

Online Appendix to:
“Financial Market Frictions and Diversification”

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Online Appendix A - *BAA-AAA spread*

This appendix uses a three-year moving average of the BAA-AAA bond spread as the measure of external financial frictions instead of the TED spread used in the main text. The variable BAA-AAA is defined as $BAA-AAA_t = \frac{BAA-AAA\ Spread_{t-1} + BAA-AAA\ Spread_t + BAA-AAA\ Spread_{t+1}}{3}$. In turn $BAA-AAA\ Spread_t$ is the difference between Moody's Seasoned Baa Corporate Bond Yield and Moody's Seasoned Aaa Corporate Bond Yield at time t. The data is obtained from the Federal Reserve Economic Data at the St. Louis Fed.

Table A.I: **Summary statistics**

This table presents the summary statistics for the three-year moving of the BAA-AAA spread during our sample period (1980 to 2012).

| Variable | Number of observations | Mean | Standard deviation |
|----------------|------------------------|-------|--------------------|
| <i>BAA-AAA</i> | 33 | 1.115 | .375 |

Table A.II: **Evolution of firm diversification and external market conditions**

This table shows the relation between firm scope and external financial frictions. We report coefficients from estimating the following OLS regression on the sample of Compustat Segments firms:

$$Y_{it} = \alpha + \beta_1 \cdot BAA-AAA_t + X'_{it}\gamma + \epsilon_{it},$$

where Y is *Number Divisions* in Columns 1 and 2, *1-HHI Assets* in Columns 3 and 4, and *1-HHI Sales* in Columns 5 and 6. The matrix of controls X contains *Lag Size*, *Lag CF/A*, *Lag Q*, *Lag Leverage*, and *Age*. The sample used to perform the estimation in Panel A contains all firms. Panel B contains diversified firms (firms with at least two two-digit SIC divisions), and Panel C contains very diversified firms (firms with at least three two-digit SIC divisions). All variables are defined in Appendix B. The sample covers the period 1980 to 2012, and its construction is detailed in Section 2 of the paper. The standard errors in parentheses are clustered by year. Statistical significance at 1%, 5%, and 10% is marked with ***, **, and *, respectively.

| | <i>Number Divisions</i> | | <i>1-HHI Assets</i> | | <i>1-HHI Sales</i> | |
|--|-------------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| | (1) | (2) | (3) | (4) | (5) | (6) |
| <i>Panel A: All firms in Compustat Segments sample</i> | | | | | | |
| <i>BAA-AAA</i> | 0.187*** (0.065) | 0.102*** (0.025) | 0.045*** (0.014) | 0.026*** (0.004) | 0.047*** (0.006) | 0.021*** (0.004) |
| Controls | Yes | Yes | Yes | Yes | Yes | Yes |
| Firm FE | No | Yes | No | Yes | No | Yes |
| N | 120,142 | 120,142 | 120,142 | 120,142 | 120,142 | 120,142 |
| R^2 | 0.093 | 0.677 | 0.085 | 0.652 | 0.055 | 0.666 |
| <i>Panel B: Only diversified firms in Compustat Segments sample</i> | | | | | | |
| <i>BAA-AAA</i> | 0.281*** (0.060) | 0.179*** (0.047) | 0.064*** (0.019) | 0.028*** (0.008) | 0.045*** (0.015) | 0.026*** (0.008) |
| Controls | Yes | Yes | Yes | Yes | Yes | Yes |
| Firm FE | No | Yes | No | Yes | No | Yes |
| N | 22,951 | 22,951 | 22,951 | 22,951 | 22,951 | 22,951 |
| R^2 | 0.088 | 0.587 | 0.102 | 0.651 | 0.048 | 0.611 |
| <i>Panel C: Only very diversified firms in Compustat Segments sample</i> | | | | | | |
| <i>BAA-AAA</i> | 0.354*** (0.043) | 0.340*** (0.098) | 0.054*** (0.010) | 0.036** (0.016) | 0.039*** (0.009) | 0.034** (0.016) |
| Controls | Yes | Yes | Yes | Yes | Yes | Yes |
| Firm FE | No | Yes | No | Yes | No | Yes |
| N | 7,079 | 7,079 | 7,079 | 7,079 | 7,079 | 7,079 |
| R^2 | 0.052 | 0.464 | 0.045 | 0.570 | 0.044 | 0.584 |

Table A.III: **Diversification using cash flow and investment correlations and external market conditions**

This table estimates the relation between the degree of diversification of firms measured by the correlation among divisions of conglomerates and the BAA-AAA spread. We report coefficients from estimating the following OLS regression on the sample of Compustat Segments firms:

$$Y_{it} = \alpha + \beta_1 \cdot BAA-AAA_t + X'_{it}\gamma + \epsilon_{it},$$

where Y is *Firm Investment Correlation* in Columns 1 and 2, *Firm CF Correlation* in Columns 3 and 4, *Firm (CF - Investment) Correlation* in Columns 5 and 6, and *Firm Financing Deficit Correlation* in Columns 7 and 8. The matrix of controls X contains *Lag Size*, *Lag CF/A*, *Lag Q*, *Lag Leverage*, and *Age*. The sample in Panel A contains all firms in the Compustat Segments sample. Panel B contains diversified firms (firms with at least two two-digit SIC divisions), and Panel C contains very diversified firms (firms with at least three two-digit SIC divisions). All variables are defined in Appendix B. The sample covers the period 1980 to 2012, and its construction is detailed in Section 2. The standard errors in parentheses are clustered by year. Statistical significance at 1%, 5%, and 10% is marked with ***, **, and *, respectively.

| | <i>Firm Investment Correlation</i> | | <i>Firm CF Correlation</i> | | <i>Firm (CF - Investment) Correlation</i> | | <i>Firm Financing Deficit Correlation</i> | |
|--|------------------------------------|----------------------|----------------------------|----------------------|---|----------------------|---|----------------------|
| | (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) |
| <i>Panel A: All firms in Compustat Segments sample</i> | | | | | | | | |
| BAA-AAA | -0.031*** (0.011) | -0.011*** (0.003) | -0.040*** (0.014) | -0.016*** (0.004) | -0.040*** (0.014) | -0.016*** (0.004) | -0.025*** (0.009) | -0.009*** (0.002) |
| Controls | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes |
| Firm FE | No | Yes | No | Yes | No | Yes | No | Yes |
| N | 111,328 | 111,328 | 111,328 | 111,328 | 111,328 | 111,328 | 111,328 | 111,328 |
| R ² | 0.113 | 0.770 | 0.134 | 0.766 | 0.134 | 0.765 | 0.104 | 0.767 |
| <i>Panel B: Only diversified firms in Compustat Segments sample</i> | | | | | | | | |
| BAA-AAA | -0.050*** (0.012) | -0.019*** (0.005) | -0.058*** (0.014) | -0.026*** (0.007) | -0.057*** (0.015) | -0.025*** (0.007) | -0.032*** (0.009) | -0.014*** (0.004) |
| Controls | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes |
| Firm FE | No | Yes | No | Yes | No | Yes | No | Yes |
| N | 21,842 | 21,842 | 21,842 | 21,842 | 21,842 | 21,842 | 21,842 | 21,842 |
| R ² | 0.146 | 0.795 | 0.206 | 0.733 | 0.212 | 0.734 | 0.146 | 0.814 |
| <i>Panel C: Only very diversified firms in Compustat Segments sample</i> | | | | | | | | |
| BAA-AAA | -0.044*** (0.006) | -0.020** (0.008) | -0.047*** (0.006) | -0.030*** (0.010) | -0.050*** (0.007) | -0.031*** (0.010) | -0.025*** (0.008) | -0.019*** (0.007) |
| Controls | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes |
| Firm FE | No | Yes | No | Yes | No | Yes | No | Yes |
| N | 6,734 | 6,734 | 6,734 | 6,734 | 6,734 | 6,734 | 6,734 | 6,734 |
| R ² | 0.090 | 0.805 | 0.091 | 0.654 | 0.101 | 0.661 | 0.105 | 0.846 |

Table A.IV: **Diversifying mergers and acquisitions and external market conditions**

This table estimates the relation between aggregate M&A activity and the BAA-AAA spread. We report coefficients from estimating the following OLS regression on the aggregate M&A sample:

$$Y_{it} = \alpha + \beta_1 \cdot BAA-AAA_t + \epsilon_{it},$$

where Y is *Share Diversified Value* in Column 1, and *Share Diversified Deals* in Column 2. All variables are defined in Appendix B. The sample covers the period 1980 to 2012, and its construction is detailed in Section 2 of the paper. Standard errors are reported in parentheses. Statistical significance at 1%, 5%, and 10% is marked with ***, **, and *, respectively.

| | <i>Share Diversified Value</i> (1) | <i>Share Diversified Deals</i> (2) |
|----------------|---|---|
| <i>BAA-AAA</i> | 0.195*** (0.034) | 0.121*** (0.023) |
| Constant | 0.252*** (0.040) | 0.363*** (0.027) |
| N | 33 | 33 |
| R^2 | 0.517 | 0.476 |

Table A.V: **Diversifying mergers and acquisitions, deal composition, and external market conditions**

This table estimates the relation between the probability of engaging in a diversifying M&A and BAA-AAA spread. We report the coefficients from estimating the following logit regression on the sample of individual M&A deals:

$$Diversified\ M\&A_{it} = \alpha + \beta_1 \cdot BAA-AAA_t + X'_{it}\gamma + \epsilon_{it},$$

where *Diversified M&A* is a dummy variable that takes the value of one if the acquirer's main two-digit standard industrial classification (SIC) industry is different from the target's main two-digit SIC industry and zero otherwise. The matrix of controls X contains control for *Deal Value* and acquirer and target Thomson firm controls in Column 3; *Deal Value* and acquirer and target Compustat controls in Column 4. The Thomson controls are *Sales*, *Profitability*, *Leverage*, and *Cash* for both the target and the acquirer. The Compustat controls are *Lag Size*, *Lag CF/A*, *Lag Q*, *Lag Leverage*, and *Age* for both the target and the acquirer. All variables are defined in Appendix B. The sample covers the period 1980 to 2012, and its construction is detailed in Section 2. The standard errors in parenthesis are clustered by year. Statistical significance at 1%, 5%, and 10% is marked with ***, **, and *, respectively.

| | <i>Diversified M&A</i> | | | |
|--------------------|----------------------------|--------------------|------------------|--------------------|
| | (1) | (2) | (3) | (4) |
| <i>BAA-AAA</i> | 0.353*** (0.073) | 0.304** (0.132) | 0.151 (0.124) | 0.781** (0.315) |
| Acq. Industry FE | No | Yes | No | No |
| Tgt. Industry FE | No | Yes | No | No |
| Thomson Controls | No | No | Yes | No |
| Compustat Controls | No | No | No | Yes |
| N | 38,979 | 38,926 | 4,777 | 543 |
| Pseudo R^2 | 0.002 | 0.264 | 0.018 | 0.054 |

Table A.VI: Correlations between acquirer and target cash flow and investment in diversifying M&As and external market conditions

This table estimates the relation between the correlation of investment, cash flow, cash flow minus investment and net financing deficit and BAA-AAA spread. Panel A contains the coefficients from estimating the following ordinary least squares regression on the aggregate M&A sample:

$$Y_{it} = \alpha + \beta_1 \cdot BAA-AAA_t + \epsilon_{it},$$

where Y is *Aggregate Investment Correlation in M&As* in Column 1, *Aggregate CF Correlation in M&As* in Column 2, *Aggregate (CF - Investment) Correlation in M&As* in Column 3, and *Aggregate Financing Deficit Correlation in M&As* in Column 4.

Panels B, C, D and E contain the coefficients from estimating the following OLS regression on the sample of individual M&A deals:

$$Y_{it} = \alpha + \beta_1 \cdot BAA-AAA_t + X'_{it}\gamma + \epsilon_{it}.$$

Where Y is *Investment Correlation Acquirer—Target* in Panel B, *CF Correlation Acquirer—Target* in Panel C, *(CF - Investment) Correlation Acquirer—Target* in Panel D, and *Financing Deficit Correlation Acquirer—Target* in Panel E. The Thomson controls are *Deal Value* and *Sales*, *Profitability*, *Leverage*, and *Cash* for both the target and the acquirer. The Compustat controls are *Deal Value* and *Lag Size*, *Lag CF/A*, *Lag Q*, *Lag Leverage*, and *Age* for both the target and the acquirer. All variables are defined in Appendix B. The sample covers the period 1980 to 2012, and its construction is detailed in Section 2. The standard errors in parentheses are clustered by year. Statistical significance at 1%, 5%, and 10% is marked with ***, **, and *, respectively.

| <i>Panel A: Aggregate correlations between acquirer and target</i> | | | | |
|--|---|---|--|--|
| | <i>Aggregate Investment Correlation in M&As</i> | <i>Aggregate CF Correlation in M&As</i> | <i>Aggregate (CF - Investment) Correlation in M&As</i> | <i>Aggregate Financing Deficit Correlation in M&As</i> |
| | (1) | (2) | (3) | (4) |
| <i>BAA-AAA</i> | -0.129*** (0.025) | -0.182*** (0.034) | -0.184*** (0.036) | -0.142*** (0.022) |
| Constant | 0.847*** (0.029) | 0.784*** (0.040) | 0.798*** (0.042) | 0.908*** (0.025) |
| N | 33 | 33 | 33 | 33 |
| R^2 | 0.472 | 0.485 | 0.461 | 0.584 |

| <i>Panel B: Correlation of investment between acquirer and target</i> | | | | |
|---|---|--------------------|-------------------|---------------------|
| | <i>Investment Correlation Acquirer—Target</i> | | | |
| | (1) | (2) | (3) | (4) |
| <i>BAA—AAA</i> | -0.045*** (0.016) | -0.031* (0.015) | -0.009 (0.022) | -0.090** (0.039) |
| Acq. Industry FE | No | Yes | No | No |
| Tgt. Industry FE | No | Yes | No | No |
| Thomson Controls | No | No | Yes | No |
| Compustat Controls | No | No | No | Yes |
| N | 38,918 | 38,918 | 4,769 | 542 |
| <i>R</i> ² | 0.002 | 0.425 | 0.019 | 0.046 |

| <i>Panel C: Correlation of cash flow between acquirer and target</i> | | | | |
|--|---------------------------------------|---------------------|-------------------|--------------------|
| | <i>CF Correlation Acquirer—Target</i> | | | |
| | (1) | (2) | (3) | (4) |
| <i>BAA—AAA</i> | -0.091*** (0.023) | -0.056** (0.024) | -0.026 (0.033) | -0.148* (0.078) |
| Acq. Industry FE | No | Yes | No | No |
| Tgt. Industry FE | No | Yes | No | No |
| Thomson Controls | No | No | Yes | No |
| Compustat Controls | No | No | No | Yes |
| N | 38,918 | 38,918 | 4,769 | 542 |
| <i>R</i> ² | 0.004 | 0.341 | 0.027 | 0.043 |

| <i>Panel D: Correlation of cash flow minus investment between acquirer and target</i> | | | | |
|---|--|---------------------|-------------------|--------------------|
| | <i>(CF - Investment) Correlation Acquirer—Target</i> | | | |
| | (1) | (2) | (3) | (4) |
| <i>BAA—AAA</i> | -0.080*** (0.022) | -0.054** (0.023) | -0.024 (0.034) | -0.139* (0.072) |
| Acq. Industry FE | No | Yes | No | No |
| Tgt. Industry FE | No | Yes | No | No |
| Thomson Controls | No | No | Yes | No |
| Compustat Controls | No | No | No | Yes |
| N | 38,918 | 38,918 | 4,769 | 542 |
| <i>R</i> ² | 0.003 | 0.344 | 0.029 | 0.047 |

| <i>Panel E: Correlation of financing deficit between acquirer and target</i> | | | | |
|--|--|---------------------|-------------------|----------------------|
| | <i>Financing Deficit Correlation Acquirer—Target</i> | | | |
| | (1) | (2) | (3) | (4) |
| <i>BAA—AAA</i> | -0.061*** (0.013) | -0.036** (0.016) | -0.008 (0.018) | -0.103*** (0.035) |
| Acq. Industry FE | No | Yes | No | No |
| Tgt. Industry FE | No | Yes | No | No |
| Thomson Controls | No | No | Yes | No |
| Compustat Controls | No | No | No | Yes |
| N | 38,918 | 38,918 | 4,769 | 542 |
| <i>R</i> ² | 0.004 | 0.261 | 0.019 | 0.034 |

Online Appendix B - Contemporaneous TED spread

This appendix uses the contemporaneous TED spread as the measure of external financial frictions instead of the three-year moving average of TED spread used in the main text.

Table B.I: **Summary statistics**

This table presents the summary statistics for the contemporaneous TED Spread during our sample period (1980 to 2012).

| Variable | Number of observations | Mean | Standard deviation |
|-------------------|------------------------|------|--------------------|
| <i>TED Spread</i> | 33 | .506 | .445 |

Table B.II: **Evolution of firm diversification and external market conditions**

This table shows the relation between firm scope and external financial frictions. We report coefficients from estimating the following OLS regression on the sample of Compustat Segments firms:

$$Y_{it} = \alpha + \beta_1 \cdot TED\ Spread_t + X'_{it}\gamma + \epsilon_{it},$$

where Y is *Number Divisions* in Columns 1 and 2, *1-HHI Assets* in Columns 3 and 4, and *1-HHI Sales* in Columns 5 and 6. The matrix of controls X contains *Lag Size*, *Lag CF/A*, *Lag Q*, *Lag Leverage*, and *Age*. The sample used to perform the estimation in Panel A contains all firms. Panel B contains diversified firms (firms with at least two two-digit SIC divisions) and Panel C contains very diversified firms (firms with at least three two-digit SIC divisions). All variables are defined in Appendix B. The sample covers the period 1980 to 2012, and its construction is detailed in Section 2 of the paper. The standard errors in parentheses are clustered by year. Statistical significance at 1%, 5%, and 10% is marked with ***, **, and *, respectively.

| | <i>Number Divisions</i> | | <i>1-HHI Assets</i> | | <i>1-HHI Sales</i> | |
|--|-------------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| | (1) | (2) | (3) | (4) | (5) | (6) |
| <i>Panel A: All firms in Compustat Segments sample</i> | | | | | | |
| <i>TED Spread</i> | 0.231*** (0.045) | 0.070** (0.026) | 0.054*** (0.009) | 0.017*** (0.005) | 0.037*** (0.006) | 0.014*** (0.004) |
| Controls | Yes | Yes | Yes | Yes | Yes | Yes |
| Firm FE | No | Yes | No | Yes | No | Yes |
| N | 120,142 | 120,142 | 120,142 | 120,142 | 120,142 | 120,142 |
| R^2 | 0.100 | 0.676 | 0.090 | 0.651 | 0.054 | 0.666 |
| <i>Panel B: Only diversified firms in Compustat Segments sample</i> | | | | | | |
| <i>TED Spread</i> | 0.267*** (0.045) | 0.094*** (0.030) | 0.075*** (0.015) | 0.015** (0.006) | 0.054*** (0.011) | 0.014** (0.006) |
| Controls | Yes | Yes | Yes | Yes | Yes | Yes |
| Firm FE | No | Yes | No | Yes | No | Yes |
| N | 22,951 | 22,951 | 22,951 | 22,951 | 22,951 | 22,951 |
| R^2 | 0.093 | 0.585 | 0.113 | 0.650 | 0.053 | 0.610 |
| <i>Panel C: Only very diversified firms in Compustat Segments sample</i> | | | | | | |
| <i>TED Spread</i> | 0.246*** (0.051) | 0.162** (0.061) | 0.045*** (0.010) | 0.022** (0.010) | 0.032*** (0.007) | 0.018* (0.009) |
| Controls | Yes | Yes | Yes | Yes | Yes | Yes |
| Firm FE | No | Yes | No | Yes | No | Yes |
| N | 7,079 | 7,079 | 7,079 | 7,079 | 7,079 | 7,079 |
| R^2 | 0.047 | 0.459 | 0.046 | 0.569 | 0.044 | 0.583 |

Table B.III: **Diversification using cash flow and investment correlations and external market conditions**

This table estimates the relation between the degree of diversification of firms measured by the correlation among divisions of conglomerates and the contemporaneous TED spread. We report coefficients from estimating the following OLS regression on the sample of Compustat Segments firms:

$$Y_{it} = \alpha + \beta_1 \cdot TED\ Spread_t + X'_{it}\gamma + \epsilon_{it},$$

where Y is *Firm Investment Correlation* in Columns 1 and 2, *Firm CF Correlation* in Columns 3 and 4, *Firm (CF - Investment) Correlation* in Columns 5 and 6 and *Firm Financing Deficit Correlation* in Columns 7 and 8. The matrix of controls X contains *Lag Size*, *Lag CF/A*, *Lag Q*, *Lag Leverage*, and *Age*. The sample in Panel A contains all firms in the Compustat Segments sample. Panel B contains diversified firms [firms with at least two two-digit standard industrial classification (SIC) divisions] and Panel C contains very diversified firms (firms with at least three two-digit SIC divisions). All variables are defined in Appendix B. The sample covers the period 1980 to 2012, and its construction is detailed in Section 2. The standard errors in parentheses are clustered by year. Statistical significance at 1%, 5%, and 10% is marked with ***, **, and *, respectively.

| | <i>Firm Investment Correlation</i> | | <i>Firm CF Correlation</i> | | <i>Firm (CF - Investment) Correlation</i> | | <i>Firm Financing Deficit Correlation</i> | |
|--|------------------------------------|----------------------|----------------------------|----------------------|---|----------------------|---|----------------------|
| | (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) |
| <i>Panel A: All firms in Compustat Segments sample</i> | | | | | | | | |
| <i>TED Spread</i> | -0.040*** (0.007) | -0.008*** (0.003) | -0.053*** (0.009) | -0.010*** (0.004) | -0.053*** (0.009) | -0.010*** (0.004) | -0.032*** (0.006) | -0.006*** (0.002) |
| Controls | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes |
| Firm FE | No | Yes | No | Yes | No | Yes | No | Yes |
| N | 111,328 | 111,328 | 111,328 | 111,328 | 111,328 | 111,328 | 111,328 | 111,328 |
| R^2 | 0.121 | 0.770 | 0.143 | 0.766 | 0.143 | 0.765 | 0.111 | 0.766 |
| <i>Panel B: Only diversified firms in Compustat Segments sample</i> | | | | | | | | |
| <i>TED Spread</i> | -0.053*** (0.009) | -0.010** (0.004) | -0.063*** (0.010) | -0.016*** (0.005) | -0.063*** (0.010) | -0.015*** (0.005) | -0.038*** (0.007) | -0.009*** (0.003) |
| Controls | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes |
| Firm FE | No | Yes | No | Yes | No | Yes | No | Yes |
| N | 21,842 | 21,842 | 21,842 | 21,842 | 21,842 | 21,842 | 21,842 | 21,842 |
| R^2 | 0.154 | 0.795 | 0.218 | 0.732 | 0.225 | 0.733 | 0.153 | 0.814 |
| <i>Panel C: Only very diversified firms in Compustat Segments sample</i> | | | | | | | | |
| <i>TED Spread</i> | -0.034*** (0.006) | -0.009 (0.006) | -0.039*** (0.006) | -0.016*** (0.005) | -0.041*** (0.006) | -0.014** (0.007) | -0.028*** (0.004) | -0.008 (0.005) |
| Controls | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes |
| Firm FE | No | Yes | No | Yes | No | Yes | No | Yes |
| N | 6,734 | 6,734 | 6,734 | 6,734 | 6,734 | 6,734 | 6,734 | 6,734 |
| R^2 | 0.089 | 0.804 | 0.092 | 0.732 | 0.102 | 0.659 | 0.108 | 0.845 |

Table B.IV: **Diversifying mergers and acquisitions and external market conditions**

This table estimates the relation between aggregate M&A activity and the contemporaneous TED spread. We report coefficients from estimating the following OLS regression on the aggregate M&A sample:

$$Y_{it} = \alpha + \beta_1 \cdot TED\ Spread_t + \epsilon_{it},$$

where Y is *Share Diversified Value* in Column 1 and *Share Diversified Deals* in Column 2. All variables are defined in Appendix B. The sample covers the period 1980 to 2012, and its construction is detailed in Section 2 of the paper. Standard errors are reported in parentheses. Statistical significance at 1%, 5%, and 10% is marked with ***, **, and *, respectively.

| | <i>Share Diversified Value</i> (1) | <i>Share Diversified Deals</i> (2) |
|-------------------|---|---|
| <i>TED Spread</i> | 0.159*** (0.030) | 0.097*** (0.020) |
| Constant | 0.389*** (0.020) | 0.449*** (0.013) |
| N | 33 | 33 |
| R^2 | 0.483 | 0.432 |

Table B.V: **Diversifying mergers and acquisitions, deal composition, and external market conditions**

This table estimates the relation between the probability of engaging in a diversifying M&A and the contemporaneous TED spread. We report contains the coefficients from estimating the following logit regression on the sample of Individual M&A deals:

$$Diversified\ M\&A_{it} = \alpha + \beta_1 \cdot TED\ Spread_t + X'_{it}\gamma + \epsilon_{it},$$

where *Diversified M&A* is a dummy variable that takes the value of one if the acquirer's main two-digit standard industrial classification (SIC) industry is different from the target's main two-digit SIC industry and zero otherwise. The matrix of controls X contains control for *Deal Value* and acquirer and target Thomson firm controls in Column 3; *Deal Value* and acquirer and target Compustat controls in Column 4. The Thomson controls are *Sales*, *Profitability*, *Leverage*, and *Cash* for both the target and the acquirer. The Compustat controls are *Lag Size*, *Lag CF/A*, *Lag Q*, *Lag Leverage*, and *Age* for both the target and the acquirer. All variables are defined in Appendix B. The sample covers the period 1980 to 2012, and its construction is detailed in Section 2. The standard errors in parenthesis are clustered by year. Statistical significance at 1%, 5%, and 10% is marked with ***, **, and *, respectively.

| | <i>Diversified M&A</i> | | | |
|--------------------|----------------------------|---------------------|-------------------|---------------------|
| | (1) | (2) | (3) | (4) |
| <i>TED Spread</i> | 0.290*** (0.072) | 0.388*** (0.112) | 0.357* (0.188) | 1.298*** (0.256) |
| Acq. Industry FE | No | Yes | No | No |
| Tgt. Industry FE | No | Yes | No | No |
| Thomson Controls | No | No | Yes | No |
| Compustat Controls | No | No | No | Yes |
| N | 38,979 | 38,926 | 4,777 | 543 |
| Pseudo R^2 | 0.002 | 0.264 | 0.019 | 0.077 |

Table B.VI: Correlations between acquirer and target cash flow and investment in diversifying M&As and external market conditions

This table estimates the relation between the correlation of investment, cash flow, cash flow minus investment and net financing deficit and the contemporaneous TED spread. Panel A contains the coefficients from estimating the following OLS regression on the Aggregate M&A sample:

$$Y_{it} = \alpha + \beta_1 \cdot TED\ Spread_t + \epsilon_{it}$$

Where Y is *Aggregate Investment Correlation in M&As* in Column 1, *Aggregate CF Correlation in M&As* in Column 2, *Aggregate (CF - Investment) Correlation in M&As* in Column 3, and *Aggregate Financing Deficit Correlation in M&As* in Column 4.

Panels B, C, D and E contain the coefficients from estimating the following OLS regression on the sample of Individual M&A deals:

$$Y_{it} = \alpha + \beta_1 \cdot TED\ Spread_t + X'_{it}\gamma + \epsilon_{it}$$

Where Y is *Investment Correlation Acquirer—Target* in Panel B, *CF Correlation Acquirer—Target* in Panel C, *(CF - Investment) Correlation Acquirer—Target* in Panel D, and *Financing Deficit Correlation Acquirer—Target* in Panel E. The Thomson controls are *Deal Value* and *Sales*, *Profitability*, *Leverage*, and *Cash* for both the target and the acquirer. The Compustat controls are *Deal Value* and *Lag Size*, *Lag CF/A*, *Lag Q*, *Lag Leverage*, and *Age* for both the target and the acquirer. All variables are defined in Appendix B. The sample covers the period 1980 to 2012, and its construction is detailed in Section 2. The standard errors in parentheses are clustered by year. Statistical significance at 1%, 5%, and 10% is marked with ***, **, and *, respectively.

| <i>Panel A: Aggregate correlations between acquirer and target</i> | | | | |
|--|---|---|--|--|
| | <i>Aggregate Investment Correlation in M&As</i> | <i>Aggregate CF Correlation in M&As</i> | <i>Aggregate (CF - Investment) Correlation in M&As</i> | <i>Aggregate Financing Deficit Correlation in M&As</i> |
| | (1) | (2) | (3) | (4) |
| <i>TED Spread</i> | -0.111*** (0.020) | -0.156*** (0.028) | -0.161*** (0.029) | -0.128*** (0.016) |
| Constant | 0.759*** (0.014) | 0.660*** (0.019) | 0.675*** (0.019) | 0.814*** (0.011) |
| N | 33 | 33 | 33 | 33 |
| R^2 | 0.487 | 0.500 | 0.497 | 0.661 |

Panel B: Correlation of investment between acquirer and target

| | Investment Correlation Acquirer—Target | | | |
|--------------------|--|---------------------|-------------------|----------------------|
| | (1) | (2) | (3) | (4) |
| <i>TED Spread</i> | -0.040*** (0.014) | -0.041** (0.015) | -0.063 (0.042) | -0.155*** (0.035) |
| Acq. Industry FE | No | Yes | No | No |
| Tgt. Industry FE | No | Yes | No | No |
| Thomson Controls | No | No | Yes | No |
| Compustat Controls | No | No | No | Yes |
| N | 38,918 | 38,918 | 4,769 | 542 |
| R ² | 0.001 | 0.425 | 0.020 | 0.063 |

Panel C: Correlation of cash flow between acquirer and target

| | CF Correlation Acquirer—Target | | | |
|--------------------|--------------------------------|----------------------|--------------------|----------------------|
| | (1) | (2) | (3) | (4) |
| <i>TED Spread</i> | -0.084*** (0.020) | -0.073*** (0.021) | -0.094* (0.053) | -0.264*** (0.050) |
| Acq. Industry FE | No | Yes | No | No |
| Tgt. Industry FE | No | Yes | No | No |
| Thomson Controls | No | No | Yes | No |
| Compustat Controls | No | No | No | Yes |
| N | 38,918 | 38,918 | 4,769 | 542 |
| R ² | 0.003 | 0.342 | 0.029 | 0.077 |

Panel D: Correlation of cash flow minus investment between acquirer and target

| | (CF - Investment) Correlation Acquirer—Target | | | |
|--------------------|---|----------------------|-------------------|----------------------|
| | (1) | (2) | (3) | (4) |
| <i>TED Spread</i> | -0.077*** (0.018) | -0.071*** (0.020) | -0.093 (0.055) | -0.255*** (0.047) |
| Acq. Industry FE | No | Yes | No | No |
| Tgt. Industry FE | No | Yes | No | No |
| Thomson Controls | No | No | Yes | No |
| Compustat Controls | No | No | No | Yes |
| N | 38,918 | 38,918 | 4,769 | 542 |
| R ² | 0.003 | 0.345 | 0.031 | 0.081 |

Panel E: Correlation of financing deficit between acquirer and target

| | Financing Deficit Correlation Acquirer—Target | | | |
|--------------------|---|----------------------|-------------------|----------------------|
| | (1) | (2) | (3) | (4) |
| <i>TED Spread</i> | -0.057*** (0.013) | -0.049*** (0.015) | -0.037 (0.026) | -0.154*** (0.029) |
| Acq. Industry FE | No | Yes | No | No |
| Tgt. Industry FE | No | Yes | No | No |
| Thomson Controls | No | No | Yes | No |
| Compustat Controls | No | No | No | Yes |
| N | 38,918 | 38,918 | 4,769 | 542 |
| R ² | 0.004 | 0.262 | 0.019 | 0.058 |

Online Appendix C - Three-digit SIC diversification and one-digit SIC diversification measures

The results in this appendix use measures of diversification at the one-digit SIC level and the three-digit SIC level, instead of two-digit SIC level used in the main text.

Table C.I: **Summary statistics one-digit and three-digit SIC diversification**

This table presents the summary statistics for the variables defined at the one-digit SIC and three-digit SIC levels for the different samples used in this appendix. Panel A presents the summary statistics for the Compustat Segments sample, Panel B presents the summary statistics for the Individual M&A sample from Thomson and Panel C presents the summary statistics for the Aggregate M&A sample from Thomson. All three samples span the period 1980 to 2012.

| Variable | Number of observations | Mean | Standard deviation |
|--|------------------------|-------|--------------------|
| <i>Panel A: Summary statistics for the Compustat Segments sample</i> | | | |
| 3 Digit SIC Number Divisions | 120,142 | 1.399 | .855 |
| 3 Digit SIC 1-HHI Assets | 120,142 | .084 | .189 |
| 3 Digit SIC 1-HHI Sales | 120,142 | .108 | .237 |
| 1 Digit SIC Number Divisions | 120,142 | 1.166 | .455 |
| 1 Digit SIC 1-HHI Assets | 120,142 | .042 | .134 |
| 1 Digit SIC 1-HHI Sales | 120,142 | .066 | .201 |
| <i>Panel B: Summary statistics for the individual M&A sample</i> | | | |
| 3 Digit SIC Diversified M&A | 38,979 | .583 | .493 |
| 1 Digit SIC Diversified M&A | 38,979 | .332 | .471 |
| <i>Panel C: Summary statistics for the aggregate M&A sample</i> | | | |
| Share 3 Digit SIC Diversified Deals | 33 | .597 | .059 |
| Share 3 Digit SIC Diversified Value | 33 | .571 | .098 |
| Share 1 Digit SIC Diversified Deals | 33 | .336 | .036 |
| Share 1 Digit SIC Diversified Value | 33 | .335 | .089 |

Table C.II: **Evolution of firm three-digit SIC diversification and external market conditions**

This table shows the relation between firm scope and external financial frictions. We report coefficients from estimating the following OLS regression on the sample of Compustat Segments firms:

$$Y_{it} = \alpha + \beta_1 \cdot TED_t + X'_{it}\gamma + \epsilon_{it},$$

where Y is *3 Digit SIC Number Divisions* in Columns 1 and 2, *3 Digit SIC 1-HHI Assets* in Columns 3 and 4, and *3 Digit SIC 1-HHI Sales* in Columns 5 and 6. The matrix of controls X contains *Lag Size*, *Lag CF/A*, *Lag Q*, *Lag Leverage*, and *Age*. The sample used to perform the estimation in Panel A contains all firms. Panel B contains diversified firms (firms with at least two two-digit SIC divisions), and Panel C contains very diversified firms (firms with at least three two-digit SIC divisions). All variables are defined in Appendix B. The sample covers the period 1980 to 2012, and its construction is detailed in Section 2 of the paper. The standard errors in parentheses are clustered by year. Statistical significance at 1%, 5%, and 10% is marked with ***, **, and *, respectively.

| | <i>3 Digit SIC</i> | | 3 Digit SIC | | 3 Digit SIC | |
|--|-------------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| | <i>Number Divisions</i> | | <i>1-HHI Assets</i> | | <i>1-HHI Sales</i> | |
| | (1) | (2) | (3) | (4) | (5) | (6) |
| <i>Panel A: All firms in Compustat Segments sample</i> | | | | | | |
| <i>TED</i> | 0.363*** (0.048) | 0.159*** (0.041) | 0.083*** (0.008) | 0.033*** (0.006) | 0.063*** (0.008) | 0.027*** (0.006) |
| Controls | Yes | Yes | Yes | Yes | Yes | Yes |
| Firm FE | No | Yes | No | Yes | No | Yes |
| N | 120,142 | 120,142 | 120,142 | 120,142 | 120,142 | 120,142 |
| R^2 | 0.139 | 0.700 | 0.131 | 0.674 | 0.068 | 0.673 |
| <i>Panel B: Only diversified firms in Compustat Segments sample</i> | | | | | | |
| <i>TED</i> | 0.420*** (0.048) | 0.206*** (0.050) | 0.121*** (0.015) | 0.030*** (0.008) | 0.094*** (0.013) | 0.019** (0.008) |
| Controls | Yes | Yes | Yes | Yes | Yes | Yes |
| Firm FE | No | Yes | No | Yes | No | Yes |
| N | 28,412 | 28,412 | 28,412 | 28,412 | 28,412 | 28,412 |
| R^2 | 0.144 | 0.638 | 0.163 | 0.690 | 0.087 | 0.652 |
| <i>Panel C: Only very diversified firms in Compustat Segments sample</i> | | | | | | |
| <i>TED</i> | 0.322*** (0.056) | 0.326*** (0.069) | 0.068*** (0.010) | 0.041*** (0.010) | 0.055*** (0.009) | 0.034*** (0.009) |
| Controls | Yes | Yes | Yes | Yes | Yes | Yes |
| Firm FE | No | Yes | No | Yes | No | Yes |
| N | 11,149 | 11,149 | 11,149 | 11,149 | 11,149 | 11,149 |
| R^2 | 0.077 | 0.521 | 0.066 | 0.576 | 0.058 | 0.589 |

Table C.III: Three-digit SIC diversifying mergers and acquisitions and external market conditions

This table estimates the relation between aggregate M&A activity and the TED spread. We report coefficients from estimating the following OLS regression on the Aggregate M&A sample:

$$Y_{it} = \alpha + \beta_1 \cdot TED_t + \epsilon_{it},$$

where Y is *3 Digit SIC Share Diversified Value* in Column 1 and *3 Digit SIC Share Diversified Deals* in Column 2. All variables are defined in Appendix B. The sample covers the period 1980 to 2012, and its construction is detailed in Section 2 of the paper. Standard errors are reported in parentheses. Statistical significance at 1%, 5%, and 10% is marked with ***, **, and *, respectively.

| | <i>3 Digit SIC Share Diversified Value</i> (1) | <i>3 Digit SIC Share Diversified Deals</i> (2) |
|------------|---|---|
| <i>TED</i> | 0.187*** (0.029) | 0.116*** (0.016) |
| Constant | 0.477*** (0.018) | 0.539*** (0.010) |
| N | 33 | 33 |
| R^2 | 0.576 | 0.624 |

Table C.IV: **Three-digit SIC diversifying mergers and acquisitions, deal composition, and external market conditions**

This table estimates the relation between the probability of engaging in a diversifying M&A and TED spread. We report contains the coefficients from estimating the following logit regression on the sample of Individual M&A deals:

$$3 \text{ Digit SIC Diversified } M\&A_{it} = \alpha + \beta_1 \cdot TED_t + X'_{it}\gamma + \epsilon_{it},$$

where *3 Digit SIC Diversified M&A* is a dummy variable that takes the value of one if the acquirer's main three-digit standard industrial classification (SIC) industry is different from the target's main three-digit SIC industry and zero otherwise. The matrix of controls X contains control for *Deal Value* and acquirer and target Thomson firm controls in Column 3; *Deal Value* and acquirer and target Compustat controls in Column 4. The Thomson controls are *Sales*, *Profitability*, *Leverage*, and *Cash* for both the target and the acquirer. The Compustat controls are *Lag Size*, *Lag CF/A*, *Lag Q*, *Lag Leverage*, and *Age* for both the target and the acquirer. All variables are defined in Appendix B. The sample covers the period 1980 to 2012, and its construction is detailed in Section 2. The standard errors in parenthesis are clustered by year. Statistical significance at 1%, 5%, and 10% is marked with ***, **, and *, respectively.

| | <i>3 Digit SIC Diversified M&A</i> | | | |
|--------------------|--|---------------------|---------------------|---------------------|
| | (1) | (2) | (3) | (4) |
| <i>TED</i> | 0.378*** (0.084) | 0.426*** (0.102) | 0.526*** (0.187) | 1.212*** (0.426) |
| Acq. Industry FE | No | Yes | No | No |
| Tgt. Industry FE | No | Yes | No | No |
| Thomson Controls | No | No | Yes | No |
| Compustat Controls | No | No | No | Yes |
| N | 38,979 | 38,926 | 4,777 | 543 |
| Pseudo R^2 | 0.002 | 0.189 | 0.022 | 0.045 |

Table C.V: Evolution of firm one-digit SIC diversification and external market conditions

This table shows the relation between firm scope and external financial frictions. We report coefficients from estimating the following OLS regression on the sample of Compustat Segments firms:

$$Y_{it} = \alpha + \beta_1 \cdot TED_t + X'_{it}\gamma + \epsilon_{it},$$

where Y is *1 Digit SIC Number Divisions* in Columns 1 and 2, *1 Digit SIC 1-HHI Assets* in Columns 3 and 4, and *1 Digit SIC 1-HHI Sales* in Columns 5 and 6. The matrix of controls X contains *Lag Size*, *Lag CF/A*, *Lag Q*, *Lag Leverage*, and *Age*. The sample used to perform the estimation in Panel A contains all firms. Panel B contains diversified firms (firms with at least two two-digit SIC divisions), and Panel C contains very diversified firms (firms with at least three two-digit SIC divisions). All variables are defined in Appendix B. The sample covers the period 1980 to 2012, and its construction is detailed in Section 2 of the paper. The standard errors in parentheses are clustered by year. Statistical significance at 1%, 5%, and 10% is marked with ***, **, and *, respectively.

| | <i>1 Digit SIC Number Divisions</i> | | 1 Digit SIC 1-HHI Assets | | 1 Digit SIC 1-HHI Sales | |
|--|---|--------------------|-----------------------------|---------------------|----------------------------|---------------------|
| | (1) | (2) | (3) | (4) | (5) | (6) |
| <i>Panel A: All firms in Compustat Segments sample</i> | | | | | | |
| <i>TED</i> | 0.129*** (0.016) | 0.038** (0.017) | 0.033*** (0.003) | 0.014*** (0.003) | 0.013** (0.005) | 0.010*** (0.003) |
| Controls | Yes | Yes | Yes | Yes | Yes | Yes |
| Firm FE | No | Yes | No | Yes | No | Yes |
| N | 120,142 | 120,142 | 120,142 | 120,142 | 120,142 | 120,142 |
| R^2 | 0.052 | 0.648 | 0.045 | 0.600 | 0.053 | 0.657 |
| <i>Panel B: Only diversified firms in Compustat Segments sample</i> | | | | | | |
| <i>TED</i> | 0.165*** (0.021) | 0.103** (0.046) | 0.073*** (0.011) | 0.021** (0.009) | 0.042*** (0.007) | 0.018* (0.010) |
| Controls | Yes | Yes | Yes | Yes | Yes | Yes |
| Firm FE | No | Yes | No | Yes | No | Yes |
| N | 15,952 | 15,952 | 15,952 | 15,952 | 15,952 | 15,952 |
| R^2 | 0.051 | 0.523 | 0.093 | 0.640 | 0.032 | 0.595 |
| <i>Panel C: Only very diversified firms in Compustat Segments sample</i> | | | | | | |
| <i>TED</i> | 0.199*** (0.046) | 0.194* (0.097) | 0.050*** (0.009) | 0.042** (0.019) | 0.039*** (0.009) | 0.038** (0.018) |
| Controls | Yes | Yes | Yes | Yes | Yes | Yes |
| Firm FE | No | Yes | No | Yes | No | Yes |
| N | 2,962 | 2,962 | 2,962 | 2,962 | 2,962 | 2,962 |
| R^2 | 0.031 | 0.427 | 0.043 | 0.592 | 0.032 | 0.608 |

Table C.VI: One-digit SIC diversifying mergers and acquisitions and external market conditions

This table estimates the relation between aggregate M&A activity and the TED spread. We report coefficients from estimating the following OLS regression on the Aggregate M&A sample:

$$Y_{it} = \alpha + \beta_1 \cdot TED_t + \epsilon_{it},$$

where Y is *1 Digit SIC Share Diversified Value* in Column 1 and *1 Digit SIC Share Diversified Deals* in Column 2. All variables are defined in Appendix B. The sample covers the period 1980 to 2012, and its construction is detailed in Section 2 of the paper. Standard errors are reported in parentheses. Statistical significance at 1%, 5%, and 10% is marked with ***, **, and *, respectively.

| | <i>1 Digit SIC Share Diversified Value</i> (1) | <i>1 Digit SIC Share Diversified Deals</i> (2) |
|------------|---|---|
| <i>TED</i> | 0.090** (0.037) | -0.009 (0.016) |
| Constant | 0.290*** (0.024) | 0.340*** (0.010) |
| N | 33 | 33 |
| R^2 | 0.161 | 0.010 |

Table C.VII: **One-digit SIC diversifying mergers and acquisitions, deal composition, and external market conditions**

This table estimates the relation between the probability of engaging in a diversifying M&A and TED spread. We report contains the coefficients from estimating the following logit regression on the sample of Individual M&A deals:

$$1 \text{ Digit SIC Diversified M\&A}_{it} = \alpha + \beta_1 \cdot TED_t + X'_{it}\gamma + \epsilon_{it},$$

where *1 Digit SIC Diversified M&A* is a dummy variable that takes the value of one if the acquirer's main one-digit standard industrial classification (SIC) industry is different from the target's main one-digit SIC industry and zero otherwise. The matrix of controls X contains control for *Deal Value* and acquirer and target Thomson firm controls in Column 3; *Deal Value* and acquirer and target Compustat controls in Column 4. The Thomson controls are *Sales*, *Profitability*, *Leverage*, and *Cash* for both the target and the acquirer. The Compustat controls are *Lag Size*, *Lag CF/A*, *Lag Q*, *Lag Leverage*, and *Age* for both the target and the acquirer. All variables are defined in Appendix B. The sample covers the period 1980 to 2012, and its construction is detailed in Section 2. The standard errors in parenthesis are clustered by year. Statistical significance at 1%, 5%, and 10% is marked with ***, **, and *, respectively.

| | <i>1 Digit SIC Diversified M&A</i> | | | |
|--------------------|--|---------------------|-------------------|---------------------|
| | (1) | (2) | (3) | (4) |
| <i>TED</i> | 0.004 (0.080) | 0.256*** (0.089) | 0.334* (0.196) | 1.420*** (0.239) |
| Acq. Industry FE | No | Yes | No | No |
| Tgt. Industry FE | No | Yes | No | No |
| Thomson Controls | No | No | Yes | No |
| Compustat Controls | No | No | No | Yes |
| N | 38,979 | 38,934 | 4,777 | 543 |
| Pseudo R^2 | 0.000 | 0.262 | 0.010 | 0.104 |

Online Appendix D - All deals

This appendix includes data on all announced M&A deals instead of restricting the sample to completed deals as in the main text.

Table D.I: **Summary statistics**

This table presents the summary statistics for the different samples used in this appendix. Panel A presents the summary statistics for the individual M&A sample and Panel B presents the summary statistics for the aggregate M&A sample. Both samples span the period 1980 to 2012 and all variables are defined in Appendix B.

| Variable | Number of observations | Mean | Standard deviation |
|--|------------------------|------|--------------------|
| <i>Panel A: Summary statistics for the individual M&A sample</i> | | | |
| TED | 46,097 | .398 | .284 |
| Diversified M&A | 46,097 | .496 | .500 |
| Investment Correlation Acquirer – Target | 46,027 | .670 | .378 |
| CF Correlation Acquirer – Target | 46,027 | .566 | .472 |
| (CF - Investment) Correlation Acquirer – Target | 46,027 | .577 | .466 |
| Financing Deficit Correlation Acquirer – Target | 46,027 | .752 | .309 |
| <i>Panel B: Summary statistics for the aggregate M&A sample</i> | | | |
| TED 3yr | 33 | .504 | .399 |
| Share Diversified Deals | 33 | .498 | .066 |
| Share Diversified Value | 33 | .470 | .102 |
| Aggregate Investment Correlation in M&As | 33 | .702 | .071 |
| Aggregate CF Correlation in M&As | 33 | .581 | .098 |
| Aggregate (CF - Investment) Correlation in M&As | 33 | .593 | .101 |
| Aggregate Financing Deficit Correlation in M&As | 33 | .750 | .070 |

Table D.II: **Diversifying mergers and acquisitions and external market conditions**

This table estimates the relation between aggregate M&A activity and the TED spread, where in this appendix the M&A sample includes all deals, not only completed deals. We report coefficients from estimating the following OLS regression on the Aggregate M&A sample:

$$Y_{it} = \alpha + \beta_1 \cdot TED_t + \epsilon_{it},$$

where Y is *Share Diversified Value* in Column 1 and *Share Diversified Deals* in Column 2. All variables are defined in Appendix B. The sample covers the period 1980 to 2012, and its construction is detailed in Section 2 of the paper. Standard errors are reported in parentheses. Statistical significance at 1%, 5%, and 10% is marked with ***, **, and *, respectively.

| | <i>Share Diversified Value</i> (1) | <i>Share Diversified Deals</i> (2) |
|------------|---|---|
| <i>TED</i> | 0.181*** (0.038) | 0.116*** (0.018) |
| Constant | 0.395*** (0.025) | 0.453*** (0.012) |
| N | 33 | 33 |
| R^2 | 0.417 | 0.559 |

Table D.III: **Diversifying mergers and acquisitions, deal composition, and external market conditions**

This table estimates the relation between the probability of engaging in a diversifying M&A and TED spread, where in this appendix the M&A sample includes all deals, not only completed deals. We report the coefficients from estimating the following logit regression on the sample of Individual M&A deals:

$$\text{Diversified } M\&A_{it} = \alpha + \beta_1 \cdot TED_t + X'_{it}\gamma + \epsilon_{it},$$

where *Diversified M&A* is a dummy variable that takes the value of one if the acquirer's main two-digit standard industrial classification (SIC) industry is different from the target's main two-digit SIC industry and zero otherwise. The matrix of controls X contains control for *Deal Value* and acquirer and target Thomson firm controls in Column 3; *Deal Value* and acquirer and target Compustat controls in Column 4. The Thomson controls are *Sales*, *Profitability*, *Leverage*, and *Cash* for both the target and the acquirer. The Compustat controls are *Lag Size*, *Lag CF/A*, *Lag Q*, *Lag Leverage*, and *Age* for both the target and the acquirer. All variables are defined in Appendix B. The sample covers the period 1980 to 2012, and its construction is detailed in Section 2. The standard errors in parenthesis are clustered by year. Statistical significance at 1%, 5%, and 10% is marked with ***, **, and *, respectively.

| | <i>Diversified M&A</i> | | | |
|--------------------|----------------------------|---------------------|---------------------|---------------------|
| | (1) | (2) | (3) | (4) |
| <i>TED</i> | 0.381*** (0.076) | 0.588*** (0.080) | 0.605*** (0.207) | 1.028*** (0.186) |
| Acq. Industry FE | No | Yes | No | No |
| Tgt. Industry FE | No | Yes | No | No |
| Thomson Controls | No | No | Yes | No |
| Compustat Controls | No | No | No | Yes |
| N | 46,097 | 46,040 | 5,570 | 897 |
| Pseudo R^2 | 0.002 | 0.263 | 0.017 | 0.062 |

Table D.IV: **Correlations between acquirer and target cash flow and investment in diversifying M&As and external market conditions**

This table estimates the relation between the correlation of investment, cash flow, cash flow minus investment and net financing deficit and TED spread. In this appendix the M&A sample includes all deals, not only completed deals. Panel A contains the coefficients from estimating the following OLS regression on the Aggregate M&A sample:

$$Y_{it} = \alpha + \beta_1 \cdot TED_t + \epsilon_{it},$$

where Y is *Aggregate Investment Correlation in M&As* in Column 1, *Aggregate CF Correlation in M&As* in Column 2, *Aggregate (CF - Investment) Correlation in M&As* in Column 3, and *Aggregate Financing Deficit Correlation in M&As* in Column 4.

Panels B, C, D and E contain the coefficients from estimating the following OLS regression on the sample of Individual M&A deals:

$$Y_{it} = \alpha + \beta_1 \cdot TED_t + X'_{it}\gamma + \epsilon_{it}.$$

Where Y is *Investment Correlation Acquirer—Target* in Panel B, *CF Correlation Acquirer—Target* in Panel C, *(CF - Investment) Correlation Acquirer—Target* in Panel D, and *Financing Deficit Correlation Acquirer—Target* in Panel E. The Thomson controls are *Deal Value* and *Sales*, *Profitability*, *Leverage*, and *Cash* for both the target and the acquirer. The Compustat controls are *Deal Value* and *Lag Size*, *Lag CF/A*, *Lag Q*, *Lag Leverage*, and *Age* for both the target and the acquirer. All variables are defined in Appendix B. The sample covers the period 1980 to 2012, and its construction is detailed in Section 2. The standard errors in parentheses are clustered by year. Statistical significance at 1%, 5%, and 10% is marked with ***, **, and *, respectively.

| <i>Panel A: Aggregate correlations between acquirer and target</i> | | | | |
|--|---|---|--|--|
| | <i>Aggregate Investment Correlation in M&As</i> | <i>Aggregate CF Correlation in M&As</i> | <i>Aggregate (CF - Investment) Correlation in M&As</i> | <i>Aggregate Financing Deficit Correlation in M&As</i> |
| | (1) | (2) | (3) | (4) |
| <i>TED</i> | -0.133*** (0.024) | -0.165*** (0.036) | -0.174*** (0.036) | -0.157*** (0.021) |
| Constant | 0.759*** (0.015) | 0.648*** (0.023) | 0.665*** (0.023) | 0.817*** (0.013) |
| N | 33 | 33 | 33 | 33 |
| R^2 | 0.505 | 0.404 | 0.423 | 0.649 |

Panel B: Correlation of investment between acquirer and target

| | <i>Investment Correlation Acquirer—Target</i> | | | |
|--------------------|---|----------------------|----------------------|----------------------|
| | (1) | (2) | (3) | (4) |
| <i>TED</i> | -0.056*** (0.015) | -0.061*** (0.011) | -0.102*** (0.034) | -0.153*** (0.040) |
| Acq. Industry FE | No | Yes | No | No |
| Tgt. Industry FE | No | Yes | No | No |
| Thomson Controls | No | No | Yes | No |
| Compustat Controls | No | No | No | Yes |
| N | 46,027 | 46,027 | 5,562 | 896 |
| R^2 | 0.002 | 0.415 | 0.019 | 0.059 |

Panel C: Correlation of cash flow between acquirer and target

| | <i>CF Correlation Acquirer—Target</i> | | | |
|--------------------|---------------------------------------|----------------------|----------------------|----------------------|
| | (1) | (2) | (3) | (4) |
| <i>TED</i> | -0.110*** (0.019) | -0.108*** (0.015) | -0.174*** (0.054) | -0.205*** (0.038) |
| Acq. Industry FE | No | Yes | No | No |
| Tgt. Industry FE | No | Yes | No | No |
| Thomson Controls | No | No | Yes | No |
| Compustat Controls | No | No | No | Yes |
| N | 46,027 | 46,027 | 5,562 | 896 |
| R^2 | 0.004 | 0.338 | 0.027 | 0.062 |

Panel D: Correlation of cash flow minus investment between acquirer and target

| | <i>(CF - Investment) Correlation Acquirer—Target</i> | | | |
|--------------------|--|----------------------|----------------------|----------------------|
| | (1) | (2) | (3) | (4) |
| <i>TED</i> | -0.101*** (0.018) | -0.104*** (0.015) | -0.172*** (0.053) | -0.211*** (0.037) |
| Acq. Industry FE | No | Yes | No | No |
| Tgt. Industry FE | No | Yes | No | No |
| Thomson Controls | No | No | Yes | No |
| Compustat Controls | No | No | No | Yes |
| N | 46,027 | 46,027 | 5,562 | 896 |
| R^2 | 0.004 | 0.341 | 0.029 | 0.067 |

Panel E: Correlation of financing deficit between acquirer and target

| | <i>Financing Deficit Correlation Acquirer—Target</i> | | | |
|--------------------|--|----------------------|---------------------|----------------------|
| | (1) | (2) | (3) | (4) |
| <i>TED</i> | -0.075*** (0.011) | -0.071*** (0.011) | -0.082** (0.030) | -0.148*** (0.031) |
| Acq. Industry FE | No | Yes | No | No |
| Tgt. Industry FE | No | Yes | No | No |
| Thomson Controls | No | No | Yes | No |
| Compustat Controls | No | No | No | Yes |
| N | 46,027 | 46,027 | 5,562 | 896 |
| R^2 | 0.005 | 0.263 | 0.020 | 0.048 |

Online Appendix E - Large firms and large deals

This appendix restricts the Compustat Segments sample to include only large firms (those with \$100 million or more in assets) and the M&A sample to include only large deals (those valued at \$100 million or more).

Table E.I: **Summary statistics**

This table presents the summary statistics for the different samples used in this appendix. Panel A presents the summary statistics for the Compustat Segments sample, Panel B presents the summary statistics for the Individual M&A sample from Thomson and Panel C presents the summary statistics for the Aggregate M&A sample from Thomson. All three samples span the period 1980 to 2012 and all variables are defined in Appendix B.

| Variable | Number of observations | Mean | Standard deviation |
|--|------------------------|--------|--------------------|
| <i>Panel A: Summary statistics for the Compustat Segments sample</i> | | | |
| Number Divisions | 57,501 | 1.589 | 1.055 |
| 1-HHI Assets | 57,501 | .124 | .222 |
| 1-HHI Sales | 57,501 | .122 | .219 |
| Firm Investment Correlation | 53,153 | .929 | .141 |
| Firm CF Correlation | 53,153 | .903 | .172 |
| Firm (CF - Investment) Correlation | 53,153 | .902 | .173 |
| Firm Financing Deficit Correlation | 53,153 | .939 | .125 |
| Lag Size | 57,501 | 6.650 | 1.524 |
| Lag CF/A | 57,501 | .066 | .153 |
| Lag Q | 57,501 | 1.753 | 1.726 |
| Lag Leverage | 57,501 | .404 | .243 |
| Age | 57,501 | 20.686 | 14.378 |
| <i>Panel B: Summary statistics for the individual M&A sample</i> | | | |
| Diversified M&A | 7,656 | .472 | .480 |
| Investment Correlation Acquirer – Target | 7,648 | .701 | .386 |
| CF Correlation Acquirer – Target | 7,648 | .581 | .473 |
| (CF - Investment) Correlation Acquirer – Target | 7,648 | .596 | .466 |
| Financing Deficit Correlation Acquirer – Target | 7,648 | .769 | .301 |
| <i>Panel C: Summary statistics for the aggregate M&A sample</i> | | | |
| TED | 33 | .504 | .399 |
| Share Diversified Deals | 33 | .491 | .093 |
| Share Diversified Value | 33 | .464 | .116 |
| Aggregate Investment Correlation in M&As | 33 | .703 | .083 |
| Aggregate CF Correlation in M&As | 33 | .585 | .103 |
| Aggregate (CF - Investment) Correlation in M&As | 33 | .596 | .115 |
| Aggregate Financing Deficit Correlation in M&As | 33 | .748 | .081 |

Table E.II: **Evolution of firm diversification and external market conditions**

This table shows the relation between firm scope and external financial frictions. We report coefficients from estimating the following OLS regression on the sample of Compustat Segments firms:

$$Y_{it} = \alpha + \beta_1 \cdot TED_t + X'_{it}\gamma + \epsilon_{it},$$

where Y is *Number Divisions* in Columns 1 and 2, *1-HHI Assets* in Columns 3 and 4 and *1-HHI Sales* in Columns 5 and 6. The matrix of controls X includes *Lag Size*, *Lag CF/A*, *Lag Q*, *Lag Leverage*, and *Age*. The sample used to perform the estimation in Panel A contains all firms in the Compustat Segments sample. Panel B contains diversified firms [firms with at least two two-digit standard industrial classification (SIC) divisions] and Panel C contains very diversified firms (firms with at least three two-digit SIC divisions). All variables are defined in Appendix B. The sample covers the period 1980 to 2012, and its construction is detailed in Section 2 of the paper. The standard errors in parentheses are clustered by year. Statistical significance at 1%, 5%, and 10% is marked with ***, **, and *, respectively.

| | <i>Number Divisions</i> | | <i>1-HHI Assets</i> | | <i>1-HHI Sales</i> | |
|--|-------------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| | (1) | (2) | (3) | (4) | (5) | (6) |
| <i>Panel A: All firms in Compustat Segments sample</i> | | | | | | |
| <i>TED</i> | 0.527*** (0.066) | 0.234*** (0.047) | 0.106*** (0.010) | 0.039*** (0.006) | 0.102*** (0.010) | 0.032*** (0.006) |
| Controls | Yes | Yes | Yes | Yes | Yes | Yes |
| Firm FE | No | Yes | No | Yes | No | Yes |
| N | 57,501 | 57,501 | 57,501 | 57,501 | 57,501 | 57,501 |
| R^2 | 0.144 | 0.709 | 0.126 | 0.708 | 0.115 | 0.725 |
| <i>Panel B: Only diversified firms in Compustat Segments sample</i> | | | | | | |
| <i>TED</i> | 0.564*** (0.055) | 0.229*** (0.049) | 0.118*** (0.013) | 0.023*** (0.007) | 0.101*** (0.013) | 0.016** (0.007) |
| Controls | Yes | Yes | Yes | Yes | Yes | Yes |
| Firm FE | No | Yes | No | Yes | No | Yes |
| N | 17,951 | 17,951 | 17,951 | 17,951 | 17,951 | 17,951 |
| R^2 | 0.115 | 0.643 | 0.100 | 0.688 | 0.083 | 0.684 |
| <i>Panel C: Only very diversified firms in Compustat Segments sample</i> | | | | | | |
| <i>TED</i> | 0.377*** (0.056) | 0.321*** (0.071) | 0.061*** (0.009) | 0.031*** (0.009) | 0.048*** (0.008) | 0.028*** (0.010) |
| Controls | Yes | Yes | Yes | Yes | Yes | Yes |
| Firm FE | No | Yes | No | Yes | No | Yes |
| N | 8,640 | 8,640 | 8,640 | 8,640 | 8,640 | 8,640 |
| R^2 | 0.064 | 0.524 | 0.036 | 0.566 | 0.024 | 0.571 |

Table E.III: **Diversification using cash flow and investment correlations and external market conditions**

This table estimates the relation between the degree of diversification of firms measured by the correlation among divisions of conglomerates and the TED spread. We report coefficients from estimating the following OLS regression on the sample of Compustat Segments firms:

$$Y_{it} = \alpha + \beta_1 \cdot TED_t + X'_{it}\gamma + \epsilon_{it},$$

where Y is *Firm Investment Correlation* in Columns 1 and 2, *Firm CF Correlation* in Columns 3 and 4, *Firm (CF - Investment) Correlation* in Columns 5 and 6 and *Firm Financing Deficit Correlation* in Columns 7 and 8. The matrix of controls X contains *Lag Size*, *Lag CF/A*, *Lag Q*, *Lag Leverage*, and *Age*. The sample in Panel A contains all firms in the Compustat Segments sample. Panel B contains diversified firms [firms with at least two two-digit standard industrial classification (SIC) divisions] and Panel C contains very diversified firms (firms with at least three two-digit SIC divisions). All variables are defined in Appendix B. The sample covers the period 1980 to 2012, and its construction is detailed in Section 2. The standard errors in parentheses are clustered by year. Statistical significance at 1%, 5%, and 10% is marked with ***, **, and *, respectively.

| | <i>Firm Investment Correlation</i> | | <i>Firm CF Correlation</i> | | <i>Firm (CF - Investment) Correlation</i> | | <i>Firm Financing Deficit Correlation</i> | |
|--|------------------------------------|----------------------|----------------------------|----------------------|---|----------------------|---|----------------------|
| | (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) |
| <i>Panel A: All firms in Compustat Segments sample</i> | | | | | | | | |
| <i>TED</i> | -0.070*** (0.007) | -0.017*** (0.004) | -0.086*** (0.009) | -0.020*** (0.005) | -0.088*** (0.009) | -0.021*** (0.005) | -0.059*** (0.006) | -0.013*** (0.003) |
| Controls | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes |
| Firm FE | No | Yes | No | Yes | No | Yes | No | Yes |
| N | 53,153 | 53,153 | 53,153 | 53,153 | 53,153 | 53,153 | 53,153 | 53,153 |
| R^2 | 0.118 | 0.794 | 0.138 | 0.789 | 0.137 | 0.786 | 0.112 | 0.789 |
| <i>Panel B: Only diversified firms in Compustat Segments sample</i> | | | | | | | | |
| <i>TED</i> | -0.065*** (0.006) | -0.023*** (0.006) | -0.067*** (0.006) | -0.028*** (0.007) | -0.069*** (0.006) | -0.028*** (0.006) | -0.052*** (0.005) | -0.018*** (0.005) |
| Controls | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes |
| Firm FE | No | Yes | No | Yes | No | Yes | No | Yes |
| N | 13,819 | 13,819 | 13,819 | 13,819 | 13,819 | 13,819 | 13,819 | 13,819 |
| R^2 | 0.071 | 0.790 | 0.073 | 0.673 | 0.077 | 0.671 | 0.083 | 0.812 |
| <i>Panel C: Only very diversified firms in Compustat Segments sample</i> | | | | | | | | |
| <i>TED</i> | -0.037*** (0.005) | -0.021** (0.008) | -0.044*** (0.003) | -0.032*** (0.008) | -0.047*** (0.004) | -0.033*** (0.008) | -0.034*** (0.005) | -0.020*** (0.007) |
| Controls | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes |
| Firm FE | No | Yes | No | Yes | No | Yes | No | Yes |
| N | 5,203 | 5,203 | 5,203 | 5,203 | 5,203 | 5,203 | 5,203 | 5,203 |
| R^2 | 0.060 | 0.815 | 0.038 | 0.637 | 0.041 | 0.644 | 0.085 | 0.858 |

Table E.IV: **Diversifying mergers and acquisitions and external market conditions**

This table estimates the relation between aggregate M&A activity and the TED spread. We report coefficients from estimating the following OLS regression on the Aggregate M&A sample:

$$Y_{it} = \alpha + \beta_1 \cdot TED_t + \epsilon_{it},$$

where Y is *Share Diversified Value* in Column 1 and *Share Diversified Deals* in Column 2. All variables are defined in Appendix B. The sample covers the period 1980 to 2012, and its construction is detailed in Section 2 of the paper. Standard errors are reported in parentheses. Statistical significance at 1%, 5%, and 10% is marked with ***, **, and *, respectively.

| | <i>Share Diversified Value</i> (1) | <i>Share Diversified Deals</i> (2) |
|------------|---|---|
| <i>TED</i> | 0.204*** (0.037) | 0.155*** (0.032) |
| Constant | 0.362*** (0.024) | 0.413*** (0.020) |
| N | 33 | 33 |
| R^2 | 0.496 | 0.437 |

Table E.V: **Diversifying mergers and acquisitions, deal composition, and external market conditions**

This table estimates the relation between the probability of engaging in a diversifying M&A and TED spread. We report contains the coefficients from estimating the following logit regression on the sample of Individual M&A deals:

$$Diversified\ M\&A_{it} = \alpha + \beta_1 \cdot TED_t + X'_{it}\gamma + \epsilon_{it},$$

where *Diversified M&A* is a dummy variable that takes the value of one if the acquirer's main two-digit standard industrial classification (SIC) industry is different from the target's main two-digit SIC industry and zero otherwise. The matrix of controls X contains control for *Deal Value* and acquirer and target Thomson firm controls in Column 3; *Deal Value* and acquirer and target Compustat controls in Column 4. The Thomson controls are *Sales*, *Profitability*, *Leverage*, and *Cash* for both the target and the acquirer. The Compustat controls are *Lag Size*, *Lag CF/A*, *Lag Q*, *Lag Leverage*, and *Age* for both the target and the acquirer. All variables are defined in Appendix B. The sample covers the period 1980 to 2012, and its construction is detailed in Section 2. The standard errors in parenthesis are clustered by year. Statistical significance at 1%, 5%, and 10% is marked with ***, **, and *, respectively.

| | <i>Diversified M&A</i> | | | |
|--------------------|----------------------------|---------------------|---------------------|-------------------|
| | (1) | (2) | (3) | (4) |
| <i>TED</i> | 0.502*** (0.168) | 0.865*** (0.136) | 0.845*** (0.298) | 0.942* (0.533) |
| Acq. Industry FE | No | Yes | No | No |
| Tgt. Industry FE | No | Yes | No | No |
| Thomson Controls | No | No | Yes | No |
| Compustat Controls | No | No | No | Yes |
| N | 7,656 | 7,629 | 2,379 | 319 |
| Pseudo R^2 | 0.002 | 0.337 | 0.048 | 0.034 |

Table E.VI: Correlations between acquirer and target cash flow and investment in diversifying M&As and external market conditions

This table estimates the relation between the correlation of investment, cash flow, cash flow minus investment and net financing deficit and TED spread. Panel A contains the coefficients from estimating the following OLS regression on the Aggregate M&A sample:

$$Y_{it} = \alpha + \beta_1 \cdot TED_t + \epsilon_{it},$$

where Y is *Aggregate Investment Correlation in M&As* in Column 1, *Aggregate CF Correlation in M&As* in Column 2, *Aggregate (CF - Investment) Correlation in M&As* in Column 3, and *Aggregate Financing Deficit Correlation in M&As* in Column 4.

Panels B, C, D and E contain the coefficients from estimating the following OLS regression on the sample of Individual M&A deals:

$$Y_{it} = \alpha + \beta_1 \cdot TED_t + X'_{it}\gamma + \epsilon_{it}.$$

Where Y is *Investment Correlation Acquirer—Target* in Panel B, *CF Correlation Acquirer—Target* in Panel C, *(CF - Investment) Correlation Acquirer—Target* in Panel D, and *Financing Deficit Correlation Acquirer—Target* in Panel E. The Thomson controls are *Deal Value* and *Sales*, *Profitability*, *Leverage*, and *Cash* for both the target and the acquirer. The Compustat controls are *Deal Value* and *Lag Size*, *Lag CF/A*, *Lag Q*, *Lag Leverage*, and *Age* for both the target and the acquirer. All variables are defined in Appendix B. The sample covers the period 1980 to 2012, and its construction is detailed in Section 2. The standard errors in parentheses are clustered by year. Statistical significance at 1%, 5%, and 10% is marked with ***, **, and *, respectively.

| <i>Panel A: Aggregate correlations between acquirer and target</i> | | | | |
|--|---|---|--|--|
| | <i>Aggregate Investment Correlation in M&As</i> | <i>Aggregate CF Correlation in M&As</i> | <i>Aggregate (CF - Investment) Correlation in M&As</i> | <i>Aggregate Financing Deficit Correlation in M&As</i> |
| | (1) | (2) | (3) | (4) |
| <i>TED</i> | -0.150*** (0.026) | -0.199*** (0.034) | -0.210*** (0.035) | -0.174*** (0.019) |
| Constant | 0.778*** (0.017) | 0.685*** (0.022) | 0.702*** (0.023) | 0.835*** (0.012) |
| N | 33 | 33 | 33 | 33 |
| R^2 | 0.515 | 0.525 | 0.533 | 0.724 |

Panel B: Correlation of investment between acquirer and target

| | <i>Investment Correlation Acquirer—Target</i> | | | |
|--------------------|---|----------------------|---------------------|-------------------|
| | (1) | (2) | (3) | (4) |
| <i>TED</i> | -0.075** (0.034) | -0.090*** (0.026) | -0.126** (0.057) | -0.131 (0.092) |
| Acq. Industry FE | No | Yes | No | No |
| Tgt. Industry FE | No | Yes | No | No |
| Thomson Controls | No | No | Yes | No |
| Compustat Controls | No | No | No | Yes |
| N | 7,648 | 7,648 | 2,377 | 319 |
| R^2 | 0.002 | 0.446 | 0.041 | 0.040 |

Panel C: Correlation of cash flow between acquirer and target

| | <i>CF Correlation Acquirer—Target</i> | | | |
|--------------------|---------------------------------------|----------------------|---------------------|-------------------|
| | (1) | (2) | (3) | (4) |
| <i>TED</i> | -0.121*** (0.040) | -0.129*** (0.025) | -0.191** (0.070) | -0.131 (0.098) |
| Acq. Industry FE | No | Yes | No | No |
| Tgt. Industry FE | No | Yes | No | No |
| Thomson Controls | No | No | Yes | No |
| Compustat Controls | No | No | No | Yes |
| N | 7,648 | 7,648 | 2,377 | 319 |
| R^2 | 0.004 | 0.392 | 0.051 | 0.028 |

Panel D: Correlation of cash flow minus investment between acquirer and target

| | <i>(CF - Investment) Correlation Acquirer—Target</i> | | | |
|--------------------|--|----------------------|---------------------|-------------------|
| | (1) | (2) | (3) | (4) |
| <i>TED</i> | -0.125*** (0.041) | -0.131*** (0.025) | -0.181** (0.071) | -0.133 (0.101) |
| Acq. Industry FE | No | Yes | No | No |
| Tgt. Industry FE | No | Yes | No | No |
| Thomson Controls | No | No | Yes | No |
| Compustat Controls | No | No | No | Yes |
| N | 7,648 | 7,648 | 2,377 | 319 |
| R^2 | 0.004 | 0.404 | 0.053 | 0.025 |

Panel E: Correlation of financing deficit between acquirer and target

| | <i>Financing Deficit Correlation Acquirer—Target</i> | | | |
|--------------------|--|----------------------|---------------------|-------------------|
| | (1) | (2) | (3) | (4) |
| <i>TED</i> | -0.105*** (0.026) | -0.102*** (0.023) | -0.099** (0.045) | -0.097 (0.076) |
| Acq. Industry FE | No | Yes | No | No |
| Tgt. Industry FE | No | Yes | No | No |
| Thomson Controls | No | No | Yes | No |
| Compustat Controls | No | No | No | Yes |
| N | 7,648 | 7,648 | 2,377 | 319 |
| R^2 | 0.007 | 0.335 | 0.033 | 0.029 |

Online Appendix F - Excluding financial crisis, NBER recessions and periods of extreme values of TED

This appendix documents the relation between financial market frictions and diversification after restricting the sample in three ways: (i) excluding from the sample the period of the recent financial crisis (years 2007 to 2012) in tables F.I to F.IV; (2) excluding from the sample the years of NBER recessions in tables F.V to F.VIII; and (3) excluding from the sample the years with extreme values of TED (we exclude all years with TED above 1) in tables F.IX to F.XII.

Table F.I: Aggregate evolution of firm diversification and external market conditions excluding recent crisis (years after 2007)

This table estimates the relation between the degree of diversification of firms measured by the correlation among divisions of conglomerates and the TED spread. We report coefficients from estimating the following OLS regression on the Compustat Segments sample after excluding the years after 2007:

$$Y_{it} = \alpha + \beta_1 \cdot TED_t + X'_{it}\gamma + \epsilon_{it},$$

where Y is *Avg. Number Divisions in Compustat* in Columns 1, *Avg. 1-HHI Assets in Compustat* in Column 2, and *Avg. 1-HHI Sales in Compustat* in Column 3. All variables are defined in Appendix B. The sample covers the period 1980 to 2012, and its construction is detailed in Section 2 of the paper. Standard errors are reported in parentheses. Statistical significance at 1%, 5%, and 10% is marked with ***, **, and *, respectively.

| | <i>Avg. Number Divisions in Compustat</i> (1) | <i>Avg. 1-HHI Assets in Compustat</i> (2) | <i>Avg. 1-HHI Sales in Compustat</i> (3) |
|------------|--|--|---|
| <i>TED</i> | 0.515*** (0.059) | 0.074*** (0.008) | 0.062*** (0.008) |
| Constant | 1.566*** (0.040) | 0.134*** (0.005) | 0.125*** (0.005) |
| N | 28 | 28 | 28 |
| R-squared | 0.743 | 0.762 | 0.709 |

Table F.II: Diversification using cash flow and investment correlations and external market conditions excluding recent crisis (years after 2007)

This table estimates the relation between the correlation of investment, cash flow, cash flow minus investment and net financing deficit and the TED spread. We report coefficients from estimating the following OLS regression on the Compustat Segments sample after excluding the years after 2007:

$$Y_{it} = \alpha + \beta_1 \cdot TED_t + \epsilon_{it},$$

where Y is *Avg. Investment Correlation in Compustat* in Column 1, *Avg. CF Correlation in Compustat* in Column 2, *Avg. (CF - Investment) Correlation in Compustat* in Column 3, and *Avg. Financing Deficit Correlation in Compustat* in Column 4. All variables are defined in Appendix B. The sample covers the period 1980 to 2012, and its construction is detailed in Section 2 of the paper. Standard errors are reported in parentheses. Statistical significance at 1%, 5%, and 10% is marked with ***, **, and *, respectively.

| | <i>Avg. Investment Correlation in Compustat</i> (1) | <i>Avg. CF Correlation in Compustat</i> (2) | <i>Avg. (CF - Investment) Correlation in Compustat</i> (3) | <i>Avg. Financing Deficit Correlation in Compustat</i> (4) |
|------------|--|--|---|---|
| <i>TED</i> | -0.060*** (0.009) | -0.056*** (0.009) | -0.060*** (0.009) | -0.052*** (0.007) |
| Constant | 0.875*** (0.006) | 0.836*** (0.006) | 0.838*** (0.006) | 0.886*** (0.005) |
| N | 28 | 28 | 28 | 28 |
| R-squared | 0.659 | 0.598 | 0.624 | 0.679 |

Table F.III: Diversifying mergers and acquisitions and external market conditions excluding recent crisis (years after 2007)

This table estimates the relation between aggregate M&A activity and the TED spread. We report coefficients from estimating the following OLS regression on the Aggregate M&A sample after excluding the years after 2007:

$$Y_{it} = \alpha + \beta_1 \cdot TED_t + \epsilon_{it},$$

where Y is *Share Diversified Value* in Column 1, and *Share Diversified Deals* in Column 2. All variables are defined in Appendix B. The sample covers the period 1980 to 2012, and its construction is detailed in Section 2 of the paper. Standard errors are reported in parentheses. Statistical significance at 1%, 5%, and 10% is marked with ***, **, and *, respectively.

| | <i>Share Diversified Value</i> (1) | <i>Share Diversified Deals</i> (2) |
|------------|---|---|
| <i>TED</i> | 0.200*** (0.034) | 0.136*** (0.019) |
| N | 28 | 28 |
| R-squared | 0.575 | 0.675 |

Table F.IV: Correlations between acquirer and target cash flow and investment in diversifying M&As and external market conditions excluding recent crisis (years after 2007)

This table estimates the relation between the correlation of investment, cash flow, cash flow minus investment and net financing deficit and TED spread. Panel A contains the coefficients from estimating the following OLS regression on the Aggregate M&A sample after excluding the years after 2007:

$$Y_{it} = \alpha + \beta_1 \cdot TED_t + \epsilon_{it},$$

where Y is *Aggregate Investment Correlation in M&As* in Column 1, *Aggregate CF Correlation in M&As* in Column 2, *Aggregate (CF - Investment) Correlation in M&As* in Column 3, and *Aggregate Financing Deficit Correlation in M&As* in Column 4. All variables are defined in Appendix B. The sample covers the period 1980 to 2012, and its construction is detailed in Section 2 of the paper. Standard errors are reported in parentheses. Statistical significance at 1%, 5%, and 10% is marked with ***, **, and *, respectively.

| | <i>Aggregate Investment Correlation in M&As</i> (1) | <i>Aggregate CF Correlation in M&As</i> (2) | <i>Aggregate (CF - Investment) Correlation in M&As</i> (3) | <i>Aggregate Financing Deficit Correlation in M&As</i> (4) |
|------------|--|--|---|---|
| <i>TED</i> | -0.136*** (0.023) | -0.196*** (0.031) | -0.203*** (0.032) | -0.160*** (0.016) |
| Constant | 0.776*** (0.016) | 0.685*** (0.021) | 0.700*** (0.022) | 0.833*** (0.011) |
| N | 28 | 28 | 28 | 28 |
| R-squared | 0.572 | 0.599 | 0.604 | 0.796 |

Table F.V: Aggregate evolution of firm diversification and external market conditions excluding NBER recession years (1980, 1982, 2001, 2008 and 2009)

This table estimates the relation between the degree of diversification of firms measured by the correlation among divisions of conglomerates and the TED spread. We report coefficients from estimating the following OLS regression on the Compustat Segments sample after excluding NBER recession years (1980, 1982, 2001, 2008 and 2009):

$$Y_{it} = \alpha + \beta_1 \cdot TED_t + X'_{it}\gamma + \epsilon_{it},$$

where Y is *Avg. Number Divisions in Compustat* in Columns 1, *Avg. 1-HHI Assets in Compustat* in Column 2, and *Avg. 1-HHI Sales in Compustat* in Column 3. All variables are defined in Appendix B. The sample covers the period 1980 to 2012, and its construction is detailed in Section 2 of the paper. Standard errors are reported in parentheses. Statistical significance at 1%, 5%, and 10% is marked with ***, **, and *, respectively.

| | <i>Avg. Number Divisions in Compustat</i> (1) | <i>Avg. 1-HHI Assets in Compustat</i> (2) | <i>Avg. 1-HHI Sales in Compustat</i> (3) |
|------------|--|--|---|
| <i>TED</i> | 0.511*** (0.075) | 0.073*** (0.011) | 0.063*** (0.010) |
| Constant | 1.578*** (0.041) | 0.137*** (0.006) | 0.127*** (0.006) |
| N | 28 | 28 | 28 |
| R-squared | 0.642 | 0.618 | 0.588 |

Table F.VI: Diversification using cash flow and investment correlations and external market conditions excluding NBER recession years (years 1980, 1982, 2001, 2008 and 2009)

This table estimates the relation between the correlation of investment, cash flow, cash flow minus investment and net financing deficit and the TED spread. We report coefficients from estimating the following OLS regression on the Compustat Segments sample after excluding NBER recession years (1980, 1982, 2001, 2008 and 2009):

$$Y_{it} = \alpha + \beta_1 \cdot TED_t + \epsilon_{it},$$

where Y is *Avg. Investment Correlation in Compustat* in Column 1, *Avg. CF Correlation in Compustat* in Column 2, *Avg. (CF - Investment) Correlation in Compustat* in Column 3, and *Avg. Financing Deficit Correlation in Compustat* in Column 4. All variables are defined in Appendix B. The sample covers the period 1980 to 2012, and its construction is detailed in Section 2 of the paper. Standard errors are reported in parentheses. Statistical significance at 1%, 5%, and 10% is marked with ***, **, and *, respectively.

| | <i>Avg. Investment Correlation in Compustat</i> (1) | <i>Avg. CF Correlation in Compustat</i> (2) | <i>Avg. (CF - Investment) Correlation in Compustat</i> (3) | <i>Avg. Financing Deficit Correlation in Compustat</i> (4) |
|------------|--|--|---|---|
| <i>TED</i> | -0.063*** (0.011) | -0.065*** (0.010) | -0.069*** (0.011) | -0.059*** (0.008) |
| Constant | 0.875*** (0.006) | 0.840*** (0.006) | 0.841*** (0.006) | 0.889*** (0.005) |
| N | 28 | 28 | 28 | 28 |
| R-squared | 0.580 | 0.602 | 0.624 | 0.670 |

Table F.VII: **Diversifying mergers and acquisitions and external market conditions excluding NBER recession years (years 1980, 1982, 2001, 2008 and 2009)**

This table estimates the relation between aggregate M&A activity and the TED spread. We report coefficients from estimating the following OLS regression on the Aggregate M&A sample after excluding NBER recession years (1980, 1982, 2001, 2008 and 2009):

$$Y_{it} = \alpha + \beta_1 \cdot TED_t + \epsilon_{it},$$

where Y is *Share Diversified Value* in Column 1, and *Share Diversified Deals* in Column 2. All variables are defined in Appendix B. The sample covers the period 1980 to 2012, and its construction is detailed in Section 2 of the paper. Standard errors are reported in parentheses. Statistical significance at 1%, 5%, and 10% is marked with ***, **, and *, respectively.

| | <i>Share Diversified Value</i> | <i>Share Diversified Deals</i> |
|------------|--------------------------------|--------------------------------|
| | (1) | (2) |
| <i>TED</i> | 0.196*** (0.043) | 0.096*** (0.026) |
| Constant | 0.376*** (0.024) | 0.446*** (0.014) |
| N | 28 | 28 |
| R-squared | 0.450 | 0.340 |

Table F.VIII: Correlations between acquirer and target cash flow and investment in diversifying M&As and external market conditions excluding NBER recession years (years 1980, 1982, 2001, 2008 and 2009)

This table estimates the relation between the correlation of investment, cash flow, cash flow minus investment and net financing deficit and TED spread. Panel A contains the coefficients from estimating the following OLS regression on the Aggregate M&A sample after excluding NBER recession years (1980, 1982, 2001, 2008 and 2009):

$$Y_{it} = \alpha + \beta_1 \cdot TED_t + \epsilon_{it},$$

where Y is *Aggregate Investment Correlation in M&As* in Column 1, *Aggregate CF Correlation in M&As* in Column 2, *Aggregate (CF - Investment) Correlation in M&As* in Column 3, and *Aggregate Financing Deficit Correlation in M&As* in Column 4. All variables are defined in Appendix B. The sample covers the period 1980 to 2012, and its construction is detailed in Section 2 of the paper. Standard errors are reported in parentheses. Statistical significance at 1%, 5%, and 10% is marked with ***, **, and *, respectively.

| | <i>Aggregate Investment Correlation in M&As</i> (1) | <i>Aggregate CF Correlation in M&As</i> (2) | <i>Aggregate (CF - Investment) Correlation in M&As</i> (3) | <i>Aggregate Financing Deficit Correlation in M&As</i> (4) |
|------------|--|--|---|---|
| <i>TED</i> | -0.131*** (0.030) | -0.186*** (0.039) | -0.189*** (0.040) | -0.153*** (0.022) |
| Constant | 0.767*** (0.016) | 0.668*** (0.022) | 0.682*** (0.022) | 0.823*** (0.012) |
| N | 28 | 28 | 28 | 28 |
| R-squared | 0.428 | 0.463 | 0.460 | 0.659 |

Table F.IX: **Aggregate evolution of firm diversification and external market conditions excluding the four highest TED years**

This table estimates the relation between the degree of diversification of firms measured by the correlation among divisions of conglomerates and the TED spread. We report coefficients from estimating the following OLS regression on the Compustat Segments sample after excluding the four highest *TED* years in our sample:

$$Y_{it} = \alpha + \beta_1 \cdot TED_t + X'_{it}\gamma + \epsilon_{it},$$

where *Y* is *Avg. Number Divisions in Compustat* in Columns 1, *Avg. 1-HHI Assets in Compustat* in Column 2, and *Avg. 1-HHI Sales in Compustat* in Column 3. All variables are defined in Appendix B. The sample covers the period 1980 to 2012, and its construction is detailed in Section 2 of the paper. Standard errors are reported in parentheses. Statistical significance at 1%, 5%, and 10% is marked with ***, **, and *, respectively.

| | <i>Avg. Number Divisions in Compustat</i> (1) | <i>Avg. 1-HHI Assets in Compustat</i> (2) | <i>Avg. 1-HHI Sales in Compustat</i> (3) |
|------------|--|--|---|
| <i>TED</i> | 0.416*** (0.111) | 0.071*** (0.017) | 0.059*** (0.015) |
| Constant | 1.611*** (0.049) | 0.140*** (0.008) | 0.129*** (0.007) |
| N | 29 | 29 | 29 |
| R-squared | 0.340 | 0.385 | 0.352 |

Table F.X: Diversification using cash flow and investment correlations and external market conditions excluding the four highest TED years

This table estimates the relation between the correlation of investment, cash flow, cash flow minus investment and net financing deficit and the TED spread. We report coefficients from estimating the following OLS regression on the Compustat Segments sample after excluding the four highest *TED* years in our sample:

$$Y_{it} = \alpha + \beta_1 \cdot TED_t + \epsilon_{it},$$

where *Y* is *Avg. Investment Correlation in Compustat* in Column 1, *Avg. CF Correlation in Compustat* in Column 2, *Avg. (CF - Investment) Correlation in Compustat* in Column 3, and *Avg. Financing Deficit Correlation in Compustat* in Column 4. All variables are defined in Appendix B. The sample covers the period 1980 to 2012, and its construction is detailed in Section 2 of the paper. Standard errors are reported in parentheses. Statistical significance at 1%, 5%, and 10% is marked with ***, **, and *, respectively.

| | <i>Avg. Investment Correlation in Compustat</i> (1) | <i>Avg. CF Correlation in Compustat</i> (2) | <i>Avg. (CF - Investment) Correlation in Compustat</i> (3) | <i>Avg. Financing Deficit Correlation in Compustat</i> (4) |
|------------|--|--|---|---|
| <i>TED</i> | -0.051*** (0.016) | -0.055*** (0.017) | -0.060*** (0.017) | -0.052*** (0.013) |
| Constant | 0.870*** (0.007) | 0.836*** (0.007) | 0.838*** (0.007) | 0.886*** (0.006) |
| N | 29 | 29 | 29 | 29 |
| R-squared | 0.268 | 0.291 | 0.321 | 0.384 |

Table F.XI: Diversifying mergers and acquisitions and external market conditions excluding the four highest TED years

This table estimates the relation between aggregate M&A activity and the TED spread. We report coefficients from estimating the following OLS regression on the Aggregate M&A sample after excluding the four highest *TED* years in our sample:

$$Y_{it} = \alpha + \beta_1 \cdot TED_t + \epsilon_{it},$$

where *Y* is *Share Diversified Value* in Column 1, and *Share Diversified Deals* in Column 2. All variables are defined in Appendix B. The sample covers the period 1980 to 2012, and its construction is detailed in Section 2 of the paper. Standard errors are reported in parentheses. Statistical significance at 1%, 5%, and 10% is marked with ***, **, and *, respectively.

| | <i>Share Diversified Value</i> | <i>Share Diversified Deals</i> |
|------------|--------------------------------|--------------------------------|
| | (1) | (2) |
| <i>TED</i> | 0.251*** (0.064) | 0.041 (0.036) |
| Constant | 0.354*** (0.028) | 0.464*** (0.016) |
| N | 29 | 29 |
| R-squared | 0.363 | 0.046 |

Table F.XII: Correlations between acquirer and target cash flow and investment in diversifying M&As and external market conditions excluding the four highest TED years

This table estimates the relation between the correlation of investment, cash flow, cash flow minus investment and net financing deficit and TED spread. We report coefficients from estimating the following OLS regression on the Aggregate M&A sample after excluding the four highest *TED* years in our sample:

$$Y_{it} = \alpha + \beta_1 \cdot TED_t + \epsilon_{it}$$

Where *Y* is *Aggregate Investment Correlation in M&As* in column 1, *Aggregate CF Correlation in M&As* in column 2, *Aggregate (CF - Investment) Correlation in M&As* in column 3 and *Aggregate Financing Deficit Correlation in M&As* in column 4. All variables are defined in Appendix B. The sample covers the period 1980 to 2012, and its construction is detailed in Section 2 of the paper. Standard errors are reported in parentheses. Statistical significance at 1%, 5%, and 10% is marked with ***, **, and *, respectively.

| | <i>Aggregate Investment Correlation in M&As</i> (1) | <i>Aggregate CF Correlation in M&As</i> (2) | <i>Aggregate (CF - Investment) Correlation in M&As</i> (3) | <i>Aggregate Financing Deficit Correlation in M&As</i> (4) |
|------------|--|--|---|---|
| <i>TED</i> | -0.153*** (0.045) | -0.211*** (0.061) | -0.214*** (0.063) | -0.136*** (0.033) |
| Constant | 0.774*** (0.020) | 0.683*** (0.027) | 0.697*** (0.028) | 0.820*** (0.015) |
| N | 29 | 29 | 29 | 29 |
| R-squared | 0.299 | 0.310 | 0.298 | 0.383 |

Online Appendix G - Different clustering of standard errors

This appendix presents results with different of clustering standard errors. In the sample of Compustat Segments firms we report standard error clustered by main two-digit SIC industry \times year. In the sample of individual M&A deals sample we report standard errors clustered both at the acquirer's two-digit SIC industry \times year level and at the target's two-digit SIC industry \times year level. In the main text standard errors are clustered by year.

Table G.I: **Evolution of firm diversification and external market conditions**

This table shows the relation between firm scope and external financial frictions. We report coefficients from the following OLS regression on the sample of Compustat Segments firms:

$$Y_{it} = \alpha + \beta_1 \cdot TED_t + X'_{it}\gamma + \epsilon_{it},$$

where Y is *Number Divisions* in Columns 1 and 2, *1-HHI Assets* in Columns 3 and 4, and *1-HHI Sales* in Columns 5 and 6. The matrix of controls X contains *Lag Size*, *Lag CF/A*, *Lag Q*, *Lag Leverage*, and *Age*. The sample used to perform the estimation contains all firms in the Compustat Segments sample. All variables are defined in Appendix B. The sample covers the period 1980 to 2012, and its construction is detailed in Section 2 of the paper. The standard errors in parentheses are clustered by by two-digit SIC industry-year. Statistical significance at 1%, 5%, and 10% is marked with ***, **, and *, respectively.

| | <i>Number Divisions</i> | | <i>1-HHI Assets</i> | | <i>1-HHI Sales</i> | |
|------------|-------------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| | (1) | (2) | (3) | (4) | (5) | (6) |
| <i>TED</i> | 0.336*** (0.015) | 0.112*** (0.011) | 0.080*** (0.004) | 0.027*** (0.002) | 0.058*** (0.006) | 0.022*** (0.002) |
| Controls | Yes | Yes | Yes | Yes | Yes | Yes |
| Firm FE | No | Yes | No | Yes | No | Yes |
| N | 120,142 | 120,142 | 120,142 | 120,142 | 120,142 | 120,142 |
| R-squared | 0.084 | 0.676 | 0.077 | 0.652 | 0.043 | 0.666 |

Table G.II: **Diversification using cash flow and investment correlations and external market conditions**

This table estimates the relation between the degree of diversification of firms measured by the correlation among divisions of conglomerates and the TED spread. We report coefficients from estimating the following OLS regression on the sample of Compustat Segments firms:

$$Y_{it} = \alpha + \beta_1 \cdot TED_t + X'_{it}\gamma + \epsilon_{it},$$

where Y is *Firm Investment Correlation* in Columns 1 and 2, *Firm CF Correlation* in Columns 3 and 4, *Firm (CF - Investment) Correlation* in Columns 5 and 6 and *Firm Financing Deficit Correlation* in Columns 7 and 8. The matrix of controls X contains *Lag Size*, *Lag CF/A*, *Lag Q*, *Lag Leverage*, and *Age*. The sample in contains all firms in the Compustat Segments sample. All variables are defined in Appendix B. The sample covers the period 1980 to 2012, and its construction is detailed in Section 2. The standard errors in parentheses are clustered by two-digit SIC industry-year. Statistical significance at 1%, 5%, and 10% is marked with ***, **, and *, respectively.

| | <i>Firm Investment Correlation</i> | | <i>Firm CF Correlation</i> | | <i>Firm (CF - Investment) Correlation</i> | | <i>Firm Financing Deficit Correlation</i> | |
|------------|------------------------------------|----------------------|----------------------------|----------------------|---|----------------------|---|----------------------|
| | (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) |
| <i>TED</i> | -0.059*** (0.003) | -0.012*** (0.002) | -0.079*** (0.003) | -0.017*** (0.002) | -0.079*** (0.003) | -0.016*** (0.002) | -0.046*** (0.003) | -0.010*** (0.002) |
| Controls | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes |
| Firm FE | No | Yes | No | Yes | No | Yes | No | Yes |
| N | 111,328 | 111,328 | 111,328 | 111,328 | 111,328 | 111,328 | 111,328 | 111,328 |
| R-squared | 0.109 | 0.770 | 0.123 | 0.766 | 0.124 | 0.765 | 0.102 | 0.766 |

Table G.III: **Diversifying mergers and acquisitions, deal composition, and external market conditions**

This table estimates the relation between the probability of engaging in a diversifying M&A and TED. We report the coefficients from estimating the following logit regression on the sample of Individual M&A deals:

$$Diversified\ M\&A_{it} = \alpha + \beta_1 \cdot TED_t + X'_{it}\gamma + \epsilon_{it},$$

where *Diversified M&A* is a dummy variable that takes the value of one if the acquirer's main two-digit standard industrial classification (SIC) industry is different from the target's main two-digit SIC industry and zero otherwise. The matrix of controls X contains control for *Deal Value* and acquirer and target Thomson firm controls in Column 3; *Deal Value* and acquirer and target Compustat controls in Column 4. The Thomson controls are *Sales*, *Profitability*, *Leverage*, and *Cash* for both the target and the acquirer. The Compustat controls are *Lag Size*, *Lag CF/A*, *Lag Q*, *Lag Leverage*, and *Age* for both the target and the acquirer. All variables are defined in Appendix B. The sample covers the period 1980 to 2012, and its construction is detailed in Section 2. The standard errors in parenthesis are clustered by target two-digit SIC industry-year in panel A and by acquirer's two-digit SIC industry industry-year in panel B. Statistical significance at 1%, 5%, and 10% is marked with ***, **, and *, respectively.

| | <i>Diversified M&A</i> | | | |
|---|----------------------------|----------|---------|----------|
| | (1) | (2) | (3) | (4) |
| <i>Panel A: Diversifying M&As - Clustering of Standard Errors by target industry×year</i> | | | | |
| <i>TED</i> | 0.369*** | 0.529*** | 0.618** | 1.403*** |
| | (0.134) | (0.070) | (0.259) | (0.347) |
| Acq. Industry FE | No | Yes | No | No |
| Tgt. Industry FE | No | Yes | No | No |
| Thomson Controls | No | No | Yes | No |
| Compustat Controls | No | No | No | Yes |
| N | 38,979 | 38,926 | 4,777 | 543 |
| Pseudo R^2 | 0.002 | 0.265 | 0.019 | 0.069 |
| <i>Panel B: Diversifying M&As - Clustering of Standard Errors by acquirer industry×year</i> | | | | |
| <i>TED</i> | 0.369** | 0.529*** | 0.618** | 1.403*** |
| | (0.173) | (0.098) | (0.259) | (0.342) |
| Acq. Industry FE | No | Yes | No | No |
| Tgt. Industry FE | No | Yes | No | No |
| Thomson Controls | No | No | Yes | No |
| Compustat Controls | No | No | No | Yes |
| N | 38,979 | 38,926 | 4,777 | 543 |
| Pseudo R^2 | 0.002 | 0.265 | 0.019 | 0.069 |

Table G.IV: Correlations between acquirer and target cash flow and investment in diversifying M&As and external market conditions

This table estimates the relation between the correlation of investment, cash flow, cash flow minus investment and net financing deficit and TED. We report coefficients from estimating the following OLS regression on the sample of Individual M&A deals:

$$Y_{it} = \alpha + \beta_1 \cdot BAA-AAA_t + X'_{it}\gamma + \epsilon_{it},$$

where Y is *Investment Correlation Acquirer—Target* in Panel A, *CF Correlation Acquirer—Target* in Panel B, *(CF - Investment) Correlation Acquirer—Target* in Panel C, and *Financing Deficit Correlation Acquirer—Target* in Panel D. The Thomson controls are *Deal Value* and *Sales*, *Profitability*, *Leverage*, and *Cash* for both the target and the acquirer. The Compustat controls are *Deal Value* and *Lag Size*, *Lag CF/A*, *Lag Q*, *Lag Leverage*, and *Age* for both the target and the acquirer. All variables are defined in Appendix B. The sample covers the period 1980 to 2012, and its construction is detailed in Section 2. The standard errors in parentheses are clustered by target two-digit SIC industry-year. Statistical significance at 1%, 5%, and 10% is marked with ***, **, and *, respectively.

| <i>Panel A: Correlation of investment between acquirer and target</i> | | | | |
|---|---|----------------------|---------------------|----------------------|
| | <i>Investment Correlation Acquirer—Target</i> | | | |
| | (1) | (2) | (3) | (4) |
| <i>TED</i> | -0.050** (0.025) | -0.055*** (0.008) | -0.111** (0.044) | -0.159*** (0.053) |
| Acq. Industry FE | No | Yes | No | No |
| Tgt. Industry FE | No | Yes | No | No |
| Thomson Controls | No | No | Yes | No |
| Compustat Controls | No | No | No | Yes |
| N | 38,918 | 38,918 | 4,769 | 542 |
| R-squared | 0.001 | 0.426 | 0.022 | 0.056 |

| <i>Panel B: Correlation of cash flow between acquirer and target</i> | | | | |
|--|---------------------------------------|----------------------|----------------------|----------------------|
| | <i>CF Correlation Acquirer—Target</i> | | | |
| | (1) | (2) | (3) | (4) |
| <i>TED</i> | -0.107*** (0.035) | -0.098*** (0.013) | -0.167*** (0.051) | -0.279*** (0.064) |
| Acq. Industry FE | No | Yes | No | No |
| Tgt. Industry FE | No | Yes | No | No |
| Thomson Controls | No | No | Yes | No |
| Compustat Controls | No | No | No | Yes |
| N | 38,918 | 38,918 | 4,769 | 542 |
| R-squared | 0.004 | 0.343 | 0.031 | 0.064 |

Panel C: Correlation of cash flow minus investment between acquirer and target

| | <i>(CF - Investment) Correlation Acquirer—Target</i> | | | |
|--------------------|--|-----------|-----------|-----------|
| | (1) | (2) | (3) | (4) |
| <i>TED</i> | -0.098*** | -0.096*** | -0.168*** | -0.276*** |
| | (0.032) | (0.012) | (0.050) | (0.063) |
| Acq. Industry FE | No | Yes | No | No |
| Tgt. Industry FE | No | Yes | No | No |
| Thomson Controls | No | No | Yes | No |
| Compustat Controls | No | No | No | Yes |
| N | 38,918 | 38,918 | 4,769 | 542 |
| R-squared | 0.004 | 0.346 | 0.033 | 0.068 |

Panel D: Correlation of financing deficit between acquirer and target

| | <i>Financing Deficit Correlation Acquirer—Target</i> | | | |
|--------------------|--|-----------|----------|-----------|
| | (1) | (2) | (3) | (4) |
| <i>TED</i> | -0.074*** | -0.065*** | -0.071** | -0.175*** |
| | (0.018) | (0.008) | (0.035) | (0.042) |
| Acq. Industry FE | No | Yes | No | No |
| Tgt. Industry FE | No | Yes | No | No |
| Thomson Controls | No | No | Yes | No |
| Compustat Controls | No | No | No | Yes |
| N | 38,918 | 38,918 | 4,769 | 542 |
| R-squared | 0.005 | 0.263 | 0.020 | 0.052 |

Table G.V: Correlations between acquirer and target cash flow and investment in diversifying M&As and external market conditions

This table estimates the relation between the correlation of investment, cash flow, cash flow minus investment and net financing deficit and TED. We report coefficients from estimating the following OLS regression on the sample of Individual M&A deals:

$$Y_{it} = \alpha + \beta_1 \cdot BAA-AAA_t + X'_{it}\gamma + \epsilon_{it},$$

where Y is *Investment Correlation Acquirer—Target* in Panel A, *CF Correlation Acquirer—Target* in Panel B, *(CF - Investment) Correlation Acquirer—Target* in Panel C, and *Financing Deficit Correlation Acquirer—Target* in Panel D. The Thomson controls are *Deal Value* and *Sales*, *Profitability*, *Leverage*, and *Cash* for both the target and the acquirer. The Compustat controls are *Deal Value* and *Lag Size*, *Lag CF/A*, *Lag Q*, *Lag Leverage*, and *Age* for both the target and the acquirer. All variables are defined in Appendix B. The sample covers the period 1980 to 2012, and its construction is detailed in Section 2. The standard errors in parentheses are clustered by acquirer two-digit SIC industry-year. Statistical significance at 1%, 5%, and 10% is marked with ***, **, and *, respectively.

| <i>Panel A: Correlation of investment between acquirer and target</i> | | | | |
|---|---|----------------------|----------------------|----------------------|
| | <i>Investment Correlation Acquirer—Target</i> | | | |
| | (1) | (2) | (3) | (4) |
| <i>TED</i> | -0.050 (0.033) | -0.055*** (0.011) | -0.111** (0.056) | -0.159*** (0.056) |
| Acq. Industry FE | No | Yes | No | No |
| Tgt. Industry FE | No | Yes | No | No |
| Thomson Controls | No | No | Yes | No |
| Compustat Controls | No | No | No | Yes |
| N | 38,918 | 38,918 | 4,769 | 542 |
| R-squared | 0.001 | 0.426 | 0.022 | 0.056 |
| <i>Panel B: Correlation of cash flow between acquirer and target</i> | | | | |
| | <i>CF Correlation Acquirer—Target</i> | | | |
| | (1) | (2) | (3) | (4) |
| <i>TED</i> | -0.107** (0.043) | -0.098*** (0.017) | -0.167*** (0.053) | -0.279*** (0.064) |
| Acq. Industry FE | No | Yes | No | No |
| Tgt. Industry FE | No | Yes | No | No |
| Thomson Controls | No | No | Yes | No |
| Compustat Controls | No | No | No | Yes |
| N | 38,918 | 38,918 | 4,769 | 542 |
| R-squared | 0.004 | 0.343 | 0.031 | 0.064 |

Panel C: Correlation of cash flow minus investment between acquirer and target

| | <i>(CF - Investment) Correlation Acquirer—Target</i> | | | |
|--------------------|--|----------------------|----------------------|----------------------|
| | (1) | (2) | (3) | (4) |
| <i>TED</i> | -0.098** (0.041) | -0.096*** (0.017) | -0.168*** (0.053) | -0.276*** (0.062) |
| Acq. Industry FE | No | Yes | No | No |
| Tgt. Industry FE | No | Yes | No | No |
| Thomson Controls | No | No | Yes | No |
| Compustat Controls | No | No | No | Yes |
| N | 38,918 | 38,918 | 4,769 | 542 |
| R-squared | 0.004 | 0.346 | 0.033 | 0.068 |

Panel B: Correlation of financing deficit between acquirer and target

| | <i>Financing Deficit Correlation Acquirer—Target</i> | | | |
|--------------------|--|----------------------|---------------------|----------------------|
| | (1) | (2) | (3) | (4) |
| <i>TED</i> | -0.074*** (0.022) | -0.065*** (0.010) | -0.071** (0.035) | -0.175*** (0.040) |
| Acq. Industry FE | No | Yes | No | No |
| Tgt. Industry FE | No | Yes | No | No |
| Thomson Controls | No | No | Yes | No |
| Compustat Controls | No | No | No | Yes |
| N | 38,918 | 38,918 | 4,769 | 542 |
| R-squared | 0.005 | 0.263 | 0.020 | 0.052 |

Online Appendix H - Change in Compustat Segments reporting in 1998

This appendix controls for the change in Compustat Segments reporting that occurred during our sample period in 1998.

Table H.I: **Evolution of firm diversification and external market conditions**

This table shows the relation between firm scope and external financial frictions. We report coefficients from the following OLS regression on the sample of Compustat Segments firms:

$$Y_{it} = \alpha + \beta_1 \cdot TED_t + X'_{it}\gamma + \epsilon_{it}$$

where Y is *Number Divisions* in Columns 1 and 2, *1-HHI Assets* in Columns 3 and 4 and *1-HHI Sales* in Columns 5 and 6. The matrix of controls X contains *Lag Size*, *Lag CF/A*, *Lag Q*, *Lag Leverage*, *Age*, and *After 1997*. The sample used to perform the estimation contains all firms in the Compustat Segments sample. All variables are defined in Appendix B. The sample covers the period 1980 to 2012, and its construction is detailed in Section 2 of the paper. The standard errors in parentheses are clustered by year. Statistical significance at 1%, 5%, and 10% is marked with ***, **, and *, respectively.

| | <i>Number Divisions</i> | | <i>1-HHI Assets</i> | | <i>1-HHI Sales</i> | |
|-------------------|-------------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| | (1) | (2) | (3) | (4) | (5) | (6) |
| <i>TED</i> | 0.304*** (0.042) | 0.087*** (0.020) | 0.070*** (0.009) | 0.024*** (0.004) | 0.060*** (0.007) | 0.019*** (0.004) |
| <i>After 1997</i> | -0.055* (0.031) | 0.114*** (0.029) | -0.017** (0.006) | 0.014** (0.006) | 0.004 (0.005) | 0.015*** (0.004) |
| Controls | Yes | Yes | Yes | Yes | Yes | Yes |
| Firm FE | No | Yes | No | Yes | No | Yes |
| N | 120,142 | 120,142 | 120,142 | 120,142 | 120,142 | 120,142 |
| R-squared | 0.085 | 0.678 | 0.079 | 0.652 | 0.043 | 0.666 |

Table H.II: **Diversification using cash flow and investment correlations and external market conditions**

This table estimates the relation between the degree of diversification of firms measured by the correlation among divisions of conglomerates and the TED spread. We report coefficients from estimating the following OLS regression on the sample of Compustat Segments firms:

$$Y_{it} = \alpha + \beta_1 \cdot TED_t + X'_{it}\gamma + \epsilon_{it},$$

where Y is *Firm Investment Correlation* in Columns 1 and 2, *Firm CF Correlation* in Columns 3 and 4, *Firm (CF - Investment) Correlation* in Columns 5 and 6 and *Firm Financing Deficit Correlation* in Columns 7 and 8. The matrix of controls X contains *Lag Size*, *Lag CF/A*, *Lag Q*, *Lag Leverage*, *Age*, and *After 1997*. The sample contains all firms in the Compustat Segments sample. All variables are defined in Appendix B. The sample covers the period 1980 to 2012, and its construction is detailed in Section 2. The standard errors in parentheses are clustered by year. Statistical significance at 1%, 5%, and 10% is marked with ***, **, and *, respectively.

| | <i>Firm Investment Correlation</i> | | <i>Firm CF Correlation</i> | | <i>Firm (CF - Investment) Correlation</i> | | <i>Firm Financing Deficit Correlation</i> | |
|-------------------|------------------------------------|----------------------|----------------------------|----------------------|---|----------------------|---|----------------------|
| | (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) |
| <i>TED</i> | -0.050*** (0.006) | -0.009*** (0.002) | -0.068*** (0.009) | -0.013*** (0.002) | -0.067*** (0.009) | -0.012*** (0.002) | -0.039*** (0.005) | -0.007*** (0.001) |
| <i>After 1997</i> | 0.015*** (0.005) | -0.012*** (0.002) | 0.020*** (0.007) | -0.018*** (0.003) | 0.020*** (0.007) | -0.018*** (0.003) | 0.013*** (0.004) | -0.011*** (0.002) |
| Controls | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes |
| Firm FE | No | Yes | No | Yes | No | Yes | No | Yes |
| N | 111,328 | 111,328 | 111,328 | 111,328 | 111,328 | 111,328 | 111,328 | 111,328 |
| R-squared | 0.112 | 0.770 | 0.127 | 0.767 | 0.128 | 0.766 | 0.105 | 0.767 |

Online Appendix I - Heterogeneity of effects in M&As

This appendix tests whether the strength of the relation between financial market frictions and diversification in mergers and acquisitions depends on industry sensitivity to TED and industry volatility. This appendix complements section IV.D of the main text.

Table I.I: **Diversifying mergers and acquisitions, deal composition, and external market conditions: acquirer sensitivity to TED**

This table estimates the relation between the probability of engaging in a diversifying M&A and TED spread. We report coefficients from estimating the following logit regression on the Individual M&A sample:

$$Diversified\ M\&A_{it} = \alpha + \beta_1 \cdot TED_t + \beta_2 \cdot TED_t \times Acq.\ Sensitivity\ to\ TED_{it} + X'_{it}\gamma + \epsilon_{it},$$

where *Diversified M&A* is a dummy variable that takes the value of one if the acquirer's main two-digit standard industrial classification (SIC) industry is different from the target's main two-digit SIC industry and zero otherwise. The matrix of controls X contains the controls for *Acq. Sensitivity to TED*, *Deal Value* and acquirer and target Thomson firm controls in Columns 3 to 6; *Acq. Sensitivity to TED*, *Deal Value*, and acquirer and target compustat controls in Columns 7 to 10. The Thomson controls are *Sales*, *Profitability*, *Leverage* and *Cash* for both the target and the acquirer. The Compustat controls are *Lag Size*, *Lag CF/A*, *Lag Q*, *Lag Leverage*, and *Age* for both the target and the acquirer. All variables are defined in Appendix B. The sample covers the period 1980 to 2012, and its construction is detailed in Section 2. The standard errors in parenthesis are clustered by year. Statistical significance at 1%, 5%, and 10% is marked with ***, **, and *, respectively.

| | <i>Diversified M&A</i> | | | | | | | | | |
|---|----------------------------|---------------------|----------------------|--------------------|--------------------|---------------------|----------------------|------------------|--------------------|-----------------------|
| | (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) | (9) | (10) |
| <i>Acq. Sensitivity to TED</i> × <i>TED</i> | 5.189*** (0.772) | 3.364*** (0.657) | 5.412** (2.101) | 2.532 (1.777) | 3.067* (1.850) | 4.431** (1.736) | 6.874*** (2.286) | 3.220 (4.898) | 5.119* (3.055) | 9.261*** (3.187) |
| <i>TED</i> | 2.637*** (0.364) | 1.948*** (0.319) | 2.965*** (0.974) | 1.491** (0.756) | 1.848** (0.857) | 2.411*** (0.732) | 4.385*** (1.155) | 2.493 (2.409) | 3.292** (1.547) | 5.313*** (1.554) |
| <i>Acq. Sensitivity to TED</i> | -8.544*** (0.355) | | -3.384*** (1.140) | | | -1.525 (1.086) | -7.701*** (1.774) | | | -10.813*** (3.470) |
| Acq. Industry FE | No | Yes | No | Yes | Yes | No | No | Yes | Yes | No |
| Tgt. Industry FE | No | Yes | No | Yes | No | Yes | No | Yes | No | Yes |
| Thomson Controls | No | No | Yes | Yes | Yes | Yes | No | No | No | No |
| Compustat Controls | No | No | No | No | No | No | Yes | Yes | Yes | Yes |
| N | 38,939 | 38,869 | 4,773 | 4,757 | 4,767 | 4,764 | 542 | 457 | 510 | 505 |
| Pseudo R^2 | 0.053 | 0.266 | 0.022 | 0.168 | 0.099 | 0.107 | 0.101 | 0.414 | 0.234 | 0.245 |

Table I.II: **Diversifying mergers and acquisitions, deal composition, and external market conditions: target sensitivity to TED**

This table estimates the relation between the probability of engaging in a diversifying M&A and TED spread. We report coefficients from estimating the following logit regression on the Individual M&A sample:

$$Diversified\ M\&A_{it} = \alpha + \beta_1 \cdot TED_t + \beta_2 \cdot TED_t \times Tgt.\ Sensitivity\ to\ TED_{it} + X'_{it}\gamma + \epsilon_{it},$$

where *Diversified M&A* is a dummy variable that takes the value of one if the acquirer's main two-digit standard industrial classification (SIC) industry is different from the target's main two-digit SIC industry and zero otherwise. The matrix of controls *X* contains the controls for *Tgt. Sensitivity to TED*, *Deal Value* and acquirer and target Thomson firm controls in Columns 3 to 6; *Tgt. Sensitivity to TED*, *Deal Value*, and acquirer and target compustat controls in Columns 7 to 10. The Thomson controls are *Sales*, *Profitability*, *Leverage* and *Cash* for both the target and the acquirer. The Compustat controls are *Lag Size*, *Lag CF/A*, *Lag Q*, *Lag Leverage*, and *Age* for both the target and the acquirer. All variables are defined in Appendix B. The sample covers the period 1980 to 2012, and its construction is detailed in Section 2. The standard errors in parenthesis are clustered by year. Statistical significance at 1%, 5%, and 10% is marked with ***, **, and *, respectively.

| | <i>Diversified M&A</i> | | | | | | | | | |
|---|----------------------------|-------------------|---------------------|------------------|-------------------|------------------|----------------------|------------------|-----------------------|------------------|
| | (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) | (9) | (10) |
| <i>Tgt. Sensitivity to TED</i> × <i>TED</i> | -2.044** (0.907) | -1.149 (0.823) | 1.825 (2.861) | 0.783 (3.140) | -0.022 (2.846) | 0.211 (3.293) | 4.390 (4.615) | 1.788 (8.643) | 9.289* (5.644) | 1.465 (5.235) |
| <i>TED</i> | -0.550 (0.422) | 0.028 (0.367) | 1.370 (1.237) | 0.729 (1.353) | 0.476 (1.202) | 0.564 (1.418) | 3.200 (2.249) | 1.896 (3.950) | 5.147* (2.841) | 1.822 (2.384) |
| <i>Tgt. Sensitivity to TED</i> | -3.884*** (0.537) | | -2.879** (1.330) | | -1.941 (1.185) | | -9.079*** (2.157) | | -15.422*** (3.253) | |
| Acq. Industry FE | No | Yes | No | Yes | Yes | No | No | Yes | Yes | No |
| Tgt. Industry FE | No | Yes | No | Yes | No | Yes | No | Yes | No | Yes |
| Thomson Controls | No | No | Yes | Yes | Yes | Yes | No | No | No | No |
| Compustat Controls | No | No | No | No | No | No | Yes | Yes | Yes | Yes |
| N | 38,907 | 38,858 | 4,772 | 4,757 | 4,762 | 4,768 | 543 | 457 | 510 | 505 |
| Pseudo R^2 | 0.031 | 0.265 | 0.025 | 0.168 | 0.101 | 0.107 | 0.126 | 0.414 | 0.306 | 0.217 |

Table I.III: **Diversifying mergers and acquisitions, deal composition, and external market conditions: acquirer industry volatility**

This table estimates the relation between the probability of engaging in a diversifying M&A and TED spread. We report coefficients from estimating the following logit regression on the Individual M&A sample:

$$Diversified\ M\&A_{it} = \alpha + \beta_1 \cdot TED_t + \beta_2 \cdot TED_t \times Acq.\ Industry\ Volatility_{it} + X'_{it}\gamma + \epsilon_{it},$$

where *Diversified M&A* is a dummy variable that takes the value of one if the acquirer's main two-digit standard industrial classification (SIC) industry is different from the target's main two-digit SIC industry and zero otherwise. The matrix of controls X contains the controls for *Acq. Industry Volatility*, *Deal Value* and acquirer and target Thomson firm controls in Columns 3 to 6; *Acq. Industry Volatility*, *Deal Value*, and acquirer and target compustat controls in Columns 7 to 10. The Thomson controls are *Sales*, *Profitability*, *Leverage* and *Cash* for both the target and the acquirer. The Compustat controls are *Lag Size*, *Lag CF/A*, *Lag Q*, *Lag Leverage*, and *Age* for both the target and the acquirer. All variables are defined in Appendix B. The sample covers the period 1980 to 2012, and its construction is detailed in Section 2. The standard errors in parenthesis are clustered by year. Statistical significance at 1%, 5%, and 10% is marked with ***, **, and *, respectively.

| | <i>Diversified M&A</i> | | | | | | | | | |
|--|----------------------------|----------------------|---------------------|------------------|------------------|---------------------|-------------------|-------------------|-------------------|-------------------|
| | (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) | (9) | (10) |
| <i>Acq. Industry Volatility</i> × <i>TED</i> | -0.903** (0.395) | -1.188*** (0.293) | -0.747 (0.814) | 0.461 (1.111) | 0.047 (0.965) | -0.867 (1.028) | 1.036 (2.414) | 1.739 (4.769) | 1.842 (2.603) | -0.371 (3.602) |
| <i>TED</i> | 1.028*** (0.346) | 1.418*** (0.206) | 1.228* (0.712) | 0.034 (0.831) | 0.474 (0.761) | 1.177 (0.870) | 0.677 (1.740) | -0.122 (3.330) | -0.232 (1.847) | 1.608 (2.595) |
| <i>Acq. Industry Volatility</i> | 1.041*** (0.251) | | 1.746*** (0.392) | | | 1.978*** (0.547) | 2.450* (1.334) | | | 3.601 (2.421) |
| Acq. Industry FE | No | Yes | No | Yes | Yes | No | No | Yes | Yes | No |
| Tgt. Industry FE | No | Yes | No | Yes | No | Yes | No | Yes | No | Yes |
| Thomson Controls | No | No | Yes | Yes | Yes | Yes | No | No | No | No |
| Compustat Controls | No | No | No | No | No | No | Yes | Yes | Yes | Yes |
| N | 38,941 | 38,869 | 4,773 | 4,757 | 4,767 | 4,764 | 542 | 457 | 510 | 505 |
| Pseudo R^2 | 0.004 | 0.266 | 0.028 | 0.168 | 0.099 | 0.113 | 0.100 | 0.414 | 0.232 | 0.234 |

Table I.IV: **Diversifying mergers and acquisitions, deal composition, and external market conditions: target industry volatility**

This table estimates the relation between the probability of engaging in a diversifying M&A and TED spread. Panel A contains the coefficients from estimating the following logit regression on the Individual M&A sample:

$$Diversified\ M\&A_{it} = \alpha + \beta_1 \cdot TED_t + \beta_2 \cdot TED_t \times Tgt.\ Industry\ Volatility_{it} + X'_{it}\gamma + \epsilon_{it},$$

where *Diversified M&A* is a dummy variable that takes the value of one if the acquirer's main two-digit standard industrial classification (SIC) industry is different from the target's main two-digit SIC industry and zero otherwise. The matrix of controls *X* contains the controls for *Tgt. Industry Volatility*, *Deal Value* and acquirer and target Thomson firm controls in Columns 3 to 6; *Tgt. Industry Volatility*, *Deal Value*, and acquirer and target compustat controls in Columns 7 to 10. The Thomson controls are *Sales*, *Profitability*, *Leverage* and *Cash* for both the target and the acquirer. The Compustat controls are *Lag Size*, *Lag CF/A*, *Lag Q*, *Lag Leverage*, and *Age* for both the target and the acquirer. All variables are defined in Appendix B. The sample covers the period 1980 to 2012, and its construction is detailed in Section 2. The standard errors in parenthesis are clustered by year. Statistical significance at 1%, 5%, and 10% is marked with ***, **, and *, respectively.

| | <i>Diversified M&A</i> | | | | | | | | | |
|--|----------------------------|---------------------|---------------------|--------------------|--------------------|--------------------|-------------------|-------------------|-------------------|-------------------|
| | (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) | (9) | (10) |
| <i>Tgt. Industry Volatility</i> × <i>TED</i> | -1.053*** (0.394) | -0.344 (0.360) | 2.226*** (0.856) | 2.432** (1.185) | 2.126** (0.890) | 2.617** (1.081) | 2.886 (2.095) | 4.061 (5.284) | 2.468 (3.111) | 3.974 (2.717) |
| <i>TED</i> | 1.182*** (0.341) | 0.794*** (0.291) | -1.114 (0.688) | -1.464* (0.838) | -1.170* (0.685) | -1.523* (0.804) | -0.889 (1.699) | -1.929 (3.759) | -0.862 (2.547) | -1.862 (2.093) |
| <i>Tgt. Industry Volatility</i> | 2.957*** (0.186) | | 0.857** (0.358) | | 1.088** (0.540) | | 1.700* (0.957) | | 2.204 (2.050) | |
| Acq. Industry FE | No | Yes | No | Yes | Yes | No | No | Yes | Yes | No |
| Tgt. Industry FE | No | Yes | No | Yes | No | Yes | No | Yes | No | Yes |
| Thomson Controls | No | No | Yes | Yes | Yes | Yes | No | No | No | No |
| Compustat Controls | No | No | No | No | No | No | Yes | Yes | Yes | Yes |
| N | 38,909 | 38,858 | 4,772 | 4,757 | 4,762 | 4,768 | 543 | 457 | 510 | 505 |
| Pseudo R^2 | 0.037 | 0.265 | 0.031 | 0.169 | 0.108 | 0.107 | 0.103 | 0.415 | 0.251 | 0.219 |