Internet Appendix for

M&A Activity and the Capital Structure of Target Firms

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Table IA.I
Target Leverage Estimation Regressions

This table provides the coefficient estimates for the target leverage estimation model (1) by country. The firms come from a total of 22 countries and we employ the whole universe of firms available in Amadeus for the sample period from 1999 to 2015 to estimate the model. Panels A and B show the estimates for eleven countries each. ***, **, and * denote statistical significance at the 1%, 5%, and 10% level correspondingly. Variable definitions are provided in Table A.

Panel A: Coefficients for the target leverage estimation model (1) by country (1/2)

	Dependent variable = LEVERAGE$_t$										
	Austria	Belgium	Bulgaria	Czech Republic	Germany	Estonia	Spain	Finland	France	United Kingdom	Greece
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
ln(TOTAL_ASSETS)$_{t-1}$	0.035***	0.053***	0.014***	0.014***	0.035***	0.036***	0.052***	0.040***	0.026***	0.034***	0.048***
	(0.003)	(0.000)	(0.001)	(0.000)	(0.002)	(0.001)	(0.001)	(0.001)	(0.000)	(0.002)	(0.002)
TANGIBILITY$_{t-1}$	0.097***	0.173***	0.030***	0.056***	0.158***	0.111***	0.071***	0.104***	0.216***	0.048***	0.071***
	(0.015)	(0.001)	(0.002)	(0.002)	(0.005)	(0.004)	(0.001)	(0.004)	(0.001)	(0.003)	(0.006)
GROWTH$_{t-1}$	0.001	0.015***	0.001***	0.002***	0.005***	0.011***	0.005***	0.017***	0.012***	0.008***	0.004***
	(0.002)	(0.000)	(0.000)	(0.000)	(0.001)	(0.001)	(0.000)	(0.001)	(0.000)	(0.001)	(0.001)
ROA$_{t-1}$	-0.065***	-0.055***	-0.009***	-0.017***	-0.085***	-0.071***	-0.125***	-0.091***	-0.060***	-0.039***	-0.134***
	(0.008)	(0.001)	(0.001)	(0.001)	(0.003)	(0.002)	(0.001)	(0.002)	(0.001)	(0.002)	(0.005)
Intercept	-0.477***	-0.570***	-0.097***	-0.108***	-0.373***	-0.247***	-0.438***	-0.316***	-0.249***	-0.266***	-0.518***
	(0.054)	(0.006)	(0.006)	(0.005)	(0.024)	(0.015)	(0.008)	(0.017)	(0.004)	(0.023)	(0.024)
Firm FEs	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year FEs	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Adjusted R^2	0.75	0.74	0.73	0.58	0.77	0.70	0.75	0.72	0.63	0.68	0.77
N	49,183	2,638,418	742,316	935,582	381,299	244,238	2,993,373	417,530	5,714,704	531,225	203,469

Panel B: Coefficients for the target leverage estimation model (1) by country (2/2)

	Croatia	Hungary	Ireland	Italy	Lithuania	Latvia	Netherlands	Poland	Portugal	Sweden	Slovak Republic
					Dependent variable = LEVERAGE$_t$						
	(12)	(13)	(14)	(15)	(16)	(17)	(18)	(19)	(20)	(21)	(22)
ln(TOTAL_ASSETS)$_{t-1}$	0.031***	0.011***	0.006	0.029***	0.029***	0.008***	0.042***	0.018***	0.039***	0.027***	0.010***
	(0.001)	(0.001)	(0.006)	(0.000)	(0.006)	(0.001)	(0.007)	(0.002)	(0.001)	(0.000)	(0.000)
TANGIBILITY$_{t-1}$	0.089***	0.008***	0.092***	0.045***	0.106***	0.070***	0.090***	0.098***	0.074***	0.191***	0.020***
	(0.003)	(0.002)	(0.014)	(0.001)	(0.020)	(0.003)	(0.017)	(0.005)	(0.003)	(0.002)	(0.001)
GROWTH$_{t-1}$	0.004***	-0.001***	0.013***	0.001***	0.023***	0.000***	0.004	0.016***	0.002**	0.009***	0.000***
	(0.000)	(0.000)	(0.004)	(0.000)	(0.005)	(0.000)	(0.004)	(0.001)	(0.001)	(0.000)	(0.000)
ROA$_{t-1}$	-0.019***	-0.004***	-0.055***	-0.053***	-0.191***	-0.002***	-0.093***	-0.071***	-0.086***	-0.057***	-0.006***
	(0.001)	(0.000)	(0.009)	(0.001)	(0.020)	(0.000)	(0.012)	(0.004)	(0.002)	(0.001)	(0.000)
Intercept	-0.229***	-0.114***	0.171**	-0.237***	-0.272***	0.075***	-0.606***	-0.155***	-0.240***	-0.226***	-0.059***
	(0.009)	(0.008)	(0.087)	(0.004)	(0.086)	(0.008)	(0.120)	(0.024)	(0.018)	(0.006)	(0.004)
Firm FEs	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year FEs	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Adjusted R^2	0.66	0.69	0.75	0.67	0.71	0.74	0.79	0.74	0.73	0.74	0.63
N	568,478	382,894	37,845	5,215,657	13,189	302,702	25,522	193,339	600,502	1,745,621	699,615

Table IA.II
Descriptive Statistics for Target Leverage

This table shows the country-specific descriptive statistics for the predicted target leverage values and their leverage deviations. The target leverage estimates are the fitted values from the estimated regression (1) for the country in which the target firm resides. Leverage deviations are calculated as a firm's actual leverage minus its fitted target.

Country		Mean	Median	Min	Max	Obs
AT (Austria)	Target leverage	0.145	0.048	0.000	1.000	51,482
	Leverage deviation	-0.003	0.000	-0.771	0.793	51,482
BE (Belgium)	Target leverage	0.199	0.131	0.000	1.000	2,667,739
	Leverage deviation	-0.003	-0.003	-0.894	0.997	2,667,739
BG (Bulgaria)	Target leverage	0.078	0.004	0.000	1.000	792,235
	Leverage deviation	-0.002	0.000	-0.817	0.909	792,235
CZ (Czech Republic)	Target leverage	0.086	0.024	0.000	1.000	969,010
	Leverage deviation	-0.003	0.000	-0.822	0.941	969,010
DE (Germany)	Target leverage	0.232	0.164	0.000	1.000	417,127
	Leverage deviation	-0.001	0.000	-0.786	0.847	417,127
EE (Estonia)	Target leverage	0.231	0.164	0.000	1.000	253,861
	Leverage deviation	-0.002	0.000	-0.911	0.903	253,861
ES (Spain)	Target leverage	0.311	0.273	0.000	1.000	3,084,502
	Leverage deviation	0.000	0.000	-0.846	0.995	3,084,502
FI (Finland)	Target leverage	0.259	0.210	0.000	1.000	434,848
	Leverage deviation	-0.002	0.000	-0.856	0.925	434,848
FR (France)	Target leverage	0.140	0.089	0.000	1.000	5,855,787
	Leverage deviation	-0.001	-0.004	-0.918	1.000	5,855,787
GB (United Kingdom)	Target leverage	0.279	0.227	0.000	1.000	573,135
	Leverage deviation	-0.001	0.000	-0.919	0.929	573,135
GR (Greece)	Target leverage	0.219	0.167	0.000	1.000	206,106
	Leverage deviation	-0.002	-0.002	-0.746	0.858	206,106
HR (Croatia)	Target leverage	0.165	0.080	0.000	1.000	654,685
	Leverage deviation	-0.004	0.000	-0.962	0.998	654,685
HU (Hungary)	Target leverage	0.033	0.001	0.000	0.998	414,402
	Leverage deviation	-0.002	0.000	-0.731	0.868	414,402
IE (Ireland)	Target leverage	0.314	0.249	0.000	1.000	41,183
	Leverage deviation	-0.001	0.000	-0.866	0.803	41,183
IT (Italy)	Target leverage	0.162	0.088	0.000	1.000	5,982,291

	Leverage deviation	-0.001	0.000	-0.866	0.960	5,982,291
LT (Lithuania)	Target leverage	0.240	0.217	0.000	0.982	13,946
	Leverage deviation	0.000	0.000	-0.509	0.569	13,946
LV (Latvia)	Target leverage	0.181	0.057	0.000	1.000	321,277
	Leverage deviation	-0.001	0.000	-0.865	0.820	321,277
NL (Netherlands)	Target leverage	0.167	0.089	0.000	0.994	26,864
	Leverage deviation	-0.002	0.000	-0.688	0.627	26,864
PL (Poland)	Target leverage	0.172	0.128	0.000	1.000	204,694
	Leverage deviation	-0.001	0.000	-0.789	0.797	204,694
PT (Portugal)	Target leverage	0.303	0.273	0.000	1.000	644,053
	Leverage deviation	-0.001	0.000	-0.820	0.885	644,053
SE (Sweden)	Target leverage	0.178	0.078	0.000	1.000	1,777,873
	Leverage deviation	-0.003	-0.002	-0.924	0.967	1,777,873
SK (Slovak Republic)	Target leverage	0.066	0.005	0.000	1.000	717,283
	Leverage deviation	-0.001	0.000	-0.813	0.933	717,283

Table IA.III
Robustness check: Re-defining optimized and mis-leveraged firms

This table reports estimation results for regression (3) using revised definitions of optimized and mis-leveraged firms. Panel A (Panel B) defines optimized firms as those with actual leverage within 3% (5%) of target, while over-leveraged firms lie 3% (5%) above target and Under-leveraged firms lie more than 3% (5%) below. AFTER is a dummy variable that takes a value of one after the deal is completed [0, +5] and zero otherwise. Basic firm-level controls include the four Rajan-Zingales (1995) factors: firm size, asset tangibility, growth, and profitability. Specifications with all firm-level controls also account for capital expenditures, the proportion of short-term debt in total debt, and firm age. Country-level controls are total private credit to GDP, stock market capitalization to GDP and nominal GDP growth. All specifications include a set of firm and year fixed effects. ***, **, and * denote statistical significance at the 1%, 5%, and 10% level correspondingly. Variable definitions are provided in Table A.

Panel A: Re-defining Optimized and mis-leveraged firms, bandwidth of 3%

	Dependent Variable = Acquired firm's LEVERAGE$_t$					
	Optimized Target Firms		Overleveraged Target Firms		Underleveraged Target Firms	
	(1)	(2)	(3)	(4)	(5)	(6)
AFTER	0.002	0.004	-0.106***	-0.107***	0.061***	0.052***
	(0.002)	(0.003)	(0.005)	(0.006)	(0.004)	(0.005)
Basic firm-level controls	Yes		Yes		Yes	
All firm-level controls		Yes		Yes		Yes
Country-level controls	Yes	Yes	Yes	Yes	Yes	Yes
Firm & Year FEs	Yes	Yes	Yes	Yes	Yes	Yes
Adjusted R-squared	0.829	0.837	0.604	0.623	0.564	0.593
N	12875	8186	13037	7753	14388	8794

Panel B: Re-defining Optimized and mis-leveraged firms, bandwidth of 5%

	Dependent Variable = Acquired firm's LEVERAGE$_t$					
	Optimized Target Firms		Overleveraged Target Firms		Underleveraged Target Firms	
	(1)	(2)	(3)	(4)	(5)	(6)
AFTER	0.000	0.001	-0.121***	-0.123***	0.077***	0.067***
	(0.002)	(0.003)	(0.005)	(0.007)	(0.005)	(0.007)
Basic firm-level controls	Yes		Yes		Yes	
All firm-level controls		Yes		Yes		Yes
Country-level controls	Yes	Yes	Yes	Yes	Yes	Yes
Firm & Year FEs	Yes	Yes	Yes	Yes	Yes	Yes
Adjusted R-squared	0.807	0.817	0.593	0.611	0.517	0.552
N	18129	11563	11084	6542	11087	6628

Table IA-IV
Alternative Leverage Target Measure

Compare to Table IA-I. This table provides the coefficient estimates for the target leverage estimation model (10). The model is estimated in first differences using the generalized method of moments method (GMM). We estimate a separate regression model for all firms within each country and use the estimated coefficients to compute a leverage target for each acquired firm in the same country. Panel A and B show the coefficient estimates and the test statistics for 11 countries each. Panel C shows the within-country correlations between the targets estimated from model (1) and those estimated from the GMM model (10). ***, **, and * denote statistical significance at the 1%, 5%, and 10% level correspondingly. Variable definitions are provided in Table A.

Panel A: Coefficients for the target leverage estimation model (10) by country (1/2)

	Austria	Belgium	Bulgaria	Czech Republic	Germany	Estonia	Spain	Finland	France	United Kingdom	Greece
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
LEVERAGE $_{t-1}$	0.575**	0.837***	0.637***	0.576***	0.740***	0.743***	0.800***	0.772***	0.687***	0.827***	0.517***
	(0.230)	(0.035)	(0.019)	(0.026)	(0.195)	(0.196)	(0.166)	(0.178)	(0.113)	(0.055)	(0.080)
ln(TOTAL_ASSETS) $_{t-1}$	0.324	-0.017	0.016	-0.013	-0.058	0.064	0.007	-0.324	-0.042	-0.074***	0.089
	(0.244)	(0.014)	(0.014)	(0.018)	(0.095)	(0.051)	(0.069)	(0.288)	(0.116)	(0.016)	(0.067)
GROWTH $_{t-1}$	0.197**	0.003	0.003**	0.001	0.014	0.008	0.062	0.013	0.020	-0.005	0.033*
	(0.097)	(0.005)	(0.001)	(0.001)	(0.065)	(0.005)	(0.050)	(0.022)	(0.022)	(0.007)	(0.020)
ROA $_{t-1}$	0.186	-0.029	0.031***	0.013	-0.059	-0.101***	-0.150**	-0.007	0.034	-0.046	0.005
	(0.213)	(0.036)	(0.010)	(0.009)	(0.135)	(0.038)	(0.070)	(0.079)	(0.088)	(0.031)	(0.035)
TANGIBILITY $_{t-1}$	1.458**	-0.066	-0.044*	0.098***	-0.290	-0.383	-0.210	0.412	0.186	0.271***	0.216
	(0.672)	(0.064)	(0.025)	(0.032)	(0.735)	(0.285)	(0.132)	(0.676)	(0.133)	(0.063)	(0.175)
Firm FEs	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year FEs	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Sargan test	15.1	18.4	48.5	47.7	7.0	9.0	11.3	0.2	0.9	14.2	68.4
Sargan df	10	14	55	59	11	12	11	2	2	19	57
p-value	0.13	0.19	0.72	0.86	0.80	0.70	0.42	0.91	0.65	0.77	0.14
Hansen test	8.2	20.8	66.9	61.6	7.3	7.2	8.2	1.4	1.6	18.6	67.0
Hansen df	10	14	55	59	11	12	11	2	2	19	57
p-value	0.61	0.11	0.13	0.38	0.78	0.85	0.70	0.51	0.45	0.49	0.17
AR(1) p-value	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.05	0.46	0.00	0.00
AR(2) p-value	0.24	0.10	0.09	0.42	0.03	0.22	0.14	0.56	0.63	0.25	0.23
N	13,721	21,563	84,235	34,808	62,878	69,846	129,591	13,347	41,943	15,457	13,733

Panel B: Coefficients for the target leverage estimation model (10) by country (2/2)

Independent Variables	Croatia	Hungary	Ireland	Italy	Lithuania	Latvia	Netherlands	Poland	Portugal	Sweden	Slovak Republic
					Dependent variable = LEVERAGE$_t$						
	(12)	(13)	(14)	(15)	(16)	(17)	(18)	(19)	(20)	(21)	(22)
LEVERAGE$_{t-1}$	0.626***	0.386***	0.693***	0.482***	0.594***	0.356***	0.838***	0.628***	0.635***	0.750***	0.732***
	(0.058)	(0.105)	(0.199)	(0.028)	(0.073)	(0.086)	(0.050)	(0.066)	(0.055)	(0.063)	(0.021)
ln(TOTAL_ASSETS)$_{t-1}$	-0.054	0.018	0.064	-0.010*	0.007	-0.027	-0.070***	-0.050*	-0.050***	-0.030***	-0.005
	(0.065)	(0.020)	(0.082)	(0.005)	(0.014)	(0.118)	(0.017)	(0.027)	(0.018)	(0.007)	(0.005)
GROWTH$_{t-1}$	-0.032	0.001	0.005	0.004**	0.022**	-0.001	0.029***	-0.003	-0.007	-0.001	0.000
	(0.041)	(0.007)	(0.078)	(0.002)	(0.011)	(0.003)	(0.011)	(0.004)	(0.009)	(0.001)	(0.000)
ROA$_{t-1}$	0.063	0.029	-0.237**	-0.050**	-0.125	-0.037	-0.162***	0.059	0.063	-0.004	0.022***
	(0.201)	(0.048)	(0.094)	(0.022)	(0.157)	(0.039)	(0.057)	(0.104)	(0.090)	(0.013)	(0.006)
TANGIBILITY$_{t-1}$	0.126	0.033	-1.382**	0.171***	0.067	0.012	0.318***	0.158	0.199***	0.116	0.038*
	(0.178)	(0.044)	(0.589)	(0.059)	(0.083)	(0.093)	(0.089)	(0.134)	(0.074)	(0.100)	(0.020)
Firm FEs	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year FEs	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Sargan test	0.1	29.4	18.4	23.5	10.3	0.3	23.0	23.7	26.7	19.2	18.2
Sargan df	41	54	11	18	13	3	17	18	18	17	16
p-value	1.00	1.00	0.07	0.17	0.67	0.96	0.15	0.17	0.08	0.32	0.31
Hansen test	43.5	48.0	15.6	26.9	14.5	1.2	21.9	23.5	23.6	25.7	15.4
Hansen df	41	54	11	18	13	3	17	18	18	17	16
p-value	0.364	0.705	0.157	0.081	0.343	0.763	0.189	0.171	0.169	0.080	0.499
AR(1) *p*-value	0.42	0.17	0.00	0.00	0.00	0.19	0.00	0.00	0.00	0.00	0.00
AR(2) *p*-value	0.37	0.55	0.10	0.12	0.34	0.72	0.38	0.85	0.03	0.05	0.29
N	64,282	7,361	18,012	32,323	7,870	6,104	13,373	7,213	9,789	41,710	71,623

Panel C: Correlations between the estimated targets from the target leverage estimation model (1) and the GMM model (10) by country

	Austria	Belgium	Bulgaria	Czech Republic	Germany	Estonia	Spain	Finland	France	United Kingdom	Greece
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
TARGET_LEVERAGE_CORRELATION	0.499	0.808	0.715	0.750	0.654	0.602	0.812	0.374	0.729	0.690	0.714

	Croatia	Hungary	Ireland	Italy	Lithuania	Latvia	Netherlands	Poland	Portugal	Sweden	Slovak Republic
	(12)	(13)	(14)	(15)	(16)	(17)	(18)	(19)	(20)	(21)	(22)
TARGET_LEVERAGE_CORRELATION	0.319	0.414	0.362	0.744	0.844	0.306	0.770	0.736	0.777	0.870	0.823

Table IA.V
Robustness check: Domestic vs. cross-country acquisitions

This table reports the results of re-estimating (3) separately for domestic and cross-country acquisitions. The sample covers the period of +/– 5 years around the acquisition event. Panel A reports estimation results for the subsample of domestic deals by domestic business groups. Panel B presents the results for the subsample of cross-border deals accounting for the difference in corporate tax rates between target and acquiring countries by controlling for acquirer and target country fixed effects. AFTER is a dummy variable that takes a value of one after the deal is completed [0, +5] and zero otherwise. *Basic firm-level controls* include the four Rajan-Zingales (1995) factors: firm size, asset tangibility, growth, and profitability. *All firm-level controls* also include capital expenditures, the proportion of short-term debt in total debt, and firm age. *Country-level controls* are total private credit to GDP, stock market capitalization to GDP and nominal GDP growth. All specifications include a set of firm and year fixed effects. ***, **, and * denote statistical significance at the 1%, 5%, and 10% level correspondingly. Variable definitions are provided in Table A.

Panel A: Domestic deals by domestic business groups

	Dependent Variable = Acquired firm's LEVERAGE$_t$					
	Optimized Target Firms		Over-leveraged Target Firms		Under-leveraged Target Firms	
	(1)	(2)	(3)	(4)	(5)	(6)
AFTER	0.003	0.008	-0.087***	-0.089***	0.044***	0.036***
	(0.004)	(0.006)	(0.005)	(0.007)	(0.004)	(0.005)
Basic firm-level controls	Yes	Yes	Yes	Yes	Yes	Yes
All firm-level controls	No	Yes	No	Yes	No	Yes
Country-level controls	Yes	Yes	Yes	Yes	Yes	Yes
Firm & Year FEs	Yes	Yes	Yes	Yes	Yes	Yes
Adjusted R^2	0.849	0.838	0.643	0.675	0.641	0.667
N	2,955	1,802	7,773	4,894	10,222	6,479

Panel B: Mergers across national borders

	Dependent Variable = Acquired firm's LEVERAGE$_t$					
	Optimized Target Firms		Over-leveraged Target Firms		Under-leveraged Target Firms	
	(1)	(2)	(3)	(4)	(5)	(6)
AFTER	0.004	0.004	-0.093***	-0.101***	0.032***	0.026**
	(0.004)	(0.005)	(0.008)	(0.010)	(0.007)	(0.010)
All firm-level controls	Yes	Yes	Yes	Yes	Yes	Yes
Year FEs	Yes	Yes	Yes	Yes	Yes	Yes
Acquirer country FEs	Yes	Yes	Yes	Yes	Yes	Yes
Target country FEs	Yes	Yes	Yes	Yes	Yes	Yes
Year×Target country FEs		Yes		Yes		Yes
Year×Acquirer country FEs		Yes		Yes		Yes
Adjusted R^2	0.892	0.900	0.618	0.640	0.599	0.617
N	1,789	1,789	4,151	4,151	4,678	4,678

Table IA.VI
Industry Integration

This table replicates the estimation in Table 4 conditional on industry integration. The sample covers the period of up to five years before and after the acquisition. AFTER is a dummy variable that is equal to one in the year(s) after the acquisition and zero otherwise. The transaction is considered to be horizontal when an acquirer and an acquisition target operate in the same NACE v2 industry. Vertical and unrelated transactions are defined using the index of vertical dependence from Ahern and Harford (2014). ***, **, and * denote statistical significance at the 1%, 5%, and 10% level correspondingly. The definitions of all variables are provided in Table A.

	Dependent Variable= Leverage $_t$								
	Optimized Target Firms			Over-leveraged Target Firms			Under-leveraged Target Firms		
	Horizontal	Vertical	Unrelated	Horizontal	Vertical	Unrelated	Horizontal	Vertical	Unrelated
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
AFTER	0.007	-0.015	-0.007	-0.076***	-0.106***	-0.097***	0.039***	0.025**	0.047***
	(0.006)	(0.010)	(0.010)	(0.007)	(0.015)	(0.015)	(0.006)	(0.012)	(0.013)
All firm-level controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Country-level controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Firm & Year FEs	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Adjusted R^2	0.85	0.89	0.89	0.67	0.59	0.60	0.65	0.58	0.59
N	1,460	430	491	4,298	1,179	1,176	5,359	1,468	1,292

Table IA-VII
Attrition Bias

Compare to Table 4 in the paper. This table contains regression results examining leverage changes after the acquisition event for the sample of acquired firms and their matches that remained in the sample over the entire indicated period (e.g. [-5, +5]). AFTER is a dummy variable that takes a value of one after the deal is completed and zero otherwise. ***, **, and * denote statistical significance at the 1%, 5%, and 10% level correspondingly. Variable definitions are provided in Table A.

	Dependent Variable= Acquired firm's LEVERAGE$_t$											
	Optimized Target Firms				Over-leveraged Target Firms				Under-leveraged Target Firms			
	No attrition [−5, +5]	No attrition [-1, +5]	No attrition [-1, +4]	No attrition [-1, +3]	No attrition [−5, +5]	No attrition [-1, +5]	No attrition [-1, +4]	No attrition [-1, +3]	No attrition [−5, +5]	No attrition [-1, +5]	No attrition [-1, +4]	No attrition [-1, +3]
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
AFTER	-0.005	0.010	0.008	0.007	-0.081***	-0.080***	-0.083***	-0.087***	0.034***	0.032***	0.033***	0.034***
	(0.011)	(0.008)	(0.007)	(0.005)	(0.011)	(0.007)	(0.006)	(0.006)	(0.009)	(0.006)	(0.005)	(0.005)
ln(TOTAL_ASSETS)$_{t-1}$	-0.007	-0.008	-0.012	-0.008	0.053***	0.052***	0.055***	0.049***	0.048***	0.034***	0.031***	0.033***
	(0.017)	(0.008)	(0.007)	(0.006)	(0.011)	(0.007)	(0.006)	(0.005)	(0.009)	(0.006)	(0.006)	(0.005)
TANGIBILITY$_{t-1}$	0.247***	0.127***	0.092***	0.092***	0.129***	0.113***	0.104***	0.119***	-0.030	0.042	0.064***	0.071***
	(0.095)	(0.034)	(0.031)	(0.028)	(0.035)	(0.022)	(0.020)	(0.021)	(0.036)	(0.026)	(0.024)	(0.022)
GROWTH$_{t-1}$	-0.005	0.004	0.003	0.003	0.006	0.003	0.002	0.003	-0.008	0.001	0.003	0.003
	(0.007)	(0.004)	(0.002)	(0.002)	(0.008)	(0.004)	(0.003)	(0.003)	(0.006)	(0.003)	(0.002)	(0.002)
ROA$_{t-1}$	0.065	-0.004	-0.001	-0.005	-0.174***	-0.164***	-0.150***	-0.142***	-0.095***	-0.129***	-0.129***	-0.143***
	(0.043)	(0.016)	(0.015)	(0.012)	(0.048)	(0.024)	(0.021)	(0.019)	(0.031)	(0.022)	(0.020)	(0.018)
CAPEX$_{t-1}$	-0.012	0.008	0.051*	0.026	0.058	0.023	0.019	0.024	0.084***	0.101***	0.100***	0.104***
	(0.048)	(0.027)	(0.026)	(0.024)	(0.037)	(0.023)	(0.020)	(0.018)	(0.029)	(0.020)	(0.018)	(0.017)
ST_DEBT$_{t-1}$	-0.004	0.001	0.005	0.009*	0.017	0.001	0.007	0.010*	0.014*	0.015***	0.012**	0.008
	(0.016)	(0.008)	(0.007)	(0.005)	(0.011)	(0.007)	(0.007)	(0.006)	(0.008)	(0.006)	(0.005)	(0.005)
FIRM_AGE$_{t-1}$	0.008	0.018	0.007	0.002	0.047	-0.048**	-0.030	-0.063***	-0.058	0.013	0.018	0.008
	(0.041)	(0.019)	(0.013)	(0.009)	(0.033)	(0.020)	(0.018)	(0.017)	(0.036)	(0.017)	(0.014)	(0.013)
PRIVATE_CREDIT/ GDP$_{t-1}$	-0.000	0.000	-0.000	-0.000	-0.000	0.000	0.001**	0.001***	0.000	0.001***	0.001***	0.001***
	(0.001)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
MARKET_CAP/ GDP$_{t-1}$	0.001	0.001*	0.000	0.000	0.000	0.000	0.000	0.000**	0.000	-0.000	-0.000	-0.000
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
GDP_GROWTH$_{t-1}$	0.002	-0.001	-0.002	-0.002	0.004*	0.001	0.002*	0.002	-0.000	0.002	0.001	-0.000

	(0.004)	(0.002)	(0.002)	(0.001)	(0.002)	(0.001)	(0.001)	(0.001)	(0.003)	(0.002)	(0.001)	(0.001)
Intercept	0.176	0.101	0.284**	0.214**	-0.950***	-0.581***	-0.745***	-0.520***	-0.508***	-0.522***	-0.494***	-0.471***
	(0.354)	(0.142)	(0.126)	(0.097)	(0.213)	(0.129)	(0.116)	(0.105)	(0.193)	(0.118)	(0.104)	(0.098)
Firm & Year FEs	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Adjusted R-squared	0.788	0.840	0.849	0.849	0.613	0.655	0.664	0.658	0.673	0.672	0.666	0.653
N	520	1320	1794	2327	2153	4952	6026	7205	2674	6058	7348	8890

Table IA-VIII
Omitting Zero-Leverage Firms

Compare to Table 4 in the paper. This table reports estimation results from regression (3) while eliminating zero-leverage firms. The sample covers the period of +/– 5 years around the acquisition event. AFTER is a dummy variable that takes a value of one after the deal is completed [0, +5] and zero otherwise. ***, **, and * denote statistical significance at the 1%, 5%, and 10% level correspondingly. Variable definitions are provided in Table A.

	Dependent Variable= $LEVERAGE_t$								
	Optimized Target Firms			Over-leveraged Target Firms			Under-leveraged Target Firms		
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
AFTER	0.005	0.008	0.008	-0.080***	-0.080***	-0.082***	0.052***	0.043***	0.044***
	(0.005)	(0.006)	(0.006)	(0.004)	(0.005)	(0.005)	(0.004)	(0.005)	(0.005)
ln(TOTAL_ASSETS) $_{t-1}$	0.006	-0.013	-0.012	0.038***	0.044***	0.046***	0.038***	0.025***	0.029***
	(0.006)	(0.009)	(0.009)	(0.004)	(0.006)	(0.006)	(0.004)	(0.006)	(0.006)
TANGIBILITY $_{t-1}$	0.156***	0.126***	0.124***	0.121***	0.127***	0.118***	0.111***	0.081***	0.065***
	(0.031)	(0.036)	(0.036)	(0.016)	(0.021)	(0.021)	(0.016)	(0.022)	(0.022)
GROWTH $_{t-1}$	-0.002	-0.006	-0.005	-0.002	-0.004	-0.001	0.000	-0.001	0.002
	(0.004)	(0.005)	(0.005)	(0.002)	(0.003)	(0.003)	(0.003)	(0.002)	(0.002)
ROA $_{t-1}$	-0.047***		-0.026	-0.120***		-0.115***	-0.140***		-0.141***
	(0.017)		(0.020)	(0.015)		(0.019)	(0.015)		(0.020)
CAPEX $_{t-1}$		0.043	0.043		0.012	0.012		0.121***	0.122***
		(0.029)	(0.029)		(0.018)	(0.018)		(0.016)	(0.016)
ST_DEBT $_{t-1}$		-0.027***	-0.027***		-0.052***	-0.051***		-0.059***	-0.058***
		(0.007)	(0.007)		(0.007)	(0.007)		(0.006)	(0.006)
FIRM_AGE $_{t-1}$		-0.014	-0.014		-0.067***	-0.064***		0.017	0.018
		(0.013)	(0.013)		(0.014)	(0.014)		(0.013)	(0.013)
PRIVATE_CREDIT/GDP $_{t-1}$	-0.000	0.000	-0.000	0.001***	0.001***	0.001***	0.001***	0.001***	0.001***
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
MARKET_CAP/GDP $_{t-1}$	0.000	0.000	0.000	0.000	0.000**	0.000**	0.000	-0.000	-0.000
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
GDP_GROWTH $_{t-1}$	-0.001	-0.003	-0.003	-0.001	0.001	0.001	-0.000	-0.001	-0.001
	(0.001)	(0.002)	(0.002)	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)	(0.001)
Intercept	0.032	0.399**	0.379**	-0.463***	-0.337***	-0.380***	-0.540***	-0.327***	-0.396***
	(0.116)	(0.157)	(0.153)	(0.075)	(0.109)	(0.109)	(0.077)	(0.104)	(0.103)
Firm & Year FEs	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Adjusted R-squared	0.828	0.839	0.839	0.645	0.668	0.671	0.621	0.637	0.642
N	3269	2360	2360	13783	8446	8446	15197	9797	9797

Table IA.IX
Small vs. large acquisitions

This table reports the results of re-estimating (3) separately for small and large target, determined as target size in the bottom or top quartile. The sample covers the period of +/– 5 years around the acquisition event. AFTER is a dummy variable that takes a value of one after the deal is completed [0, +5] and zero otherwise. All firm-level include the four Rajan-Zingales (1995) factors: firm size, asset tangibility, growth, and profitability, as well as capital expenditures, the proportion of short-term debt in total debt, and firm age. Country-level *controls* are total private credit to GDP, stock market capitalization to GDP and nominal GDP growth. All specifications include a set of firm and year fixed effects. ***, **, and * denote statistical significance at the 1%, 5%, and 10% level correspondingly. Variable definitions are provided in Table A.

	Dependent Variable = Acquired firm's LEVERAGE$_t$					
	Optimized Target Firms		Overleveraged Target Firms		Underleveraged Target Firms	
	Small	Large	Small	Large	Small	Large
	(Bottom 1/4)	(Top 1/4)	(Bottom 1/4)	(Top 1/4)	(Bottom 1/4)	(Top 1/4)
	(1)	(2)	(3)	(4)	(5)	(6)
AFTER	0.010	0.003	-0.111***	-0.090***	0.047***	0.027***
	(0.006)	(0.010)	(0.013)	(0.012)	(0.009)	(0.010)
All firm-level controls	Yes	Yes	Yes	Yes	Yes	Yes
Country-level controls	Yes	Yes	Yes	Yes	Yes	Yes
Firm & Year FEs	Yes	Yes	Yes	Yes	Yes	Yes
Adjusted R-squared	0.791	0.896	0.620	0.709	0.613	0.738
N	955	724	1687	2418	2557	2746
Difference in coefficients (Small vs Large)	0.007		-0.021		0.020	

Table IA.X
No change in total assets

This table reports estimation results for regression (3) when the sample is restricted to firms that changed their total assets by no more than 10% in the two years following the acquisition. AFTER is a dummy variable that takes a value of one after the deal is completed [0, +5] and zero otherwise. Basic firm-level controls include the four Rajan-Zingales (1995) factors: firm size, asset tangibility, growth, and profitability. Specifications with all firm-level controls also account for capital expenditures, the proportion of short-term debt in total debt, and firm age. Country-level controls are total private credit to GDP, stock market capitalization to GDP and nominal GDP growth. All specifications include a set of firm and year fixed effects. ***, **, and * denote statistical significance at the 1%, 5%, and 10% level correspondingly. Variable definitions are provided in Table A.

	Dependent Variable = Acquired firm's $LEVERAGE_t$					
	Optimized		Over-leveraged		Under-leveraged	
	(1)	(2)	(3)	(4)	(5)	(6)
AFTER	-0.009	-0.011	-0.083***	-0.074***	0.031***	0.025***
	(0.007)	(0.009)	(0.008)	(0.010)	(0.008)	(0.009)
Basic firm-level controls	Yes		Yes		Yes	
All firm-level controls		Yes		Yes		Yes
Country-level controls	Yes	Yes	Yes	Yes	Yes	Yes
Firm & Year FEs	Yes	Yes	Yes	Yes	Yes	Yes
Adjusted R^2	0.876	0.878	0.660	0.670	0.652	0.674
N	1,027	730	3,080	2,024	3,411	2,270