

Industry Window Dressing: Internet Appendix

Table A1: Linking Industry Beta Jumps to Sector Fund Holdings Changes

This table reports jumps in industry beta of conglomerate firms. At the end of each quarter, we compute an industry beta for each two-segment conglomerate firm by regressing weekly stock returns on the weekly returns of the two-digit SIC code industry that the conglomerate firm operates in, using data from months 6 to 18 after the fiscal year end. We exclude the stock in question from calculating the corresponding industry returns. We also control for common risk factors, such as the market, size, value, and momentum in the regression specification. In Panel A, we focus on all switchers (that is, firms that change their primary industry classification from one year to the next), and report the jump in industry beta after the firm switches into that industry. In addition, we divide the whole switcher sample into two groups depending on the change in sector fund holdings from before to after the switch. In Panel B, we report the difference in industry beta between the 45-50% and 50-55% sales bins. We further divide all time periods into two sub-periods depending on the average difference in sector fund holdings between the 45-50% and 50-55% sales bins in that year. T-statistics, shown in parentheses, are based on standard errors clustered at the year level. *, **, *** denote significance at the 10%, 5%, and 1% level, respectively.

Panel A: Sort Switchers Based on Changes in Sector Fund Holdings		
	Small Increase in Sector Fund Holdings	Large Increase in Sector Fund Holdings
Jump in Industry Beta	0.061 (1.57)	0.165*** (3.42)
No. Switchers	353	354

Panel B: Sort Periods Based on Changes in Sector Fund Holdings		
	Small Increase in Sector Fund Holdings	Large Increase in Sector Fund Holdings
Jump in Industry Beta	0.068 (1.07)	0.139** (2.25)
No. Years	15	15

Table A2: Mutual Fund Flows and Industry Valuation

This table shows the results of return predictive tests. Panel A reports calendar-time monthly returns to industry portfolios ranked by *INDFLOW*. At the end of each quarter, we compute a *FLOW* measure for each stock as the aggregate flow-induced trading across all mutual funds in the previous year. We then take the average *FLOW* across all stocks in each two-digit SIC code industry to compute *INDFLOW*. We then sort all industries into decile portfolios based on *INDFLOW* in each quarter and hold these decile portfolios for the next two years. To deal with overlapping portfolios in each holding month, we follow Jegadeesh and Titman (1993) to take the equal-weighted average return across portfolios formed in different quarters. Monthly portfolio returns with various risk adjustments are reported: the return in excess of the risk-free rate, CAPM alpha, and Fama-French three-factor alpha. Panel B reports results of Fama-MacBeth return predictive regressions. The dependent variable in all specifications is the monthly stock return in the following year. The main independent variable is the industry flow (*INDFLOW*) measured in the previous year. Other control variables include the firm-level aggregate flow-induced trading in the previous year (*FLOW*), firm size, book-to-market ratio, lagged one-year stock return, monthly share turnover, stock idiosyncratic volatility, and proportion of institutional ownership. T-statistics, shown in parentheses, are computed based on standard errors corrected for serial-dependence with 12 lags. In Panel A, estimates significant at the 5% level are indicated in bold. In Panel B, *, **, *** denote significance at the 10%, 5%, and 1% level, respectively.

Panel A: Calendar-Time Portfolio Analysis									
Decile	Excess Return	1-Factor Alpha	3-Factor Alpha	Excess Return	1-Factor Alpha	3-Factor Alpha	Excess Return	1-Factor Alpha	3-Factor Alpha
	Formation Year			Year 1 after Formation			Year 2 after Formation		
1 (Low)	1.01% (3.49)	0.47% (3.45)	0.25% (2.07)	0.68% (2.40)	0.14% (1.08)	0.10% (0.92)	1.02% (3.53)	0.40% (2.73)	0.19% (1.87)
2	1.06% (3.70)	0.51% (4.09)	0.36% (3.16)	0.88% (3.04)	0.32% (2.45)	0.15% (1.37)	0.98% (3.32)	0.33% (2.37)	0.18% (1.95)
3	1.20% (4.18)	0.66% (5.04)	0.53% (4.50)	0.67% (2.26)	0.10% (0.78)	-0.08% (-0.73)	0.91% (3.07)	0.26% (1.83)	0.07% (0.74)
4	1.28% (4.23)	0.70% (5.27)	0.58% (5.01)	0.62% (2.16)	0.07% (0.56)	-0.12% (-1.24)	0.98% (3.28)	0.32% (2.33)	0.14% (1.53)
5	1.37% (4.72)	0.81% (6.74)	0.67% (6.37)	0.55% (1.96)	0.01% (0.09)	-0.18% (-2.02)	0.93% (3.20)	0.29% (2.15)	0.08% (0.89)
6	1.53% (5.35)	0.99% (7.40)	0.84% (8.62)	0.69% (2.50)	0.16% (1.33)	0.06% (0.64)	0.65% (2.28)	0.01% (0.09)	-0.16% (-1.56)
7	1.54% (5.51)	1.02% (7.22)	0.91% (8.88)	0.48% (1.75)	-0.04% (-0.30)	-0.17% (-1.55)	0.69% (2.54)	0.10% (0.74)	-0.11% (-1.05)
8	1.68% (5.58)	1.14% (7.13)	1.10% (9.34)	0.50% (1.68)	-0.03% (-0.19)	0.00% (-0.02)	0.42% (1.47)	-0.21% (-1.56)	-0.29% (-2.23)
9	1.76% (5.79)	1.25% (6.90)	1.25% (8.52)	0.33% (1.10)	-0.20% (-1.16)	-0.14% (-1.09)	0.41% (1.36)	-0.21% (-1.27)	-0.26% (-1.50)
10 (High)	2.03% (6.26)	1.46% (7.90)	1.40% (9.30)	0.21% (0.65)	-0.37% (-1.94)	-0.30% (-1.89)	0.41% (1.27)	-0.26% (-1.55)	-0.31% (-1.79)
L/S	1.02%*** (4.45)	0.99%*** (4.45)	1.15%*** (4.92)	-0.47%** (-2.09)	-0.51%** (-2.12)	-0.41%* (-1.95)	-0.62%*** (-3.21)	-0.66%*** (-3.34)	-0.50%*** (-2.57)

Table A3: Segment Capital Expenditures and R&D Spending

This table reports average segment capital expenditures and R&D spending of conglomerate firms. At the end of each quarter, we compute a *FLOW* measure for each stock as the aggregate flow-induced trading across all mutual funds in the previous year. We then take the average *FLOW* across all stocks in each two-digit SIC code industry to compute *INDFLOW*. An industry is labelled as favorable in a year if it is one of the top 20 industries as ranked by *INDFLOW* in that year. For each conglomerate firm in our sample, we require one of the top two segments to operate in a favorable industry and the other in a non-favorable industry. All firms are then sorted into twenty 5% bins based on the sales from the favorable segment as a fraction of the combined sales from the top two segments. The first row of each panel reports the average characteristic of all firms in each bin, the second and third rows report the difference in that characteristic between the current bin and the two neighboring bins after controlling for year fixed effects, while the fourth and fifth rows report the same difference after controlling for year and industry fixed effects. Panel A reports the average segment capex, defined as the segment capital expenditures divided by lagged firm total assets, in each bin. Panel B reports the average segment R&D, defined as the segment R&D spending divided by lagged firm total assets. T-statistics, shown in parentheses, are based on standard errors clustered at the year level. *, **, *** denote significance at the 10%, 5%, and 1% level, respectively.

	30% to 35%	35% to 40%	40% to 45%	45% to 50%	50% to 55%	55% to 60%	60% to 65%	65% to 70%
<i>Panel A: Capital Expenditures in the Favorable Segment (Favorable vs. Non-favorable)</i>								
CapEx	0.019	0.022	0.023	0.022	0.022	0.026	0.029	0.031
vs. neighbors	0.000	0.001	0.001	-0.001	-0.001	0.002	0.000	0.000
(year)	(0.18)	(0.78)	(0.83)	(-0.84)	(-0.68)	(0.86)	(0.15)	(-0.11)
vs. neighbors	0.001	0.001	0.000	0.000	-0.002	0.002	-0.001	0.000
(year + SIC)	(0.48)	(0.67)	(-0.04)	(-0.28)	(-1.22)	(1.25)	(-0.25)	(0.06)
No. Obs.	358	326	282	275	315	266	258	310

	30% to 40%	40% to 50%	50% to 60%	60% to 70%
<i>Panel B: R&D in the Favorable Segment (Favorable vs. Non-favorable)</i>				
R&D	0.003	0.002	0.003	0.003
vs. neighbors	0.001	-0.001	0.000	0.000
(year)	(1.12)	(-1.20)	(0.35)	(-0.33)
vs. neighbors	0.000	-0.001	0.000	0.000
(year + SIC)	(0.43)	(-1.05)	(0.27)	(-0.22)
No. Obs.	140	115	97	114

Table A4: Cash Usage

This table shows the potential benefits to industry window dressing. The dependent variable in columns 1 and 2 is the logarithm of cash holdings scaled by lagged firm assets; the dependent variable in columns 3 and 4 is the logarithm of capital expenditures scaled by lagged firm assets; the dependent variable in columns 5 and 6 is the logarithm of total debt scaled by lagged firm assets. The main independent variable is a *SWITCH* dummy that takes the value of one if the conglomerate firm's main industry classification switches from a non-favorable to a favorable industry in the fiscal year, and zero otherwise. We also control for the growth in the fraction of sales contributed by the favorable segment ($\Delta\%SALES$). Other control variables include firm size, book-to-market ratio, lagged one-year stock return, monthly share turnover, stock idiosyncratic volatility, proportion of institutional ownership, firm age and firm assets. We conduct panel OLS regressions with firm- and year-fixed effects. T-statistics, shown in parentheses, are based on standard errors that are clustered at the year level. *, **, *** denote significance at the 10%, 5%, and 1% level, respectively.

	Cash Holdings	Cash Holdings	Capital Expense	Capital Expense	Leverage Ratio	Leverage Ratio
	[1]	[2]	[3]	[4]	[5]	[6]
<i>SWITCH</i> _{<i>t</i>-1}	0.040** (2.11)	0.042** (2.02)	-0.012 (-0.71)	-0.015 (-0.80)	0.020** (2.11)	0.012 (1.43)
$\Delta\%SALES$ _{<i>t</i>-1}		0.089 (1.07)		0.558*** (7.52)		-0.044 (-1.28)
<i>MKTCAP</i> _{<i>t</i>-1}		-0.093*** (-6.20)		0.044*** (3.17)		-0.091*** (-14.59)
<i>BM</i> _{<i>t</i>-1}		-0.146*** (-8.26)		-0.207*** (-13.11)		-0.149*** (-20.56)
<i>RET12</i> _{<i>t</i>-1}		0.186*** (13.49)		0.108*** (8.58)		0.049*** (8.57)
<i>TURNOVER</i> _{<i>t</i>-1}		0.031*** (4.71)		-0.012** (-1.99)		0.049*** (8.57)
<i>IDIOVOL</i> _{<i>t</i>-1}		-0.070*** (-8.85)		-0.071*** (-9.61)		0.105 (0.32)
<i>AGE</i> _{<i>t</i>-1}		-0.210*** (-5.68)		-0.550*** (-16.37)		0.087*** (5.76)
<i>ASSETS</i> _{<i>t</i>-1}		0.014*** (-4.08)		-0.059*** (-14.68)		-0.015*** (-10.62)
Adj. R ²	0.57	0.58	0.54	0.58	0.58	0.60
No. Obs.	24,428	24,428	23,477	23,477	24,598	24,598

Table A5: Insider Selling and Option Exercise

This table reports regressions of insider selling and managerial option exercises on primary industry classification changes. The dependent variable in columns 1 and 2 is a net insider selling (i.e., sales – purchases) dummy that takes the value of one if the amount of net insider sales is above the median in the fiscal year, and zero otherwise. The dependent variable in columns 3 and 4 is the logarithm of the dollar value of options exercised scaled by the firm’s lagged market capitalization, and that in columns 5 and 6 is the logarithm of the number of options exercised scaled by the firm’s lagged shares outstanding. The main independent variable in columns 1, 3, and 5 is a *SWITCH* dummy that takes the value of one if the conglomerate firm’s main industry classification switches from a non-favorable to a favorable industry in the fiscal year, and zero otherwise. The main independent variable in columns 2, 4, and 6, *SWITCH*, now takes the value of one if the firm gets 50-55% of its sales from a favorable industry, and zero if it receives 45-50% of its sales from a favorable industry. We also control for the growth in the fraction of sales contributed by the favorable segment ($\Delta\%SALES$). Other control variables include firm size, book-to-market ratio, lagged one-year stock return, monthly share turnover, stock idiosyncratic volatility, and proportion of institutional ownership. Columns 1 and 2 conduct panel logit regressions, and columns 3-6 conduct panel OLS regressions with year-fixed effects. Z-statistics and T-statistics, shown in parentheses, are based on standard errors that are clustered at the year level. *, **, *** denote significance at the 10%, 5%, and 1% level, respectively.

	Net Insider Sales	Net Insider Sales	Value of Options Exercised	Value of Options Exercised	Number Options Exercised	Number Options Exercised
	[1]	[2]	[3]	[4]	[5]	[6]
<i>SWITCH</i> _{t-1}	0.267** (2.34)	0.333 (1.37)	0.675*** (2.88)	0.828*** (3.25)	0.421** (2.45)	0.487*** (2.76)
$\Delta\%SALES$ _{t-1}	-0.163 (-0.47)	-1.192 (-1.95)	0.273 (0.58)	-0.709 (-0.50)	0.004 (0.01)	-0.510 (-0.50)
<i>MKTCAP</i> _{t-1}	0.0686*** (4.28)	0.167*** (3.22)	-0.463*** (-7.13)	-0.454*** (-4.51)	-0.441*** (-10.44)	-0.440*** (-6.48)
<i>BM</i> _{t-1}	-0.193** (-1.94)	-0.013 (-0.10)	-0.200** (-2.16)	-0.275 (-1.08)	-0.174*** (-2.93)	-0.225 (-1.22)
<i>RET12</i> _{t-1}	0.138 (0.82)	0.181 (1.16)	0.550** (2.21)	0.116 (0.44)	0.473*** (3.30)	0.479*** (3.01)
<i>TURNOVER</i> _{t-1}	0.479*** (7.05)	0.418*** (5.81)	0.431*** (4.16)	0.342** (2.11)	0.314*** (5.24)	0.261*** (2.87)
<i>IDIOVOL</i> _{t-1}	-0.049 (-0.01)	0.053 (0.82)	0.083 (0.76)	0.152 (0.81)	-0.187*** (-2.66)	-0.138 (-1.26)
<i>INSTOWN</i> _{t-1}	1.919*** (7.13)	1.634*** (5.58)	3.771*** (15.70)	3.592*** (7.33)	2.285*** (16.91)	2.348*** (7.94)
Pseudo/Adj. R ²	0.10	0.10	0.13	0.11	0.14	0.14
No. Obs.	15,744	2,530	13,933	1,578	13,933	1,578

Table A6: Firm Benefits from Industry Switching

This table reports regressions of firm equity issuance and stock-financed M&A on primary industry classification changes. The dependent variable in columns 1 and 2 is an equity issuance dummy that takes the value of one if the firm issues equity in year t as reported in the SDC database, and zero otherwise; the dependent variable in columns 3 and 4 is a stock financed M&A dummy that takes the value of one if the firm has at least one 100% stock-financed acquisition in year t as reported in the SDC database. The main independent variable in columns 1 and 3 is a *SWITCH* dummy that takes the value of one if the conglomerate firm's main industry classification switches from a non-favorable to a favorable industry in the fiscal year, and zero otherwise. The main independent variable in columns 2 and 4, *SWITCH*, now takes the value of one if the firm gets 50-55% of its sales from a favorable industry, and zero if it receives 45-50% of its sales from a favorable industry. We also control for the growth in the fraction of sales contributed by the favorable segment ($\Delta\%SALES$). Other control variables include firm size, book-to-market ratio, lagged one-year stock return, monthly share turnover, stock idiosyncratic volatility, proportion of institutional ownership, firm age and firm assets. Reported below are panel logit regressions. Z-statistics, shown in parentheses, are based on standard errors that are clustered at the year level. *, **, *** denote significance at the 10%, 5%, and 1% level, respectively.

	Equity Issue	Equity Issue	Stock M&A	Stock M&A
	[1]	[2]	[3]	[4]
<i>SWITCH</i> _{$t-1$}	0.328** (2.53)	0.444 (1.24)	1.224*** (4.46)	1.683** (2.08)
$\Delta\%SALES$ _{$t-1$}	-0.0658 (0.16)	-0.105 (-0.10)	-1.270 (-1.16)	-2.178** (-2.25)
<i>MKTCAP</i> _{$t-1$}	0.123*** (3.20)	0.131 (0.77)	0.235*** (2.88)	0.477 (1.05)
<i>BM</i> _{$t-1$}	0.258*** (3.91)	0.134 (0.64)	-0.043 (-0.13)	0.274 (0.64)
<i>RET12</i> _{$t-1$}	0.144 (1.39)	-0.045 (-0.19)	0.082 (0.64)	0.331 (1.63)
<i>TURNOVER</i> _{$t-1$}	0.027 (1.35)	0.114** (2.35)	0.034** (2.19)	-0.427 (-0.66)
<i>IDIOVOL</i> _{$t-1$}	0.026 (0.46)	-0.025 (-0.31)	0.190*** (3.82)	0.001 (0.00)
<i>INSTOWN</i> _{$t-1$}	-0.520* (-1.92)	-0.202 (-0.15)	0.402 (0.61)	-0.417 (-0.20)
Pseudo R ²	0.01	0.02	0.03	0.07
No. Obs.	16,167	1,244	18,644	1,716

Table A7: Placebo Switchers

This table reports regressions of managerial and firm decisions in response to primary industry classification changes. Panel A examines managerial selling decisions. The dependent variable in columns 1 and 2 is a net insider selling (i.e., sales – purchases) dummy that takes the value of one if the amount of net insider sales is above the median in the fiscal year, and zero otherwise. The dependent variable in columns 3 and 4 is the logarithm of the dollar value of options exercised scaled by the firm’s lagged market capitalization, and that in columns 5 and 6 is the logarithm of the number of options exercised scaled by the firm’s lagged shares outstanding. Panel B examines firm decisions. The dependent variable in columns 1 and 2 is an equity issuance dummy that takes the value of one if the firm issues equity in year t as reported by SDC, and zero otherwise; the dependent variable in columns 3 and 4 is a stock financed M&A dummy that takes the value of one if the firm has at least one 100% stock-financed acquisition as reported by SDC. The main independent variable is the *PLACEBO_SWITCH* dummy that takes the value of one if the conglomerate firm’s main industry classification switches in a direction other than from a non-favorable to a favorable industry, and zero otherwise. We also control for the growth in the fraction of sales contributed by the favorable segment ($\Delta\%SALES$). Other control variables include firm size, book-to-market ratio, lagged one-year stock return, monthly share turnover, stock idiosyncratic volatility, and proportion of institutional ownership. Columns 1 and 2 of Panel A as well as the entire Panel B conduct panel logit regressions, and columns 3-6 of Panel A conduct OLS regressions with year-fixed effects. Z-statistics and T-statistics, shown in parentheses, are based on standard errors that are clustered at the year level. *, **, *** denote significance at the 10%, 5%, and 1% level, respectively.

	Panel A: Insider Selling and Option Exercise					
	Net Insider Sales	Net Insider Sales	Value of Options Exercised	Value of Options Exercised	Number Options Exercised	Number Options Exercised
	[1]	[2]	[3]	[4]	[5]	[6]
<i>PLACEBO_SWITCH</i> _{$t-1$}	-0.033 (-0.39)	0.023 (0.20)	0.066 (0.25)	-0.244 (-0.99)	0.020 (0.12)	-0.144 (-0.85)
$\Delta\%SALES$ _{$t-1$}		-0.013 (-0.03)		-0.553 (1.16)		0.174 (0.53)
<i>MKTCAP</i> _{$t-1$}		0.137*** (6.52)		-0.463*** (-7.06)		-0.441*** (-10.33)
<i>BM</i> _{$t-1$}		-0.138 (-1.47)		-0.206** (-2.21)		-0.178*** (-2.96)
<i>RET12</i> _{$t-1$}		0.178 (1.02)		0.555** (2.23)		0.476*** (3.32)
<i>TURNOVER</i> _{$t-1$}		0.466*** (6.92)		0.429*** (4.12)		0.313*** (5.18)
<i>IDIOVOL</i> _{$t-1$}		0.038 (0.85)		-0.094 (-0.83)		-0.180** (-2.47)
<i>INSTOWN</i> _{$t-1$}		1.78*** (6.72)		3.782*** (15.71)		2.292*** (16.95)
Pseudo/Adj. R ²	0.04	0.11	0.00	0.13	0.00	0.14
No. Obs.	15,744	15,744	13,933	13,933	13,933	13,933

Panel B: Firm Benefits				
	Equity Issue	Equity Issue	Stock M&A	Stock M&A
	[1]	[2]	[3]	[4]
<i>PLACEBO SWITCH</i> _{<i>t</i>-1}	0.207* (1.68)	0.159 (1.35)	0.077 (0.12)	-0.271 (-1.38)
<i>Δ%SALES</i> _{<i>t</i>-1}		0.086 (0.22)		-0.237 (-0.20)
<i>MKTCAP</i> _{<i>t</i>-1}		0.133*** (3.33)		0.274*** (3.01)
<i>BM</i> _{<i>t</i>-1}		0.204*** (3.42)		0.34 (0.11)
<i>RET12</i> _{<i>t</i>-1}		0.129 (1.21)		0.003 (0.02)
<i>TURNOVER</i> _{<i>t</i>-1}		0.029 (1.37)		0.037** (2.35)
<i>IDIOVOL</i> _{<i>t</i>-1}		0.045 (0.80)		0.192*** (3.40)
<i>INSTOWN</i> _{<i>t</i>-1}		-0.579** (-2.12)		0.061 (0.08)
Pseudo R ²	0.00	0.02	0.00	0.03
No. Obs.	16,464	16,464	18,644	18,644

Table A8: Industry Keyword and Keyword Fragment Definitions

This table reports the keyword and keyword-fragments we used to classify conference call text into industries (based on the Fama and French 49 industry definitions as outlined below).

Number	Industry	
1	Agriculture	agricultur, crop, livestock, fishing, animal feed, farm, corn, wheat
2	Food Products	food product, meat, dairy, fruit, vegetable, flour, grain, bakery product, sugar, coffee, food preparation
3	Soda & Candy	candy, confectionery, soft drink, flavoring, potato chip, soda
4	Beer & Liquor	beer, liquor, malt, wine, beverage
5	Tobacco Products	tobacco, smok, cigarette, cigar
6	Recreation	hunting, trapping, boat, phonograph, musical instrument
7	Fun	motion picture, movie, cinema, theatre, theater, bowling, studio, video rental, professional sport, amusement park
8	Books	printing, publishing, newspaper, periodical, greeting card
9	Household	dog food, cat food, curtains, household furniture, soap, detergent, cosmetic, luggage, leather, pottery, motorcycle, bicycle, photograph, clock, jewelry, silverware, casket, home furniture
10	Clothes	apparel, footwear, boot, shoe, glove, mitten, needle
11	Health	healthcare, hospital, nursing home, HMO, health maintenance organization, assisted living
12	Medical Equipment	x-ray, medical equipment, surgic, ophthalm, magnetic resonance imag, MRI
13	Drugs	pharmaceutical, biological product, medicinal, biotech
14	Chemicals	chemical prod, paint, synthetic resin, chemical firm, chemical manufact, chemical indust
15	Rubber	rubber produc, gasket, hose, plastic produc
16	Textile	textile, yarn, thread, sewing, woven, twine, cordage
17	Building Materials	forestry, lumber, mobile home, roofing, concrete, cement, asbestos, flooring, handtool, metal door, heating equipment
18	Construction	builder, construction contract, building contract, heavy construction
19	Steel	metal indust, steel, blast furnace, foundries, smelt, nonferrous, non-ferrous
20	Fabricated Products	sheet metal, metal forging, fabricated metal, fabricated products
21	Machinery	machinery, turbine, elevator, conveyor, refrigerator, air condition, commercial laundry, agricultural equipment, agricultural machinery, farm equipment, farm machinery
22	Electrical Equipment	lighting equipment, lighting fixture, electrical equipment, communication equipment
23	Automobiles	automobile, car, truck, motor vehicle, tire, trailer, bus, motor home
24	Aircraft	aircraft, airplane, aeronautical, aviation

25	Ships	ship building, railroad equipment, shipbuilding
26	Defense	missile, space vehicle, tank, ordnance, ammunition, gun
27	Gold	gold, silver ore, precious metal
28	Mining	mining, iron ore, copper ore, lead, zinc ore, metal mining, aluminum
29	Coal	coal
30	Oil	crude oil, natural gas, petroleum, drilling, oil and gas, refiner, energy ind
31	Utilities	utilit, electricity, sewage, gas distribut, water compan, gas provi, water provi
32	Telecom	telegraph, telephone, broadcast, cable TV, cable television, radio, communication services
33	Personal Services	camping, laundry, diaper service, barber, salon, carpet cleaning, beauty shop, funeral home, auto repair, car repair, automobile repair, car wash, museum, auto rental, car rental, automobile rental, truck rental, educational services comp, educational services firm
34	Business Services	advertising comp, credit reporting agenc, advertising firm, equipment rental, consulting firm, consulting comp, warehouse, storage comp, engineering firm, architect
35	Computers	office computer, mainframe computer, disk drive, optical scanner, computer terminal, computer equipment, personal computer
36	Software	software, data processing, computer programm
37	Electronic Equipment	electronic equipment, communications equipment, television equipment, communication equipment, electronic component, navigation equipment, guidance equipment
38	Lab Equip	laboratory equipment, measuring equipment, optimal instrument, laboratory instrument
39	Business Supplies	office furniture, paper suppl, paper product, pencil, office suppl
40	Shipping Containers	shipping container, wood container, glass container, paperboard container, metal container
41	Transportation	railroad, railway, passenger transportation, transit, taxi, charter service, school bus, bus charter, bus trans, trucking, water transport, airline, air transport, transportation services, freight, travel agenc
42	Wholesale	wholesal
43	Retail	retail, department store, merchandise store, grocery store, convenience store, bakery, bakeries, butcher, gas station, automobile dealer, auto dealer, car dealer, boat dealer, automotive dealer, motorcycle dealer, consumer electronic store, florist, jewelry store, sporting good, book store, bookstore
44	Restaurants	restaurant, hotel, motel, lodging, casino, eating place
45	Banks	bank, savings institution, credit union, depository, savings and loan, S&L, credit institution, credit card, financial institution, mortgage
46	Insurance	fire insurance, life insurance, accident insurance, insurance agent, property insurance, casualty insurance, health insurance, insurance carrier, insurance indus, reinsurance
47	Real Estate	real estate agent, real estate operator, real estate develop, real estate dealer, real estate company, real estate firm
48	Trading	security broker, commodity broker, investment firm, investment bank, investment management, mutual fund, reit, investment trust, closed-end, closed end, unit trust, broker dealer, broker-dealer, financial service firm, financial services firm
49	Other	irrigation system, cogeneration, sanitary service

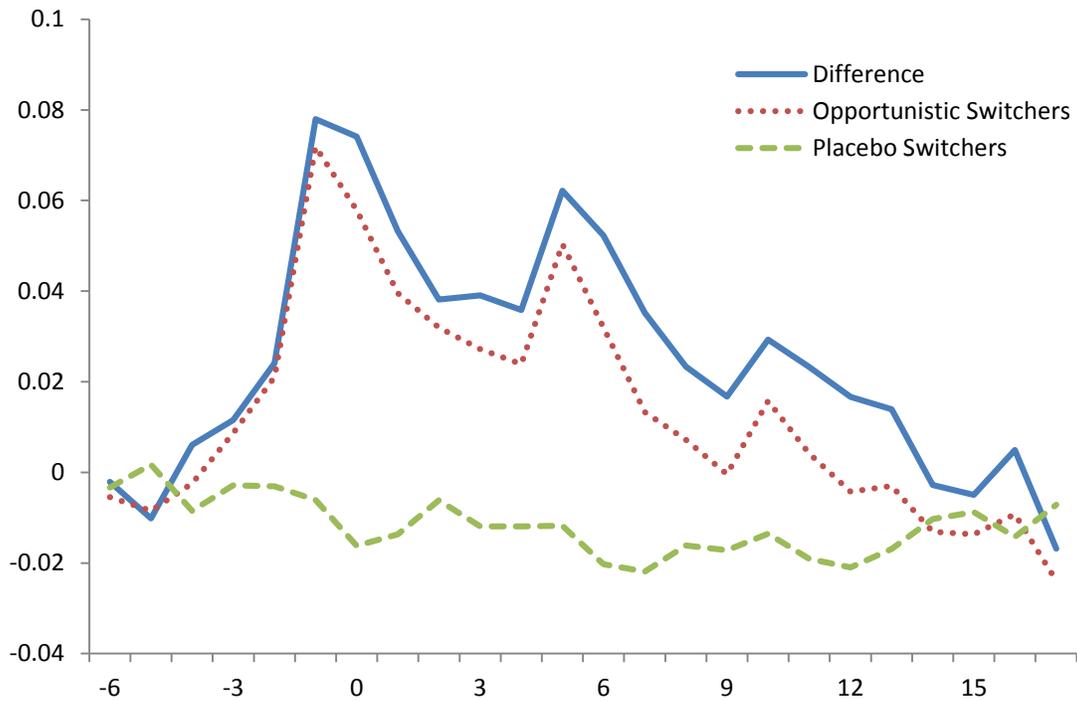
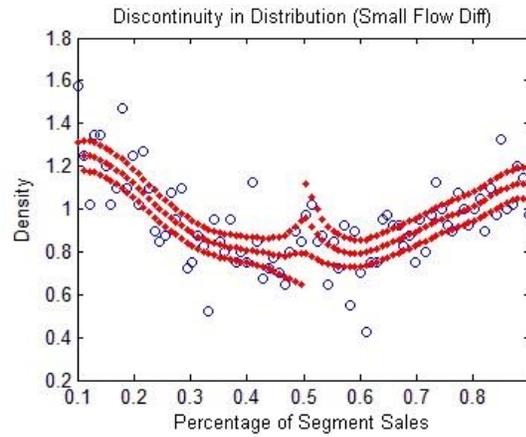
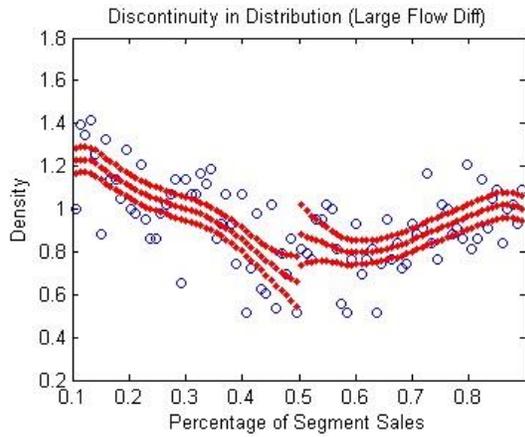


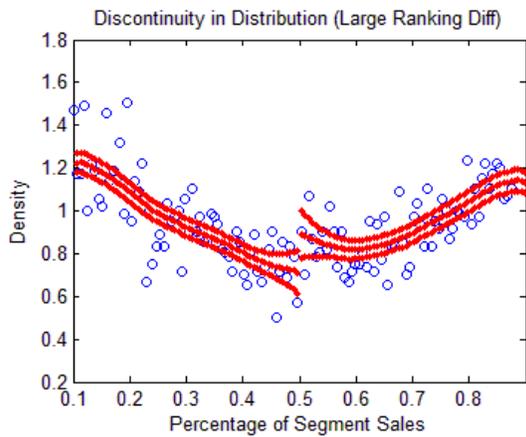
Figure A1: This figure shows event-time cumulative returns to the portfolios of industry switchers over a two year period (from months -6 to 18), where month 0 is the event month in which the firm announces the switch. The solid blue curve corresponds to the set of switchers from a non-favorable to a favorable industry; the dashed green curve corresponds to “placebo switchers” (i.e., those switching from non-favorable to non-favorable, from favorable to favorable, and from favorable to non-favorable industries). The dotted red curve shows the difference in event-time returns between the two subsamples. In particular, this difference in cumulative returns from months 0 to 18 is -9.09% with a t-statistic of -2.04.



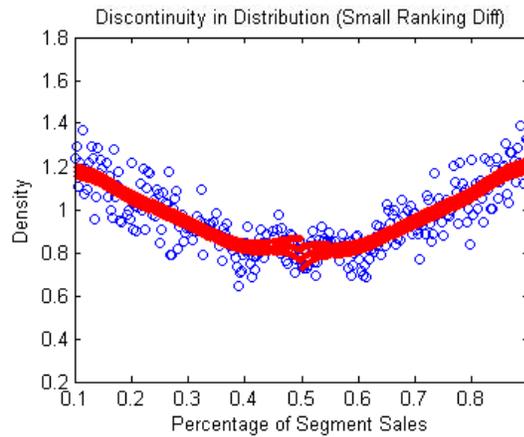
Discontinuity at 50% cutoff (large flow diff)	
Difference	<i>t</i> -stat of Difference
35%	2.78

Discontinuity at 50% cutoff (small flow diff)	
Difference	<i>t</i> -stat of Difference
19%	1.41

Figure A2: This figure shows the smoothed density functions based on the relative weights of the top two segments of conglomerate firms. The estimation methodology is outlined in McCrary (2008). The blue circles represent the distribution density of each bin grouped by the sorting variable. The red curves are the estimated smoothed density functions, and the 2.5% to 97.5% confidence intervals of the estimated density. Both the bins size and bandwidth are chosen optimally using the automatic selection criterion. The densities to the left and right of the discontinuity point (the 50% cut-off in our case) are then estimated using local linear regressions. For each conglomerate firm in our sample, we require one of the top two segments to operate in a favorable industry and the other in a non-favorable industry. An industry is labelled as favorable in a year if it is one of the top 20 industries as ranked by *INDFLOW* in that year. We then divide our sample period into two subperiods based on the difference in average *INDFLOW* between favorable industries and non-favorable industries. The left panel shows the discontinuity in distribution for periods with high *INDFLOW* differentials, while the right panel shows the discontinuity in distribution for periods with low *INDFLOW* differentials.

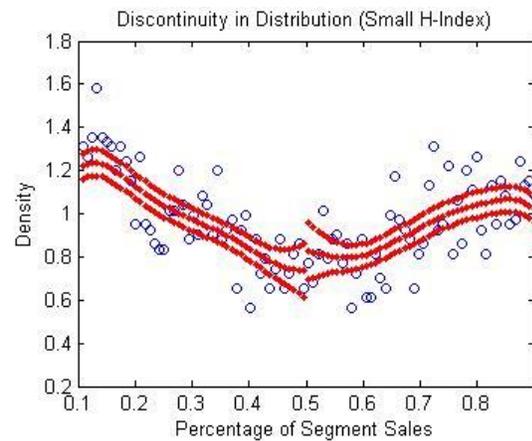
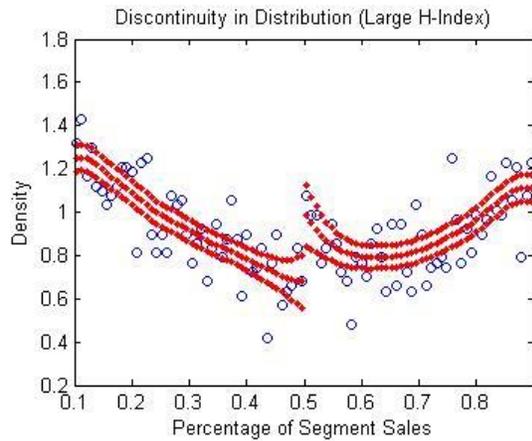


Discontinuity at 50% cutoff (large rank diff)	
Difference	<i>t</i> -stat of Difference
27%	2.43



Discontinuity at 50% cutoff (small rank diff)	
Difference	<i>t</i> -stat of Difference
-4.5%	-0.94

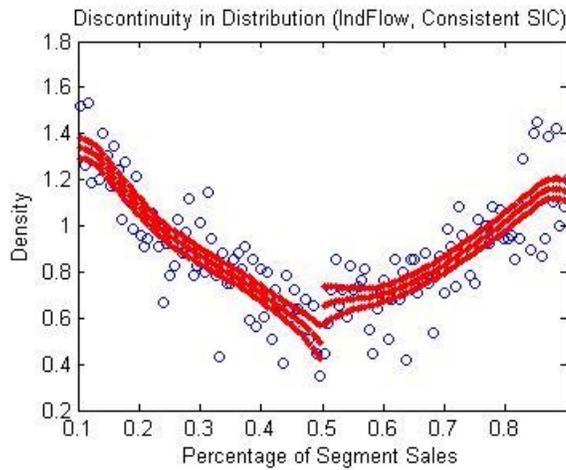
Figure A3: This figure shows the smoothed density functions based on the relative weights of the top two segments of conglomerate firms. The estimation methodology is outlined in McCrary (2008). The blue circles represent the distribution density of each bin grouped by the sorting variable. The red curves are the estimated smoothed density functions, and the 2.5% to 97.5% confidence intervals of the estimated density. Both the bins size and bandwidth are chosen optimally using the automatic selection criterion. The densities to the left and right of the discontinuity point (the 50% cut-off in our case) are then estimated using local linear regressions. In the left panel, we require the ranking difference between the top two segments is at least 25, where industries are ranked by *INDFLOW* in that year; and in the right panel, we require this ranking difference to be less than 25. (There are around 70 industries in total. The results are similar if we require a cut-off ranking differential of 20, 30, or 35.)



Discontinuity at 50% cutoff (large Herfindahl)	
Difference	<i>t</i> -stat of Difference
29%	2.68

Discontinuity at 50% cutoff (small Herfindahl)	
Difference	<i>t</i> -stat of Difference
11%	0.98

Figure A4: This figure shows the smoothed density functions based on the relative weights of the top two segments of conglomerate firms. The estimation methodology is outlined in McCrary (2008). The blue circles represent the distribution density of each bin grouped by the sorting variable. The red curves are the estimated smoothed density functions, and the 2.5% to 97.5% confidence intervals of the estimated density. Both the bins size and bandwidth are chosen optimally using the automatic selection criterion. The densities to the left and right of the discontinuity point (the 50% cut-off in our case) are then estimated using local linear regressions. For each conglomerate firm in our sample, we require one of the top two segments to operate in a favorable industry and the other in a non-favorable industry. An industry is labelled as favorable in a year if it is one of the top 20 industries as ranked by *INDFLOW* in that year. In the left panel, we focus on favorable industries with larger than median sales concentration, as measured by the Herfindahl index; and in the right panel, we focus on favorable industries with lower than median sales concentration.



Discontinuity at 50% cutoff	
Difference	<i>t</i> -stat of Difference
29%	2.76

Figure A5: This figure shows the smoothed density functions based on the relative weights of the top two segments of conglomerate firms. The estimation methodology is outlined in McCrary (2008). The blue circles represent the distribution density of each bin grouped by the sorting variable. The red curves are the estimated smoothed density functions, and the 2.5% to 97.5% confidence intervals of the estimated density. Both the bins size and bandwidth are chosen optimally using the automatic selection criterion. The densities to the left and right of the discontinuity point (the 50% cut-off in our case) are then estimated using local linear regressions. For each conglomerate firm in our sample, we require one of the top two segments to operate in a favorable industry and the other in a non-favorable industry. An industry is labelled as favorable in a year if it is one of the top 20 industries as ranked by *INDFLOW* in that year. For the sample analyzed in this figure, we further require that the SIC code reported in Compustat is consistent with the imputed SIC code based on segment sales reported in the segment file.

Figure A6: This figure shows an example of industry window dressing from the firm Rock of Ages Corporation (ROAC).

- Their business is mining and using materials to make headstones and tombstones, which they sell directly to cemeteries
- They were very focused on their retail arm (around 60% of sales), and various ways to enhance their retail arm. For instance, under the “Growth Strategy” section that headlines their annual reports (10-Ks), it used to read
 - *“The Company seeks to expand the scope and profitability of its operations through a growth strategy that focuses on forward vertical integration into retailing, thereby enabling the Company to move closer to the ultimate customer.”*
 - *The principal elements of the growth strategy include:*
 - *Expansion of company-owned retail network*
 - *Increased emphasis on branded sales to independent dealers*
- In 2008, the mining sector became favorable, partly due to soaring commodity prices – mining funds were getting large inflows
- The firm switched from retail to mining in 2008
- The same headlining “Growth Strategy”
 - *We seek to enhance the overall profitability of the Company's businesses through a strategy which includes*
 - *Enhancing quarry productivity*
 - *Acquisitions of quarries and distribution rights*
- The firm received 50.7% of its sales from the mining industry in 2008