our main proxy for banker performance is the number of M&A deals advised by the banker in the past. In this section, we explore the intertemporal correlation of deal activity at the banker level, examining whether a banker's past deal activity is a strong predictor of future deal activity.

Table IA. 4 provides direct evidence that high-performing bankers are capable of generating more M&A deals in the future. Specifically, we observe that a banker's recent past performance, measured over the previous 3-year and 5-year windows respectively, is positively and significantly linked to M&A deal volume he or she advises currently. This persistence of banker's human capital corroborates the argument that banks benefit from hiring high-performing bankers.

Table IA.4: Does Banker Past Performance Predict Future Deal Activity?

This table examines whether a banker's past performance affects its future M&A deal activities. The unit of analysis is at the banker-year level. The dependent variable is *log*(*Deals*), the natural logarithm of one plus the number of M&A deals that a banker advises in a year. Variable definitions are in the Internet Appendix IA.1. Standard errors clustered by banker are in parentheses. *, **, and *** indicate significance at the 10%, 5%, and 1% levels, respectively.

	Dependent Variable: *log*(*Deals)*					
Time Horizon:	3 Years	3 Years	3 Years	5 Years	5 Years	5 Years
	(1)	(2)	(3)	(4)	(5)	(6)
Past Deals	0.2632***	0.1227***	0.0924***	0.2240***	0.1032***	0.0740***
	(0.009)	(0.009)	(0.009)	(0.008)	(0.008)	(0.009)
Banker FE	No	Yes	Yes	No	Yes	Yes
Year FE	No	No	Yes	No	No	Yes
Observations	22,345	22,171	22,171	22,345	22,171	22,171
R-squared	0.137	0.269	0.293	0.129	0.266	0.291

IA.5: Alternative Measures for Banker Past Performance

In our baseline analyses, we measure a banker's performance using the number of M&A deals he or she has advised in the past 3 or 5 years. To check the robustness of the findings, we consider two alternative metrics for banker performance: *Past Deal Value* and *Past Mega Deal Value*. *Past Deal Value* and *Past Mega Deal Value* are, respectively, the logarithm of dollar value of deals and mega deals advised by the banker during the past 3-year or 5-year window. We classify a M&A deal to be a mega deal if the value of the deal exceeds $5 billion.[1] A banker's involvement in advising larger M&A deals likely reflects higher quality of his human capital. Defining a mega deal with $1 billion cutoff does not alter our findings.

While constructing these alternative measures leads to a non-trivial loss of observations, as the value of an M&A transaction is missing for a significant fraction of M&A deals in our sample, we nevertheless re-estimate our baseline analyses.

In Table IA.5, we find that our main results prevail when employing alternative ways to measure a banker's performance. High-performing bankers with a rising career trajectory are more likely to exit to boutique banks but not to bulge brackets.

[1] PitchBook uses the cutoff of $5 billion to define the mega deals (https://pitchbook.com/blog/what-are-mega-deals).

Table IA.5: Alternative Definitions of Banker Performance

This table presents results for job transition of bankers at different career stages using alternative measures for banker's past performance. In Panel A, we examine the likelihood of high-performing bankers moving to boutique banks. In Panel B, we examine the likelihood of high-performing bankers moving to bulge bracket banks. In Panel C, we restrict the sample to the banker-bank-year that job transition happens (exit-only sample), and in Panel D, we further restrict the sample to the banker-bank-year when a banker exits a multidivisional bank. Variable definitions are in the Internet Appendix IA.1. Standard errors clustered by banker are in parentheses. *, **, and *** indicate significance at the 10%, 5%, and 1% level, respectively.

Panel A: Exit to Boutique Bank

Dependent Variable: *Exit to Boutique*								
Time Horizon:	3 Years	3 Years	3 Years	3 Years	5 Years	5 Years	5 Years	5 Years
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Past Deal Value × Less Experienced	0.0019*	0.0019*	0.0022**	0.0023**				
	(0.001)	(0.001)	(0.001)	(0.001)				
Past Deal Value × More Experienced	-0.0023**	-0.0019**	-0.0021**	-0.0016				
	(0.001)	(0.001)	(0.001)	(0.001)				
Past Mega Deal Value × Less Experienced					0.0161	0.0208*	0.0195*	0.0225*
					(0.011)	(0.012)	(0.011)	(0.012)
Past Mega Deal Value × More Experienced					-0.0098	-0.0046	-0.0046	0.0023
					(0.009)	(0.010)	(0.009)	(0.009)
Losing Bank Past Performance	0.0023		0.0020		0.0023		0.0020	
	(0.003)		(0.003)		(0.003)		(0.003)	
Gaining Bank Past Performance	0.0128***	0.0115***	0.0125***	0.0113***	0.0127***	0.0115***	0.0125***	0.0112***
	(0.002)	(0.002)	(0.002)	(0.002)	(0.002)	(0.002)	(0.002)	(0.002)
Banker FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	No	Yes	No	Yes	No	Yes	No
Losing Bank FE	Yes	No	Yes	No	Yes	No	Yes	No
Losing Bank-Year FE	No	Yes	No	Yes	No	Yes	No	Yes
Gaining Bank FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	22,110	20,979	22,110	20,979	22,110	20,979	22,110	20,979
R-squared	0.279	0.413	0.279	0.413	0.279	0.412	0.279	0.412

Table IA.5 continued.

Panel B: Exit to Bulge Bracket

Dependent Variable: *Exit to Bulge Bracket*								
Time Horizon:	3 Years	3 Years	3 Years	3 Years	5 Years	5 Years	5 Years	5 Years
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Past Deal Value × Less Experienced	0.0001	0.0000	0.0003	0.0000				
	(0.001)	(0.001)	(0.001)	(0.001)				
Past Deal Value × More Experienced	-0.0019*	-0.0029***	-0.0009	-0.0023**				
	(0.001)	(0.001)	(0.001)	(0.001)				
Past Mega Deal Value × Less Experienced					-0.0054	-0.0016	-0.0066	-0.0036
					(0.008)	(0.009)	(0.008)	(0.009)
Past Mega Deal Value × More Experienced					-0.0231***	-0.0182**	-0.0210***	-0.0174**
					(0.007)	(0.009)	(0.007)	(0.008)
Losing Bank Past Performance	0.0001		0.0006		0.0005		0.0014	
	(0.002)		(0.002)		(0.002)		(0.002)	
Gaining Bank Past Performance	0.0205***	0.0203***	0.0212***	0.0211***	0.0204***	0.0204***	0.0211***	0.0212***
	(0.002)	(0.003)	(0.002)	(0.002)	(0.002)	(0.003)	(0.002)	(0.002)
Banker FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	No	Yes	No	Yes	No	Yes	No
Losing Bank FE	Yes	No	Yes	No	Yes	No	Yes	No
Losing Bank-Year FE	No	Yes	No	Yes	No	Yes	No	Yes
Gaining Bank FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	22,110	20,979	22,110	20,979	22,110	20,979	22,110	20,979
R-squared	0.270	0.339	0.271	0.340	0.270	0.339	0.271	0.340

Table IA.5 continued.

Panel C: Alternative Measures for Banker Past Performance – All Exits

Dependent Variable:	*Exit to Boutique*				*Exit to Bulge Bracket*			
Time Horizon:	3 Years	3 Years	3 Years	3 Years	3 Years	5 Years	5 Years	5 Years
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Past Deal Value × Less Experienced	0.0152***	0.0148***			-0.0022	-0.0026		
	(0.006)	(0.006)			(0.006)	(0.006)		
Past Deal Value × More Experienced	-0.0022	-0.0001			0.0056	0.0041		
	(0.005)	(0.005)			(0.005)	(0.005)		
Past Mega Deal Value × Less Experienced			0.1125*	0.1382**			-0.0052	-0.0127
			(0.063)	(0.062)			(0.049)	(0.046)
Past Mega Deal Value × More Experienced			0.0633	0.0572			-0.0255	-0.0014
			(0.050)	(0.043)			(0.044)	(0.035)
Banker FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Losing Bank FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	2,475	2,475	2,475	2,475	2,475	2,475	2,475	2,475
R-squared	0.615	0.615	0.614	0.614	0.668	0.668	0.667	0.667

Table IA.5 continued.

Panel D: Alternative Measures for Banker Past Performance – Exits from Multidivisional Banks

Dependent Variable:	*Exit to Boutique*				*Exit to Bulge Bracket*			
Time Horizon:	3 Years	5 Years	3 Years	5 Years	3 Years	5 Years	3 Years	5 Years
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Past Deal Value × Less Experienced	0.0139**	0.0158**			-0.0047	-0.0060		
	(0.007)	(0.007)			(0.006)	(0.006)		
Past Deal Value × More Experienced	0.0058	0.0077			0.0023	0.0043		
	(0.006)	(0.006)			(0.006)	(0.006)		
Past Mega Deal Value × Less Experienced			0.1583*	0.2273***			-0.0961	-0.1421*
			(0.081)	(0.073)			(0.081)	(0.077)
Past Mega Deal Value × More Experienced			-0.0375	-0.0144			0.0932	0.1384**
			(0.073)	(0.057)			(0.072)	(0.060)
Banker FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Losing Bank FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	1,135	1,135	1,135	1,135	1,135	1,135	1,135	1,135
R-squared	0.754	0.754	0.753	0.754	0.790	0.791	0.791	0.793

IA.6: Demand-side versus Supply-side Controls

In this Internet Appendix, we report an extended set of results for Table 2 Panel A, considering demand-side controls and supply-side controls separately. In Panel A of Table IA.6, we focus on the impact from the supply side of high-performing human capital, including losing bank fixed effects and/or controls for losing banks in the estimations, but excluding gaining bank controls and gaining bank fixed effects. This allows us to observe whether, among all the bankers of a given losing bank in a given point in time, the highest performers are those more likely to transition to a boutique bank.

In Panel B of Table IA.6, we focus on the impact from the demand side, including gaining bank fixed effects and/or controls, but no losing bank controls or losing bank fixed effects. This allows us to take into account the institutional characteristics of the gaining bank that make it attractive to valuable human capital.

The results from Table IA.6 indicate that our findings remain robust in these less saturated specifications. This suggests that our baseline findings are not sensitive to the set of controls we include.

Table IA.6: Considering Demand-side and Supply-side Controls Separately

This table presents results for the likelihood of bankers transitioning to the boutique sector in two separate sets of specifications. In Panel A, we include only losing bank-related controls. In Panel B, we include only gaining bank-related controls. Columns 1-3 of both panels show the results for 3-year horizon, and columns 4-6 show the results for 5-year horizon. Standard errors clustered by banker are in parentheses. Variable definitions are in the Internet Appendix IA.1. *, **, and *** indicate significance at the 10%, 5%, and 1% levels, respectively.

Panel A: Controlling Losing Bank Characteristics

Dependent Variable: *Exit to Boutique*						
Time Horizon:	3 Years	3 Years	3 Years	5 Years	5 Years	5 Years
	(1)	(2)	(3)	(4)	(5)	(6)
Past Deals	0.0098*	0.0089	0.0110*	0.0128**	0.0122**	0.0144**
	(0.005)	(0.005)	(0.006)	(0.005)	(0.005)	(0.006)
Banker Experience		0.0084	0.0093		0.0083	0.0093
		(0.012)	(0.015)		(0.012)	(0.015)
Losing Bank Past Performance		0.0022			0.0018	
		(0.003)			(0.003)	
Banker FE	Yes	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	No	Yes	Yes	No
Losing Bank FE	Yes	Yes	No	Yes	Yes	No
Losing Bank × Year FE	No	No	Yes	No	No	Yes
Observations	22,138	22,138	21,008	22,138	22,138	21,008
R-squared	0.224	0.224	0.361	0.224	0.224	0.361

Panel B: Controlling Gaining Bank Characteristics

Dependent Variable: *Exit to Boutique*						
Time Horizon:	3 Years	3 Years	3 Years	5 Years	5 Years	5 Years
	(1)	(2)	(3)	(4)	(5)	(6)
Past Deals	0.0121**	0.0121**	0.0121**	0.0169***	0.0168***	0.0168***
	(0.005)	(0.005)	(0.005)	(0.005)	(0.005)	(0.005)
Banker Experience		0.0086	0.0083		0.0083	0.0078
		(0.011)	(0.011)		(0.011)	(0.010)
Gaining Bank Past Performance			0.0111***			0.0109***
			(0.002)			(0.002)
Banker FE	Yes	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes	Yes
Gaining Bank FE	Yes	Yes	Yes	Yes	Yes	Yes
Observations	22,139	22,139	22,139	22,139	22,139	22,139
R-squared	0.258	0.258	0.259	0.258	0.258	0.259

IA.7: Prestigious Boutiques

In this Internet Appendix, we report the remaining results relating banker transition to prestigious boutiques.

Panel A of Table IA.7 evaluates the propensity of a high-performing banker transitioning to prestigious boutique M&A advisors. The dependent variable is *Exit to Prestigious Boutique*. The results indicate that a high-performing banker is more likely to migrate to prestigious boutiques. A one-standard-deviation increase in a banker's past performance is associated with a 14.7% (= 0.016×0.54/0.058) increase relative to the unconditional probability that a banker moves to a prestigious boutique (column 4). This result suggests that bankers' migration to boutique banks is not driven by their transitioning to poor-quality firms, and as such, the rise of the boutique sector that we document in Figure 1 is unlikely explained by an increasing number of low-quality boutique advisors.

In Panel B of Table IA.7, we re-estimate our regressions in Table 3, replacing the outcome variable with *Exit to Prestigious Boutique*. We find that high-performing bankers, especially the less senior ones with a rising career trajectory, are more likely to join prestigious boutique banks. This result helps mitigate the concern that our main findings are driven by past high achievers moving to inferior boutique firms for a quiet life.

In Panel C of Table IA.7, we examine whether a high-performing banker's tendency to join prestigious boutique firms is affected by his current multidivisional employer's cross-department subsidization activity. We find that as a high-performing banker's current employer has a greater incentive to cross-subsidize other departments using the revenue generated by the M&A advisory department, the M&A banker is more likely to move to a prestigious boutique firm.

In Panel D of Table IA.7, we establish the causal effect of banker relocation on the subsequent performance of prestigious boutique firms using the cross-department subsidization and shocks due to the JOBS Act.

Table IA.7: Exit to Prestigious Boutique

This table presents the results for prestigious boutique banks. The dependent variable is *Exit to Prestigious Boutique*. Panel A compares the relative attractiveness of the prestigious boutique sector to the bulge bracket sector in attracting high-performing human capital. Panel B examines the bankers' performance and their job transition to prestigious boutiques. Panel C shows how the multidivisional banks' performance in their non-M&A departments affects the M&A bankers' job transition to prestigious boutiques. Panel D establishes the causal effect of high performing bankers' relocation on the prestigious boutique banks' performance. Variable definitions are in the Internet Appendix IA.1. Standard errors clustered by banker in Panels A through C, and by bank in Panel D are in parentheses. *, **, and *** indicate significance at the 10%, 5%, and 1% level, respectively.

Panel A: Is the Boutique Sector More Attractive to High-Performing Bankers?

Dependent Variable:	*Exit to Prestigious Boutique*			
Time Horizon:	3 Years	3 Years	5 Years	5 Years
	(1)	(2)	(3)	(4)
Past Deals	0.0108**	0.0131**	0.0134***	0.0160***
	(0.005)	(0.005)	(0.005)	(0.005)
Banker Experience	0.0273	0.0192	0.0267	0.0190
	(0.026)	(0.023)	(0.026)	(0.023)
Losing Bank Past Performance	-0.0024		-0.0027	
	(0.002)		(0.002)	
Gaining Bank Past Performance	0.0266***	0.0252***	0.0265***	0.0250***
	(0.002)	(0.002)	(0.002)	(0.002)
Banker FE	Yes	Yes	Yes	Yes
Year FE	Yes	No	Yes	No
Losing Bank FE	Yes	No	Yes	No
Losing Bank × Year FE	No	Yes	No	Yes
Gaining Bank FE	Yes	Yes	Yes	Yes
Observations	22,110	20,979	22,110	20,979
R-squared	0.266	0.402	0.266	0.402

Table IA.7 continued.

Panel B: Heterogeneity in Banker Exit

Dependent Variable:	*Exit to Boutique*							
Time Horizon:	3 Years	3 Years	5 Years	5 Years	3 Years	3 Years	5 Years	5 Years
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Past Deals × Less Experienced	0.0161***	0.0196***	0.0203***	0.0233***				
	(0.006)	(0.007)	(0.006)	(0.006)				
Past Deals × More Experienced	0.0070	0.0082	0.0091*	0.0114*				
	(0.006)	(0.006)	(0.006)	(0.006)				
Past Deals × Lower Ranked					0.0464***	0.0335**	0.0421***	0.0304**
					(0.015)	(0.015)	(0.014)	(0.014)
Past Deals × Higher Ranked					0.0093	0.0047	0.0166**	0.0121*
					(0.007)	(0.007)	(0.007)	(0.007)
Losing Bank Past Performance	-0.0024		-0.0027		-0.0011		-0.0023	
	(0.002)		(0.002)		(0.003)		(0.003)	
Gaining Bank Past Performance	0.0266***	0.0252***	0.0265***	0.0250***	0.0266***	0.0273***	0.0267***	0.0265***
	(0.002)	(0.002)	(0.002)	(0.002)	(0.003)	(0.003)	(0.003)	(0.003)
Banker FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	No	Yes	No	Yes	No	Yes	No
Losing Bank FE	Yes	No	Yes	No	Yes	No	Yes	No
Losing Bank × Year FE	No	Yes	No	Yes	No	Yes	No	Yes
Gaining Bank FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	22,110	20,979	22,110	20,979	13,360	12,366	13,360	12,366
R-squared	0.266	0.402	0.266	0.403	0.289	0.423	0.290	0.423

Table IA.7 continued.

Panel C: Cross-subsidization in Multidivisional Banks and Exit to Prestigious Boutique

Dependent Variable: *Exit to Prestigious Boutique*						
Time Horizon:	3 Years	3 Years	3 Years	5 Years	5 Years	5 Years
	(1)	(2)	(3)	(4)	(5)	(6)
Past Deals × Non-M&A Volume	-0.0052***	-0.0047**	-0.0048**	-0.0060***	-0.0058***	-0.0073***
	(0.002)	(0.002)	(0.002)	(0.002)	(0.002)	(0.002)
Past Deals	0.0533***	0.0494***	0.0518***	0.0666***	0.0654***	0.0800***
	(0.018)	(0.017)	(0.018)	(0.019)	(0.018)	(0.019)
Non-M&A Volume	0.0037*	-0.0031		0.0073**	-0.0003	
	(0.002)	(0.003)		(0.003)	(0.003)	
Banker Experience		-0.3599	-0.4608		-0.3541	-0.4568
		(0.400)	(0.367)		(0.387)	(0.355)
Losing Bank Past Performance		0.0078*			0.0064	
		(0.004)			(0.004)	
Gaining Bank Past Performance		0.0274***	0.0267***		0.0267***	0.0258***
		(0.003)	(0.003)		(0.002)	(0.002)
Banker FE	Yes	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	No	Yes	Yes	No
Losing Bank FE	Yes	Yes	No	Yes	Yes	No
Losing Bank × Year FE	No	No	Yes	No	No	Yes
Gaining Bank FE	No	Yes	Yes	No	Yes	Yes
Observations	14,049	14,039	13,926	14,049	14,039	13,926
R-squared	0.207	0.256	0.339	0.207	0.256	0.339

Table IA.7 continued.

Panel D: Non-M&A Volume and JOBS Act

Dependent Variable:	*Deal Growth*				*Market Share Growth*				*New Industry*	
Time Horizon:	3 Years	5 Years	3 Years	5 Years	3 Years	5 Years	3 Years	5 Years		
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Non-M&A Spillover	0.0272***	0.0285***			0.0360***	0.0480***			0.0267***	
	(0.006)	(0.006)			(0.010)	(0.015)			(0.006)	
JOBS Spillover × Post			-0.0114	-0.0595***			-0.0318*	-0.1264***		-0.0251***
			(0.010)	(0.012)			(0.019)	(0.029)		(0.007)
Gaining Bank × Year FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	56,350	52,290	15,318	15,318	56,350	52,290	15,318	15,318	56,350	15,318
R-squared	0.068	0.116	0.044	0.131	0.057	0.108	0.037	0.106	0.134	0.132

IA.8: Which High-Performing Bankers Exit to Boutique? – Full Sample Results

In this Internet Appendix, we report the results analyzing banker heterogeneity using the full sample instead of the transition matrix (the exit-only sample).

Panel A of Table IA.8 reveals that high-performing individuals migrating into the boutique sector are bankers of low seniority, as the coefficient estimate for *Past Deals* × *Less Experienced* is highly significant across all regression specifications (columns 1-4). By contrast, past high achievers with high seniority do not often make such job transitions.

It is possible that years of work experience is a noisy proxy for hierarchical seniority. To evaluate this possibility, we also consider changes in a banker's job titles over time. One advantage of job titles in the investment banking industry is that they follow a relatively uniform structure across banks and are typically associated with distinct levels of compensation. We manually collect information on various positions held by our sample bankers during the course of their career from their resumes posted at LinkedIn.com.[2] Through this search, we are able to identify job titles for two thirds of (1,813 out of 2,756) bankers in our sample. For the remaining one third, either they do not have a public LinkedIn page, or the search generates multiple LinkedIn matches, for which we are unable to clearly pin down the correct profile.

In Panel B of Table IA.8, we re-estimate Table IA.8 Panel A, replacing the interaction terms with *Past Deals* × *Higher* (*Lower*) *Ranked*. A lower-ranked banker has job titles such as analyst, associate, or vice president, whereas a higher-ranked banker holds job titles such as managing director, division head, chairmen of the board, executives, partner, or founder. Notably, a banker's work experience monotonically increases with the ranks of his job titles (for example, associates have around 2.6 years of experience on average, while an average managing director-level job is associated with over 8 years of experience based on FINRA). Importantly, the seniority rank cutoff on job titles validates with the cutoff of work experience we use for Table 3 and Table IA.8 Panel A.

[2] To so do, we first search for each banker's name and one of his/her job affiliations on LinkedIn. In cases where such a search produces multiple matching results, we manually screen job histories from the resumes of all potential matched bankers and choose the profile of the banker with the highest degree of overlap with our FINRA career data. We then scrape the career path data from the resume of the matched bankers and identify job titles over their career.

Panel B shows that using seniority ranking based on job titles yields similar findings as the ranking based on years of experience. High-performing bankers at junior or middle-stage of their career are more likely to transition to the boutique sector. There is no evidence that these bankers switch to the bulge bracket sector.

Table IA.8: Which High-Performing Bankers Exit? – Full Sample Analysis

This table presents results for the job transition of bankers at different career stages using the entire sample. The dependent variable is *Exit to Boutique* in columns 1-4 and is *Exit to Bulge Bracket* in columns 5-8. The unit of observation is a banker-bank-year. In each column, *Time Horizon* indicates both the horizon during which we measure a banker's performance in terms of his past deal volume and the horizon during which we measure a losing/gaining bank's past performance in terms of its deal volume. In Panel A, a banker's seniority is based on his/her experience. In Panel B, a banker's seniority is based on the rank of his/her job title. Variable definitions are in the Internet Appendix IA.1. Robust standard errors clustered by banker are in parentheses. *, **, and *** indicate significance at the 10%, 5%, and 1% level, respectively.

Panel A: Exit to Boutiques and to Bulge Bracket Banks – Experienced-based Seniority

Dependent Variable:	*Exit to Boutique*				*Exit to Bulge Bracket*			
Time Horizon:	3 Years	3 Years	5 Years	5 Years	3 Years	3 Years	5 Years	5 Years
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Past Deals × Less Experienced	0.0244***	0.0237***	0.0284***	0.0272***	0.0001	-0.0003	0.0015	0.0000
	(0.007)	(0.008)	(0.007)	(0.007)	(0.005)	(0.006)	(0.005)	(0.006)
Past Deals × More Experienced	0.0011	-0.0001	0.0055	0.0055	-0.0092	-0.0109*	-0.0058	-0.0082
	(0.007)	(0.007)	(0.006)	(0.006)	(0.006)	(0.007)	(0.005)	(0.006)
Losing Bank Past Performance	0.0009		0.0003		0.0001		0.0008	
	(0.003)		(0.003)		(0.002)		(0.002)	
Gaining Bank Past Performance	0.0128***	0.0115***	0.0126***	0.0113***	0.0204***	0.0204***	0.0212***	0.0211***
	(0.002)	(0.002)	(0.002)	(0.002)	(0.002)	(0.003)	(0.002)	(0.002)
Banker FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	No	Yes	No	Yes	No	Yes	No
Losing Bank FE	Yes	No	Yes	No	Yes	No	Yes	No
Losing Bank × Year FE	No	Yes	No	Yes	No	Yes	No	Yes
Gaining Bank FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	22,110	20,979	22,110	20,979	22,110	20,979	22,110	20,979
R-squared	0.279	0.412	0.279	0.412	0.270	0.339	0.271	0.339

Table IA.8 continued.

Panel B: Exit to Boutiques and to Bulge Bracket Banks – Job Title-based Seniority

Dependent Variable:	*Exit to Boutique*				*Exit to Bulge Bracket*			
Time Horizon:	3 Years	3 Years	5 Years	5 Years	3 Years	3 Years	5 Years	5 Years
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Past Deals × Lower Ranked	0.0537***	0.0331**	0.0495***	0.0311**	0.0028	0.0058	0.0071	0.0087
	(0.016)	(0.016)	(0.015)	(0.015)	(0.011)	(0.013)	(0.010)	(0.012)
Past Deals × Higher Ranked	0.0038	0.0012	0.0116	0.0095	-0.0124**	-0.0117	-0.0111*	-0.0116
	(0.008)	(0.008)	(0.007)	(0.007)	(0.006)	(0.007)	(0.006)	(0.007)
Losing Bank Past Performance	0.0015		-0.0002		-0.0005		0.0002	
	(0.004)		(0.004)		(0.003)		(0.003)	
Gaining Bank Past Performance	0.0128***	0.0142***	0.0130***	0.0136***	0.0141***	0.0135***	0.0151***	0.0146***
	(0.003)	(0.003)	(0.003)	(0.003)	(0.003)	(0.003)	(0.003)	(0.003)
Banker FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	No	Yes	No	Yes	No	Yes	No
Losing Bank FE	Yes	No	Yes	No	Yes	No	Yes	No
Losing Bank × Year FE	No	Yes	No	Yes	No	Yes	No	Yes
Gaining Bank FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	13,356	12,366	13,356	12,366	13,356	12,366	13,356	12,366
R-squared	0.293	0.436	0.293	0.436	0.276	0.348	0.277	0.348

IA.9: A Placebo Test for the JOBS Act

As part of our identification strategies, we explore the cross-industry heterogeneity of going-public activities brought about by the passage of the 2012 JOBS Act, which affects differently the IPO underwriting revenues of investment banks with different degrees of ex-ante industry exposure. Since IPO activities in pharmaceutical and biotech industries responded more to the JOBS Act than other industries (Dambra et al. 2015), investment banks previously specializing in underwriting IPOs in these two industries face less need to cross-subsidize, boosting their ability to retain talent compared to other banks and thereby reducing the supply of skilled M&A bankers to boutique advisors.

In this section, we perform a placebo test to verify that the results are indeed induced by this (exogenous) regulatory event. Specifically, we counterfactually assign year 2008 as an artificial enactment time for the JOBS Act. For the sample period of 2006-2010, we redefine the dummy variable *Post* as one if it is in year 2008-2010, and zero otherwise.

We then rerun our regressions and report this placebo test results in Table IA.9. We observe no significant loading in this placebo test, suggesting that the results we obtain from the JOBS Act are unlikely to be driven by other confounding factors.

Table IA.9: Boutique Bank Performance and the JOBS Act—A Placebo Test

This table performs a placebo test. The sample period is 2006-2010. Instead of 2012, *Post* is re-defined as one if it is in year 2008-2010, and zero otherwise. *JOBS Spillover* is defined based on information from the year prior to the pseudo-event year, 2007. Variable definitions are in the Internet Appendix IA.1. Standard errors clustered by bank are in parentheses. *, **, and *** indicate significance at the 10%, 5%, and 1% level, respectively.

Dependent Variable:	*Deal Growth*		*Market Share Growth*		*New Industry*
Time Horizon	3 Years	5 Years	3 Years	5 Years	
	(1)	(2)	(3)	(4)	(5)
JOBS Spillover × Post	0.0063	-0.0009	0.0097	0.0133	0.0040
	(0.005)	(0.005)	(0.008)	(0.013)	(0.005)
Gaining Bank × Year FE	Yes	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes	Yes
Observations	27,439	27,439	27,439	27,439	27,439
R-squared	0.043	0.075	0.041	0.067	0.136

IA.10: Economic Channels

The results so far indicate that human capital mobility shapes the structure of the M&A advisory industry. Exploring potential economic mechanisms underlying our findings, we look into the portability of client relationships and the cascading effect of human capital movement.

Investment banking deals are largely conducted based on inter-personal relationships (Bradley et al. 2011). We postulate that former clients are likely to "follow" a high-performing banker after the job transition by hiring his new employer to advise their M&A deals (i.e., the portability of client relationship). In addition, we conjecture those former colleagues may follow a high-performing banker to a new advisory firm, generating further paucity of human capital in the losing bank (i.e., the cascading effect of human capital loss).

We compare the number of colleagues and clients that follow a high-performing banker with those following a lower-performing banker. Specifically, *# of Follower Clients* and *# of Follower Colleagues*, are, respectively, the numbers of clients and colleagues who follow banker i within 3 or 5 years after his transition to a new employer in year t. A *follower client* is an acquirer who was advised by banker i at the *losing* bank and subsequently hires the *gaining* bank at least once after the banker's transition.[3] A *follower colleague* is a colleague of transitioning banker i – defined as an individual whose job span at the *losing* bank overlaps with i – who also leaves the losing bank and joins the same gaining bank after i's job transition. Standard errors are clustered by bank in this test. In this analysis, we fix the gaining bank and compare the influence of more and less productive individuals. The gaining bank fixed effects allow us to compare new arrivals with differential productivity across for the same gaining bank. These fixed effects help resolve a concern related to people-bank sorting. For example, highly productive workers may flock to high-quality banks, and the subsequent migration of colleagues and clients simply capture this sorting effect, and not the influence of the first mover.

Columns 1 and 2 of Table IA.10 show that prior clients are more likely to follow high-performing

[3] Target firms are unlikely to be follower clients because they often cease to exist post deal completion.

bankers to the new M&A advisory firm than to follow low-performing ones. These results are largely consistent with the findings of Bradley et al. (2011) and Chemmanur et al. (2019), suggesting that a boutique bank can "steal" clients from bulge bracket banks as it attracts high-quality bankers from those banks. Columns 3 and 4 provide evidence consistent with the job transition of a high-performing banker inducing more colleagues to leave the losing bank and join the gaining bank, which may result in a substantial "brain drain" for his former employer.

Our analyses shed light on the underlying mechanisms through which human capital mobility influences the performance of both the losing banks and the gaining banks. As the effect of human capital relocation accumulates, it redraws the boundaries of M&A advisory firms and reshapes the organization of this industry.

Table IA.10: Mechanisms

This table examines the mechanism through which the job transitions of high-performing bankers may generate detrimental impact on their former employers' performance. The unit of observation is a banker transition event. The dependent variable is the number of clients that follow the banker to the new bank in columns 1-2 and is the number of colleagues that follow the transitioning banker to the new bank in columns 3-4. In each column, *Time Horizon* indicates the horizons during which we measure a banker's past deal volume, the number of following clients/colleagues in the future, and a losing/gaining bank's past deal volume. Variable definitions are in the Internet Appendix IA.1. Standard errors clustered by bank are in parentheses. *, **, and *** indicate significance at the 10%, 5%, and 1% level, respectively.

Dependent Variable:	*# of Follower Clients*		*# of Follower Colleagues*	
Time Horizon	3 Year	5 Year	3 Year	5 Year
	(1)	(2)	(3)	(4)
Past Deals	0.0697***	0.0605***	0.1244*	0.1930***
	(0.022)	(0.023)	(0.072)	(0.073)
Banker Experience	0.0018**	0.0015*	0.0026	0.0012
	(0.001)	(0.001)	(0.011)	(0.011)
Losing Bank Past Performance	0.0007	0.0006	-0.2200	-0.3007
	(0.003)	(0.003)	(0.200)	(0.187)
Gaining Bank Past Performance	-0.0009	-0.0014	-0.1597	-0.1572*
	(0.003)	(0.003)	(0.107)	(0.088)
Year FE	Yes	Yes	Yes	Yes
Losing Bank FE	Yes	Yes	Yes	Yes
Gaining Bank FE	Yes	Yes	Yes	Yes
Observations	3,865	3,865	1,514	1,514
R-squared	0.108	0.107	0.498	0.485

IA.11: Additional Analyses for Deal Outcomes

In this Internet Appendix, we compare between the outcomes of M&A deals advised by boutique and bulge bracket banks. To ensure that the results are not driven by varying sample sizes, for this set of analyses, we restrict the sample to all deals with available bidder information.

IA.11.1 M&A Deal Performance: Boutique vs. Bulge Bracket

We compare deal performance between boutique advisors and bulge bracket banks, regressing the performance metrics on an indicator variable for boutique advisors and controlling for client characteristics, year fixed effects, and client industry fixed effects. In Table IA.11, the coefficients associated with the boutique advisor dummy suggest that on average, boutique banks generally do not outperform their bulge bracket counterparts.

IA.11.2 A Matched Sample

In Table 8 of the paper, we compare the outcomes of M&A deals advised by boutique advisors and by bulge bracket banks. One potential explanation for the documented differences in deal outcomes is that bulge bracket and boutique banks advise deals of different sizes. To consider this possibility, we re-estimate this set of analyses using a matched sample. Specifically, we employ a propensity matching procedure and compare the outcome of each deal advised by a boutique bank with those of three deals that are closest in size and that are advised by bulge bracket banks.

We re-estimate Table 8 based on this matched sample. As Table IA.12 reveals, our findings remain robust.

IA.11.3 Dynamic Effect

Table 8 suggest that boutique advisors have comparative advantages, relative to their bulge bracket rivals, in shortening deal duration, increasing deal success rate, and creating more value for their bidder clients in advising large deals. If human capital migration has been propelling the outperformance of boutique advisors, as we argue in this paper, then one would expect the performance gap between deals advised by the boutique banks and those advised by bulge bracket banks to widen over time as more and

more top M&A performers move from the bulge bracket sector to the boutique sector during the sample period.

To study this dynamic effect, we create indicator variables for four sub-period: 2000-2004, 2005-2009, 2010-2014, and 2015-2018. To gauge how the comparative advantage of boutique banks in advising large deals changes over time, we then interact each subperiod indicator with the regressor *Deal Size × Boutique*.

Table IA.13 reports the results. We find that the significant loadings of various deal performance on *Deal Size × Boutique* mainly concentrate in more recent decade, that is, in the subperiod 2010 – 2018. The loadings are either insignificant or come with a much smaller economic magnitude in the first half of the sample period. This suggests that as cross-sector migration of human capital intensifies, the extent of the boutique sector outperforming the bulge bracket sector also escalates. This set of findings also help mitigate the concerns that a changing regulatory landscape drives the boom of the boutique sector that we document, as the early sample period witnesses several major regulatory events that affect particularly the investment banking industry.

Table IA.11: Clients' Deal Performance – Boutique versus Bulge Bracket

This table compares the outcomes of deals advised by boutique and bulge bracket banks. The unit of analysis is at the M&A deal-advisor level. For both panels, the dependent variable is the duration of a deal in columns 1-2, success rate in columns 3-4, the CAR of bidders (columns 5-6), and the CAR of targets (columns 7-8), respectively. *Boutique* is a dummy variable set to one if the investment bank is a boutique bank, and zero if a bulge bracket bank. Industry classification is based on the 2-digit SIC code. Variable definitions are in the Internet Appendix IA.1. Standard errors clustered by bank are in parentheses. *, **, and *** indicate significance at the 10%, 5%, and 1% level, respectively.

Dependent Variable	*Deal Duration*		*Success Rate*		*Bidder's CAR*		*Target's CAR*	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Boutique	-1.0693	-1.6422	-0.0062	-0.0053	-0.0131	-0.019	-0.0018	0.0059
	(3.899)	(4.063)	(0.006)	(0.006)	(0.011)	(0.012)	(0.017)	(0.016)
Deal Size	24.1188***	29.1440***	-0.0187***	-0.0279***	-0.0021	0.0111**	-0.0254***	-0.0472***
	(1.231)	(1.168)	(0.003)	(0.003)	(0.002)	(0.005)	(0.005)	(0.009)
Bidder Firm Size		-7.7998***		0.0126***		-0.0230***		0.0295***
		(0.614)		(0.002)		(0.007)		(0.009)
Bidder Leverage		0.7137		0.0403**		0.2235***		0.0306
		(6.510)		(0.017)		(0.082)		(0.047)
Bidder Market to Book		-0.8822		-0.0016		0.0146**		0.0029
		(0.918)		(0.003)		(0.006)		(0.007)
Bidder Cash Holding		28.3363***		-0.0760***		-0.0177		-0.014
		(7.895)		(0.026)		(0.021)		(0.069)
Bidder ROA		-11.8443		0.0786		-0.0872		0.2144**
		(8.489)		(0.051)		(0.077)		(0.099)
Year FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Client Industry FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	5,794	5,794	5,879	5,879	1,888	1,888	762	762
R-squared	0.337	0.353	0.083	0.098	0.176	0.224	0.173	0.212

Table IA.12: Client Deal Performance — Matched Sample Evidence

This table compares the outcomes of deals advised by boutique and bulge bracket banks using a matched sample. For each deal advised by a boutique bank, we match it to three closest neighbors based on deal size that are advised by bulge bracket banks. Industry classification is based on the 2-digit SIC code. Variable definitions are in the Internet Appendix IA.1. Standard errors clustered by bank are in parentheses. *, **, and *** indicate significance at the 10%, 5%, and 1% level, respectively.

Dependent Variable:	*Deal Duration*		*Success Rate*		*Bidder's CAR*		*Target's CAR*	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Deal Size × Boutique	-9.1724***	-5.5681**	0.0211***	0.0176***	0.0088***	0.0057	0.0056	0.0004
	(3.035)	(2.454)	(0.005)	(0.005)	(0.003)	(0.004)	(0.012)	(0.016)
Deal Size	30.2235***	32.3977***	-0.0322***	-0.0436***	-0.0077***	0.0109	-0.0295***	-0.0611***
	(1.557)	(1.187)	(0.003)	(0.003)	(0.002)	(0.007)	(0.008)	(0.012)
Bidder Firm Size		-7.1176***		0.0129***		-0.0313***		0.0430***
		(0.801)		(0.002)		(0.010)		(0.012)
Bidder Leverage		8.9474		0.0566***		0.3148***		0.0525
		(8.313)		(0.016)		(0.107)		(0.072)
Bidder Market to Book		-0.7119		0.0028		0.0164**		0.0088
		(1.081)		(0.003)		(0.007)		(0.006)
Bidder Cash Holding		34.2841***		-0.0882***		0.0002		-0.0724
		(9.906)		(0.029)		(0.023)		(0.099)
Bidder ROA		-12.3200		0.0983*		-0.0205		0.1800
		(8.975)		(0.050)		(0.078)		(0.107)
Bank FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year FE	No	Yes	No	Yes	No	Yes	No	Yes
Bidder Industry FE	No	Yes	No	Yes	No	Yes	No	Yes
Observations	5,729	4,508	5,811	4,586	1,824	1,386	742	513
R-squared	0.272	0.370	0.049	0.145	0.018	0.275	0.110	0.341

Table IA.13: Dynamic Effects

This table examines how the outcomes of deals advised by boutique and bulge bracket banks evolve in our sample period of 2000 to 2018 using a matched sample. For each deal advised by a boutique bank, we match it to three closest neighbors based on deal size that are advised by bulge bracket banks. Industry classification is based on the 2-digit SIC code. To study the dynamics, we divide our sample into four subperiods: 2000-2004, 2005-2009, 2010-2014, and 2015-2018, and we create a dummy indicator for each subperiod. We interact the subperiod dummy indicators with *Deal Size* × *Boutique* to gauge how the comparative advantage of boutique banks in advising large deals has changed over time. Variable definitions are in the Internet Appendix IA.1. Standard errors clustered by bank are in parentheses. *, **, and *** indicate significance at the 10%, 5%, and 1% level, respectively.

Dependent Variable:	*Deal Duration*	*Success Rate*	*Bidder's CAR*	*Target's CAR*
	(1)	(2)	(3)	(4)
Deal Size × Boutique ×1(2000 - 2004)	-13.3294***	0.0102	0.0112	0.0244
	(3.965)	(0.012)	(0.008)	(0.026)
Deal Size × Boutique ×1(2005 - 2009)	-4.3106	0.0133**	0.0125**	0.0025
	(2.906)	(0.006)	(0.005)	(0.024)
Deal Size × Boutique ×1(2010 - 2014)	-17.6833***	0.0281***	0.0185**	-0.0215
	(5.935)	(0.008)	(0.009)	(0.024)
Deal Size × Boutique ×1(2015 - 2018)	-27.8147***	0.0371***	0.0122**	0.0231
	(6.152)	(0.010)	(0.005)	(0.014)
Boutique × Subperiod Indicators	Yes	Yes	Yes	Yes
Deal Size × Subperiod Indicators	Yes	Yes	Yes	Yes
Observations	5,797	5,882	1,894	772
R-squared	0.181	0.045	0.010	0.047

IA.12: Graduate Expansion of the Boutique Sector: Model and Simulation

IA.12.1 A Conceptual Framework

Our analysis so far suggests that differences in organizational structure induces cross-sectoral human capital migration, contributing to the rise of boutique advisory firms. A natural question then arises: why do we observe a gradual reallocation of human capital to the boutique sector but not an abrupt shift in industry structure, given that the two sectors have developed their distinct organizational structures starting the beginning of our sample and the difference has persisted for decades? We conjecture that labor market frictions may have prevented boutique firms from immediately capturing all the talented bankers. For instance, both bankers and recruiting boutiques face substantial uncertainty regarding the quality and the fit of the candidate during job searches. Transitioning bankers also need to adapt to a new corporate culture and environment and bear the loss of firm-specific human capital from their previous jobs. These frictions can partially offset the benefits of relocating to boutiques. In addition, despite the institutional frictions we identify, bulge bracket banks offer advantages such as a broad career network, the certification effect, and career stability. These factors may also slow down the migration of bankers towards the boutique sector.

In this section, we present a parsimonious model framework to demonstrate the evolution of industry dynamics. Our purpose is to show how the comparative advantages of different organizational structures in attracting talents, together with labor market frictions, aggregate to a gradual trend of one industrial sector rising over the other, even without abrupt external shocks.

The industry in our model contains the bulge bracket sector s and boutique sector s', each consisting of identical firms. A representative banker i, endowed with human capital x_{it}, derives utility $u(s, x_{i,t})$ from working in sector s. Without loss of generality, we specify $u(s, x_{i,t}) = \beta_s \cdot x_{i,t}$, where β_s is a sector-specific coefficient. One can view this as a reduced-form representation of banker utility obtained from a full-blown theoretical model. We assume $\beta_{s'} > \beta_s$. In other words, the boutique sector has an organizational structure that is more appealing to skilled workers.

At time 0, we assume that about three quarters of the bankers start in the bulge bracket sector,

matching the labor market fraction at the beginning of our sample period. At the beginning of each subsequent period, a banker has the option to move to sector s', which gives him utility of $u(s', x_{i,t})$. The job utility gap $\Delta u(x_{i,t}) = (\beta_{s'} - \beta_s) \cdot x_{i,t}$ can be considered as the *comparative advantage* of sector s' over s at attracting a banker endowed with human capital $x_{i,t}$. With each job change, bankers incur a fixed cost $\delta \geq 0$, resulting from labor market frictions mentioned above. Bank i also faces a transitory preference shock $\varepsilon_{i,t}$, which captures other idiosyncratic preferences such as those resulting from work location, family considerations, etc. Thus, banker i switches from sector s to s' if and only if $\Delta u(x_{i,t})$ exceeds certain labor market friction (δ) and idiosyncratic individual preferences ($\varepsilon_{i,t}$):

$$\Delta u(x_{i,t}) > \delta + \varepsilon_{i,t}$$

In the two subsections below, we show that the likelihood of banker i migrating from sector s to s' is positively correlated with its comparative advantage (Δu), and negatively correlated with labor market friction (δ). Importantly, this individual-level effect can aggregate to the industry level. The labor flow from sector s to s' increases with the comparative advantage of sector s' and decreases with labor market friction. Put differently, the sector with advantage in attracting bankers will grow in its labor market share, but this growth is suppressed by labor market friction, leading to a gradual rise of the advantageous sector.

We perform simulation analyses to demonstrate the above predictions on industry dynamics. Figure IA.3 illustrates the dynamics of labor share captured by sector s'. The blue solid line represents the average value across simulation trials and the red dash line represents the 95% confidence interval. Panel A shows the dynamics of labor share with the presence of labor market friction ($\delta = 0.25$). We observe that the labor share of sector s' rises gradually from about 23% to over 40% during the 15 periods. This pattern is consistent with the rise of boutique sector we document at the beginning of this paper. Panel B shows the model-implied dynamics assuming no labor market friction ($\delta = 0$). In this scenario, bankers that prefer sector s' quickly move to this sector. As a result, the labor share of sector s' grows rapidly in the first five periods and then stabilizes. This pattern is less consistent with the stable growth of the boutique sector we

observe in the data, thus suggesting that labor market friction is non-trivial in the data.

IA.12.2 Individual Banker's Career Choice

Let $u(s, x_{i,t})$ denote the utility that banker i derives from working in sector s in year t. Without loss of generality, we specify:

$$u(s, x_{i,t}) = \beta_s \cdot x_{i,t} \qquad (1)$$

where β_s is a sector-specific coefficient, and $x_{i,t}$ is banker i's human capital at year t. Equation (1) can be viewed as a reduced-form representation of banker utility obtained from a full-blown theoretical model.

At the beginning of each model period, banker i considers a new job opportunity in sector s', which gives him utility of $u(s', x_{i,t})$, and he makes his career choice by comparing $u(s, x_{i,t})$ and $u(s', x_{i,t})$:

$$\Delta u(x_{i,t}) = (\beta_{s'} - \beta_s) \cdot x_{i,t} \qquad (2)$$

We define $\Delta u(x_{i,t})$ as the *comparative advantage* of sector s' over s in attracting a banker endowed with quality $x_{i,t}$.

Banker i switches from sector s to s' if and only if

$$\Delta u(x_{i,t}) > \delta + \varepsilon_{i,t} \qquad (3)$$

where $\delta \geq 0$ represents the labor market friction (e.g., stickiness to the current employer) and $\varepsilon_{i,t}$ is a transitory shock to banker i's career choice (e.g., geographic preference, family reasons, etc.). In other words, δ is a fixed hurdle that the new job has to clear in order to induce career transition, and $\varepsilon_{i,t}$ captures unobservable and random preference that may affect banker career choice at period t.

Let ϕ be the CDF function of $\varepsilon_{i,t}$. The likelihood for banker i to relocate from sector s to s' is:

$$P = \phi(\Delta u(x_{i,t}, z_t) - \delta) \qquad (4)$$

with

$$\frac{dP}{d\Delta u(x_{i,t}, z_t)} = f(\Delta u(x_{i,t}, z_t) - \delta) > 0$$

$$\frac{dP}{d\delta} = -f\left(\Delta u\left(x_{i,t}, z_t\right) - \delta\right) < 0$$

where $f\left(\Delta u\left(x_{i,t}, z_t\right) - \delta\right)$ is the PDF function of $\varepsilon_{i,t}$ that is always positive. As a result, the likelihood for sector s' to attract banker i from sector s is positively correlated with its comparative advantage, and negatively correlated with labor market friction.

IA.12.3 Aggregate Implications and Labor Share Dynamics

Given the career choice at the individual banker level, we next examine how it aggregates to changes in each sector's labor share. Our goal here is to demonstrate that, even if the comparative advantages of the two organizational structures (i.e., $\beta_{s'} - \beta_s$) are held constant and thus there is no structural break, it is still possible to observe a gradual yet stable rising trend of one sector over the other, as long as the labor market friction is non-trivial.

At any point of time t, denote the distribution of bankers in sector s and s' as $\pi_{s,t}$ and $\pi_{s',t}$ respectively, then the net flow from sector s to s', which equals the growth of labor share by sector s' is:

$$v_{s\to s',t} = \int_{i\in s} \phi\left(\Delta u\left(x_{i,t}\right) - \delta\right) \cdot \pi_{s,t} di - \int_{i\in s'} \phi\left(-\Delta u\left(x_{i,t}\right) - \delta\right) \cdot \pi_{s',t} di \qquad (5)$$

Intuitively, the first term on the RHS is the flow of labor from sector s to s' and the second term the flow from sector s' to s.

Equation (5) suggests two important observations. First, the net flow from sector s to s' is increasing in $\Delta u\left(x_{i,t}\right)$, that is, the comparative advantage of sector s' over s increases labor inflow to sector s' and decreases labor outflow from s'. A direct implication of this observation is that sector s', with the comparative advantage in attracting bankers, will take up more labor share eventually. Second, labor market friction δ suppresses both labor inflow and outflow and thus shrinks the net labor flow for a wide range of parameters. A direct implication of this observation is that labor market friction slows down the process of banker relocation, contributing to a gradual yet stable rising trend for the sector with comparative advantage.

To demonstrate the model predictions on industry dynamics, we simulate the model and plot the simulation results in Figure 4 of the paper. The simulation details are described below.

IA.12.4 Simulation Details

This section introduces the simulation process and reports the parameters used in the simulation. To simulate the model, we need to specify a few more model elements.

First, we assume that banker's human capital quality $x_{i,t}$ evolves following the process below:

$$x_{i,t+1} = \rho x_{i,t} + e^{-ax_{i,t}}(n_{i,t} + b)$$

where ρ is the persistence of human capital, and $e^{-ax_{i,t}}(n_{i,t} + b)$ represents the human capital gained from advising new deals (i.e., learning-by-doing): $e^{-ax_{i,t}}$ captures the idea of decreasing return to scale of learning-by-doing such that a more experienced banker gains less from advising one deal than a newbie. $n_{i,t}$ is the number of deals banker i advises in period t, which follows a Poisson process with the average arrival rate of $x_{i,t}$ (i.e., more experienced bankers attract more deals on average), and b is a constant.

In a dynamic setting, we also need to specify entry and exit by bankers. We assume that there is an exogenous exit rate of τ each period. Whenever a banker drops out, he is replaced by an entrant with zero initial experience or human capital, and this new entrant joins sector s with probability ω and joins sector s' with a probability $1 - \omega$.

We assume that the transitory shock in banker utility function, $\varepsilon_{i,t}$ in Equation (4), follows a normal distribution with a mean of zero and standard deviation of σ.

We simulate a panel of 1,000 bankers, with each banker's initial human capital set to a random draw from the uniform distribution with the support of [0, 0.5]. We track each banker's career choice each period and aggregate them to calculate the labor flow and labor share for two sectors.

The parameters used in the simulation are summarized in Table IA.14.

Figure IA.3: Simulated Dynamics of Boutique Sector Labor Share

This figure depicts the simulated path of the boutique sector's labor share for 15 simulated periods. Panel A shows the evolution of the boutique sector's labor share with the presence of labor market friction, and Panel B shows the dynamics when the labor market friction is eliminated. The blue solid lines represent the average value across 200 simulation trials, with each simulation trial containing a panel of 1,000 simulated bankers with 15 years of career path. The red dotted lines represent the 95% confidence interval. Simulation details are described in the Internet Appendix IA.11.

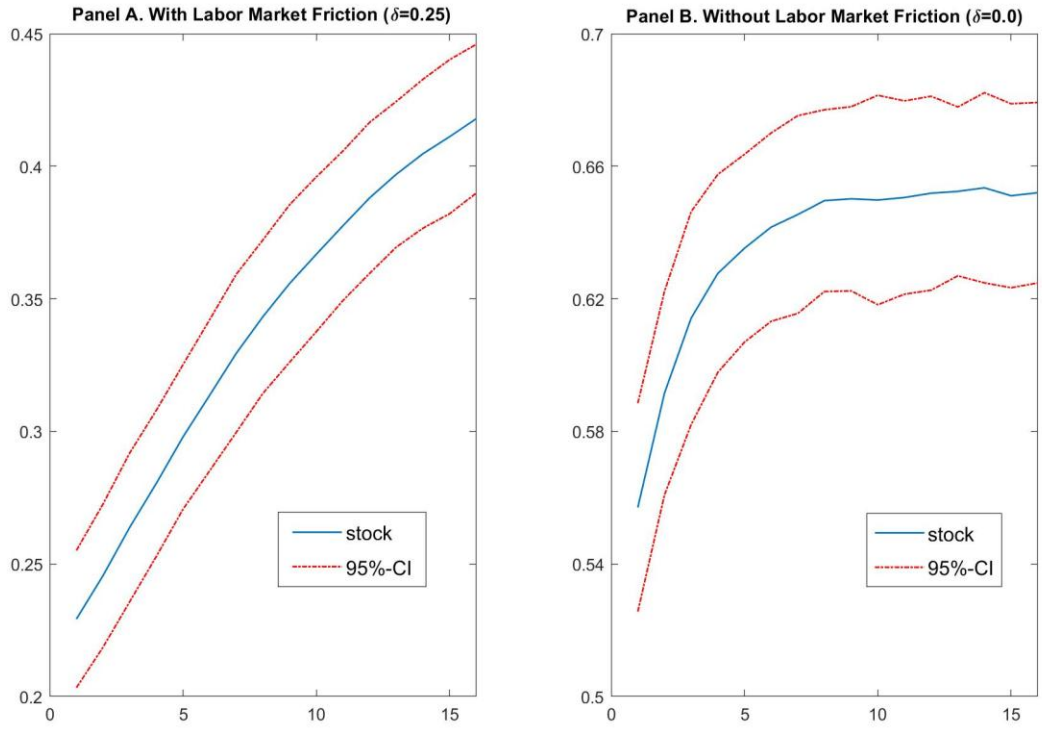

Table IA.14: Parameters Used in Simulation

This table reports the parameter values used in simulation. $\beta_{s'} - \beta_s$ captures the comparative advantage of sector s' in attracting high human capital bankers; δ is the stickiness to the current employer (labor market friction); σ is the variation of transitory shocks in banker career choice; ρ is the persistence of human capital; a controls the concavity (and thus decreasing return to scale) of learning-by-doing; b is the constant amount of human capital growth per period (not derived from deal-advising); ω is the likelihood for an entrant to join sector s; and τ is the exit rate.

$\beta_{s'} - \beta_s$	δ	σ	ρ	a	b	ω	τ
0.1	0.25	0.1	0.8	1	0.25	0.8	0.05

IA.13: Human Capital Development in Boutique Firms

In this section, we explore how bankers' human capital development and career progression vary between boutique firms and bulge bracket firms. This set of analyses shed light on to what extent different institutional environments influence the productivity, job scope, as well as career trajectories of skilled employees.

We first examine how skilled bankers' productivity changes once they move to the boutique sector. We regress the natural logarithm of M&A deals a banker advised on his past performance, as well as the interaction between banker past performance and a dummy for boutique bank. Columns 1-3 of Table IA.15 Panel A reveal that while high-performing bankers tend to advise more deals in the future, the coefficients for *Past Deals* × *Boutique* indicate that these bankers are more productive when working for boutique advisors.

Next, we explore how the two types of investment banks cultivate their employees' human capital. Ideally, as an investment banker becomes sufficiently skilled in one industry, he may benefit from expanding his scope to other industries. We begin by capturing whether an investment banker is always restricted to working in his specialized industry with *Restrict to Specialized Industry*, a dummy variable set to one if a deal advised by a banker matches the banker's existing specialized industry and zero otherwise. Column 4 reveals that even though high-performing bankers are more likely to be appointed to advise deals within their expertise, boutique banks offer more opportunities for them to extend their knowledge and gain experience in other industries.

Consistent with this finding, column 5 shows that skilled bankers also advise more diversifying mergers while working for boutique advisors than for bulge bracket banks. Since diversifying mergers involve targets and acquirers from different industries, M&A advisors are required to have expertise in both industries. These findings are unlikely driven by boutique banks exploiting their skilled bankers and appointing them to arbitrary deals, given that skilled bankers in boutique banks generate more value for their clients.

Overall, Table IA.15 Panel A offers evidence consistent with that high-performing bankers become

more productive once they work for boutique banks, and that boutique banks broaden the scope of the skill set of their high-quality employees, rather than restricting their employees to certain types of deals or industries.

Lastly, we examine whether bankers are more likely to be promoted when they move from the bulge bracket sector to the boutique sector. To capture job promotion, we track changes in job titles of our sample bankers over time using our LinkedIn resume data. While the detailed compensation in the investment banking industry is not observable, one advantage of job titles is that they follow a relatively uniform structure across investment banks and are typically associated with distinct levels of compensation. *Promotion* is thus a dummy variable set to one if a banker's job rank increases in year t compared to the previous year $t-1$.

We then estimate the likelihood of promotion in boutique and bulge bracket banks in two ways. In the first approach, we restrict the sample to bankers that are employed in either the bulge bracket sector or the boutique sector and regress *Promotion* on *Boutique* (*t*), an indicator variable for whether a banker works for a boutique bank in year t. The unit of analysis is at the banker-year level. To capture whether a banker receives a promotion when leaving his bulge bracket employer to join a boutique advisor, we interact *Boutique* (*t*) with *Bulge Bracket* (*t*-1), an indicator for a banker working at a bulge bracket firm in year $t-1$. The coefficient on the interaction term thus measures the likelihood of external promotion when a banker switches sectors. We control for year fixed effects and previous sector fixed effects.[4]

Column 1 of Table IA.15 Panel B reveals that bankers employed by boutique firms are more likely to be promoted, as the coefficient estimate associated with *Boutique* (*t*) is positive and significant at the 1% level. Importantly, the positive coefficient for the interaction term *Boutique* (*t*) × *Bulge Bracket* (*t*-1) suggests that the propensity of securing a promotion is particularly high when bankers leave their bulge bracket employers to join a boutique. In column 2, we control, additionally, banker fixed effects, which allow us to compare the likelihood of promotion for the same individual banker. We continue to find a

[4] Specifically, we include dummy variables set to one, respectively, if a banker works in the bulge bracket sector or the boutique sector in year $t-1$.

higher propensity of promotion when the banker migrates from the bulge bracket sector to the boutique sector. The coefficient estimate for the interaction term indicates an incremental likelihood of promotion around 15%, which is large compared to the sample average promotion rate of 8%.

In the second approach, instead of estimating the regressions with interaction terms, we restrict the sample to bankers working in the bulge bracket sector in year $t-1$ and examine whether they are more likely to experience a job promotion when moving to the boutique sector in year t. Accordingly, we regress *Promotion* on *Boutique* (*t*). A positive coefficient on *Boutique* (*t*) would suggest that bankers' likelihood of promotion increases when they move from the bulge bracket sector to the boutique sector.

Columns 3 and 4 of Panel B reveal a positive and significant coefficient for *Boutique* (*t*). Among all bankers previously employed by bulge bracket firms, those that transition to the boutique sector have higher likelihood of promotion than those that stay within the bulge bracket sector. Column 4 indicates that the propensity to receive a promotion is 18% higher for the "movers" than the "stayers".

Taken together, results from Table IA.15 provide evidence consistent with bankers benefiting from the migration to the boutique sector. They become more productive, develop more diverse set of skills and expertise, and achieve promotion during the career transition.

Table IA.15: Development of Human Capital

Panel A: Banker Performance

This table compares the productivity (columns 1-3) and deal scopes of high-quality human capital (columns 4-5) between boutique and bulge bracket banks. The unit of analysis in columns 1-3 is at the banker-year level and the dependent variable is *log*(*Deals*), the natural logarithm of one plus the number of M&A deals that a high-quality banker advises in a year. In columns 4-5, the unit of analysis is at the M&A deal-banker level. The dependent variable is *Restrict to Specialized Industry* in column 4 and *Diversifying Merger* in column 5. *Boutique* is a dummy variable set to one if the investment bank is a boutique bank, and zero if it is a bulge bracket bank. Variable definitions are in the Internet Appendix IA.1. Standard errors clustered by banker are in parentheses. *, **, and *** indicate significance at the 10%, 5%, and 1% level, respectively.

Dependent Variable:	*log*(*Deals*)			*Restrict to Specialized Industry*	*Diversifying Mergers*
	(1)	(2)	(3)	(4)	(5)
Past Deals	0.3776***	0.3277***	0.0944***	0.0444***	-0.0265
	(0.007)	(0.023)	(0.018)	(0.013)	(0.019)
Past Deals × Boutique		0.0620**	0.0442	-0.0481***	0.0457**
		(0.031)	(0.027)	(0.016)	(0.022)
Boutique		0.0681***	0.0645***	0.0234	0.0118
		(0.006)	(0.014)	(0.038)	(0.031)
Banker FE	No	No	Yes	Yes	Yes
Year FE	No	No	Yes	Yes	Yes
Observations	18,083	18,083	17,931	14,731	12,740
R-squared	0.123	0.135	0.316	0.353	0.374

Table IA.15 continued.

Panel B: Career Progression

This table compares the promotion likelihood of bankers in boutique and bulge bracket banks. The unit of analysis at the banker-year level. The dependent variable is *Promotion*, a dummy variable set to one if a banker's job rank increases from year $t-1$ to year t and zero otherwise. *Boutique* (*t*) is a dummy variable set to one if a banker is employed at a boutique bank in year t and zero otherwise. *Bulge Bracket* (*t*-1) is a dummy variable set to one if a banker was employed at a bulge bracket bank in year $t-1$ and zero otherwise. *Boutique* (*t*) × *Bulge Bracket* (*t*-1) indicates whether a banker moved from a bulge bracket firm to a boutique firm in year t. In columns 1-2, the sample includes all banker-year observations where the banker is employed by a boutique or a bulge bracket bank. In columns 3-4, we restrict the sample to bankers that previously (in year $t-1$) worked at a bulge bracket bank. Previous sectors fixed effects are dummy variables indicating, respectively, whether a banker worked in the boutique sector and bulge bracket sector in year $t-1$. Standard errors clustered by banker are in parentheses. *, **, and *** indicate significance at the 10%, 5%, and 1% level, respectively.

	Dependent Variable: *Promotion*			
	(1)	(2)	(3)	(4)
Boutique (t)	0.0281***	0.0395**	0.2196***	0.1802***
	(0.009)	(0.019)	(0.039)	(0.040)
Boutique (t) × Bulge Bracket (t-1)	0.1946***	0.1499***		
	(0.039)	(0.039)		
Banker FE	No	Yes	No	Yes
Year FE	Yes	Yes	Yes	Yes
Previous Sector FE	Yes	Yes	Yes	Yes
Observations	11,715	11,600	6,175	6,039
R-squared	0.020	0.210	0.020	0.253