

Online Appendix:
Undisclosed Material Inflation Risk
(Journal of Monetary Economics, Forthcoming)

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This Online Appendix provides supplementary material to the manuscript titled "Undisclosed Material Inflation Risk," coauthored by Yaniv Konchitchki (University of California, Berkeley) and Jin Xie (Peking University), forthcoming in the Journal of Monetary Economics.

Figure A.1: Inflation Rates over Time: Actuals, Forecasts, and Forecast Errors

In this figure, we plot the time series of actual CPI, forecasted CPI, and forecast errors. The sample period is 1996Q1–2020Q3. The y-axes are values for actual CPI, forecasted CPI, or forecast errors. The x-axes are calendar years.

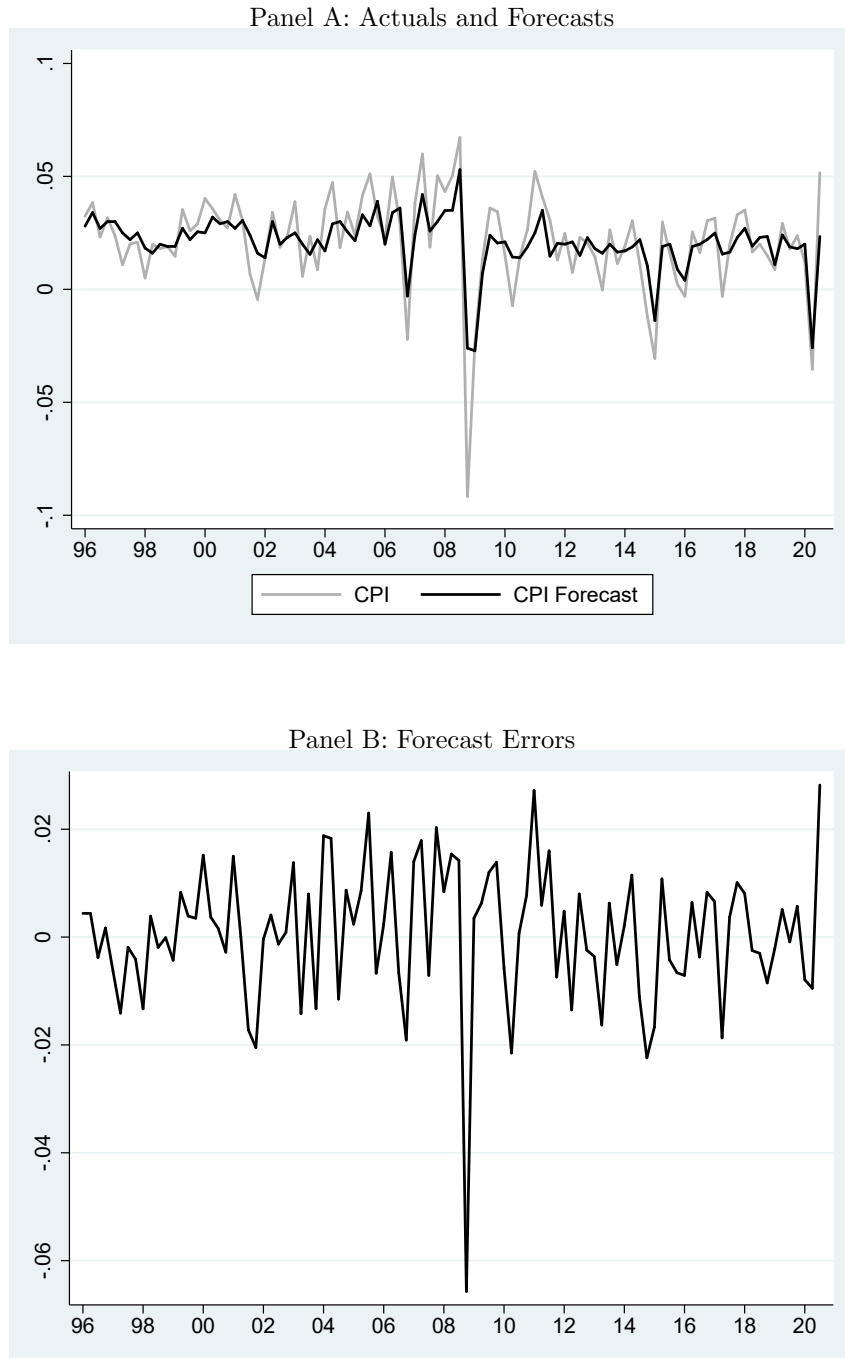


Figure A.2: Excerpt from Item 1A: Risk Factors in Starbucks Annual Report

Item 1A. Risk Factors

You should carefully consider the risks described below in addition to the other information set forth in this Annual Report on Form 10-K, including the Management's Discussion and Analysis of Financial Conditions and Results of Operations section and the consolidated financial statements and related notes. If any of the risks and uncertainties described in the cautionary factors described below actually occur or continue to occur, our business, financial condition and results of operations, and the trading price of our common stock could be materially and adversely affected. Moreover, the risks below are not the only risks we face and additional risks not currently known to us or that we presently deem immaterial may emerge or become material at any time and may negatively impact our business, reputation, financial condition, results of operations or the trading price of our common stock.

• ***Economic conditions in the U.S. and international markets could adversely affect our business and financial results.***

As a retailer that is dependent upon consumer discretionary spending, our results of operations are sensitive to changes in or uncertainty about macro-economic conditions. Our customers may have or in the future have less money for discretionary purchases and may stop or reduce their purchases of our products or switch to Starbucks or competitors' lower-priced products as a result of various factors, including job losses, inflation, higher taxes, reduced access to credit, changes in federal economic policy and recent international trade disputes. Decreases in customer traffic and/or average value per transaction without a corresponding decrease in costs would put downward pressure on margins and would negatively impact our financial results. There is also a risk that if negative economic conditions or uncertainty persist for a long period of time or worsen, consumers may make long-lasting changes to their discretionary purchasing behavior, including less frequent discretionary purchases on a more permanent basis or there may be a general downturn in the restaurant industry.

• ***Our success depends substantially on the value of our brands and failure to preserve their value could have a negative impact on our financial results.***

We believe we have built an excellent reputation globally for the quality of our products, for delivery of a consistently positive consumer experience and for our global social impact programs. The Starbucks brand is recognized throughout the world, and we have received high ratings in global brand value studies. To be successful in the future, particularly outside of the U.S. where the Starbucks brand and our other brands are less well-known, we believe we must preserve, grow and leverage the value of our brands across all sales channels. Brand value is based in part on consumer perceptions on a variety of subjective qualities.

Business incidents, whether isolated or recurring and whether originating from us or our business partners, that erode consumer trust can significantly reduce brand value, potentially trigger boycotts of our stores or result in civil or criminal liability and can have a negative impact on our financial results. Such incidents include actual or perceived breaches of privacy or violations of domestic or international privacy laws, contaminated food, product recalls, store employees or other food handlers infected with communicable diseases or other potential incidents discussed in this risk factors section. The impact of such incidents may be exacerbated if they receive considerable publicity, including rapidly through social or digital media (including for malicious reasons) or result in litigation. Consumer demand for our products and our brand equity could diminish significantly if we, our employees, licensees or other business partners fail to preserve the quality of our products, act or are perceived to act in an unethical, illegal, racially-biased, unequal or socially irresponsible manner, including with respect to the sourcing, content or sale of our products, service and treatment of customers at Starbucks stores, or the use of customer data for general or direct marketing or other purposes. Additionally, if we fail to comply with laws and regulations, publicly take controversial positions or actions or fail to deliver a consistently positive consumer experience in each of our markets, including by failing to invest in the right balance of wages and benefits to attract and retain employees that represent the brand well, our brand value may be diminished.

Figure A.3: Examples of Disclosures of Monetary Policy Risk

The examples below illustrate disclosures of monetary policy risk that we extract from Item 1A of 10-K reports.

1. Changes in these regulatory, political, economic, or *monetary policies* and other factors could require the Company to significantly modify its current business practices and may adversely affect its future financial results.

— Intel’s 10-K for the year ended February 14, 2014

2. *LIBOR* tends to fluctuate based on general interest rates, rates set by the *US Federal Reserve* and other *central banks*, the supply of and demand for credit in the London interbank market and general economic conditions.

—FirstEnergy Corp’s 10-K for the year ended December 31, 2020

3. Subsequently, on November 30, 2020, the *Federal Reserve* and the Financial Conduct Authority in the United Kingdom announced that *LIBOR* would be phased out completely by June 20, 2023 and replaced by the *Secured Overnight Financing Rate (“SOFR”)*.

—American Electric Power’s 10-K for the year ended December 31, 2020

4. Changes in these regulatory, political, economic, or *monetary policies* and other factors could require the Company to significantly modify its current business practices and may adversely affect its future financial results.

— Tiffany & Co.’s 10-K for the year ended January 31, 2020

5. Our international customers could have reduced access to working capital due to higher interest rates, reduced bank lending resulting from contractions in the *money supply* or the deterioration in the customer or its bank financial condition or the inability to access other financing.

— Seagate Technology’s 10-K for the year ended June 28, 2019

6. For example, SOFR is a secured overnight rate, while *LIBOR* is an unsecured rate that represents *interbank funding* over different maturities.

— Nisource Inc.’s 10-K for the year ended December 31, 2019

7. Currently, the market has improved; however, there has been volatility on commercial paper spreads, as the supply of short term commercial paper has increased following recent actions by the *Federal Open Market Committee*.

— Progress Energy’s 10-K for the year ended December 31, 2007

Figure A.4: Examples of Disclosures of Oil and Gas Risk

The examples below illustrate disclosures of oil or natural gas risk that we extract from Item 1A of 10-K reports.

1. Increases in the *price of oil* also can result in significant increases in the price of many of the components in our products, which may have a negative impact on margins or sales volumes.

— Spartan Motors Inc.'s 10-K for the year ended December 31, 2006

2. As a result, the market for our vehicles could be affected by numerous factors, such as: ... plug in hybrid electric vehicles and high fuel economy internal combustion engine vehicles volatility in the *cost of oil and gasoline* government regulations and economic incentives access to charging facilities and concerns about our future viability.

— Tesla Inc.'s 10-K for the year ended December 31, 2019

3. The cost of oil is a significant component in manufacturing and transportation costs, so increases in the price of petroleum products can adversely affect our profit margins.

— Nike's 10-K for the year ended May 31, 2019

4. Although Alcoa generally expects to meet the energy requirements for its alumina refineries and primary aluminum smelters from internal sources or from long term contracts, certain conditions could negatively affect Alcoa results of operations, including the following: significant increases in electricity costs rendering smelter operations uneconomic; significant increases in *fuel oil or natural gas prices*...

— Alcoa Inc.'s 10-K for the year ended December 31, 2013

5. These factors, combined with declining business and consumer confidence, increased unemployment and *volatile oil prices* have precipitated a global recession, which may cause further declines in credit and charge card usage and has already resulted in adverse changes in payment patterns, causing increases in delinquencies and default rates.

— American Express Co.'s 10-K for the year ended December 31, 2008

6. Concerns about the systemic impact of inflation, the availability and cost of credit, energy costs and geopolitical issues, combined with continued changes in business activity levels and consumer confidence, increased unemployment and *volatile oil prices*, have in the past and may in the future contribute to volatility in the capital and credit markets.

— American Airlines Group Inc.'s 10-K for the year ended December 31, 2015

Figure A.5: Risk Topics

In each word cloud of the material risks that firms disclose in the Item 1A of the 10-K annual report, a bigger font corresponds to a bigger weight for that word within each topic.



strategy safety franchisees development federal claim supply local employee information restaurant beverage lease location brand system publicity franchise quality control management labor open ingredient consumer health affected food law guest market food preference requirement

order spending reputation retail system economic brand credit level purchase increased strategy profitability quality case level information management location commercial retail store product distribution affected information consumer customer merchandise inventory retailer vendor

debt industrial contamination intellectual credit trade waste steel manufacturing acquisition employee law liability availability compliance regulation agreement property regulation agreement matter fluctuation restriction property safety reduce market chemical labor site disposal operation health profitability demand competitor supplier affected process indebtedness cash flow increased local construction claim environmental requirement expenditure hazardous foreign

provider user digital party mobile website platform game consumer service data advertising internet law medium

increased violation compliance cash applicable medical federal insurance liability claim payors information healthcare program service medical health physician regulation requirement law patient reimbursement quality regulatory

payment customer flow facility litigation settlement Code ordinary regulation proceeding assumption requirement subsidiary consolidated separation transaction debt relating bankruptcy labor union case connection material see event benefit asset taxable various court employee indebtedness claim action

balance director committee form agreement executive management officer cash expense asset accounting

safety equipment transportation vehicle fleet agreement regulation dealer service carrier automotive lease customer insurance rate manufacturer

personal action foreign data rate jurisdiction global economic activity policy regulatory cyber exchange international act covid government breach customer reputation system

issuer real repurchase valuation interest mortgage credit lender default servicing return trust rate term adviser federal estate tax asset borrower collateral

operate asset regulatory partner agreement management fee information service employee activity system acquisition investor security failure account otherwise affected dependents credit fund payment transaction

content lower technical standard research affected component production patent manufacturer delay personnel design obtain equipment requirement expect part difficult manufacturing litigation distributor country margin key claim fluctuation reduce economic development device foreign process demand competitor sell inventor quality property order reduced long party party decline limited relationship reduced purchase inventory right manufacturing intellectual market control facility

customer service provider satellite network technology subscriber agreement wireless communication video access programming cable regulation fcc broadband control failure radio area license station data broadcast compete telephone competitor agreement interest

patent approval candidate regulatory trial product clinical agreement development fdact research delay activity manufacturer review application similar commercialize regulatory reimbursement treatment expect general law collaborator limited manufacturing necessary sufficient law licent pharmaceutical regulation patent party development program study safety data

material distribution sell impairment brand facility market right product intellectual liability claim interest rate recall claim acquisition trade acquired affected indebtedness distributor customer party goodwill credit property

warrant investor director officer trading penny management reporting development financing bull reporting development financing

contract future fund insurance trading asset position limited volatility account requirement bermuda regulation action holding system otherwise level party claim pay per share gain therapy master federal subsidiary life foreign return interest exchange regulatory managing trust trade advisor tax expense limit cftc policy rate swap broker series event respect liability investor reinsurance index

government authority chinese dividend exchange control economic tax currency law regulation enterprise resident regulatory right offshore legal material purpose

aircraft agreement hotel gaming regulation affected miiddot licenses travel party system operate local jurisdiction coverage lease vacation debt obligation control ownership indebtedness nevada lodging property service resort event economic management entertainment atlantic weather market material comply construction cruise farroist regulatory ii

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Figure A.6: Material Inflation Risk and Monetary Policy Risk Disclosure: Exposed vs. Unexposed Firms around Regulation S-K

This figure shows the probabilities of firms initiating monetary-policy risk disclosures following Regulation S-K between firms exposed and firms unexposed to inflation risk (see [Subsection 6.1](#)). The y-axes are estimated probabilities of firms disclosing monetary policy risk. The x-axes are event years. For firms with a fiscal year-end from December 2005 to May 2006, fiscal year 2005 is set as year 0; for firms with a fiscal year-end from June 2005 to November 2005, fiscal year 2006 is set as year 0. We identify firms that are exposed to material inflation risk over the 1996 – 2005 sample period. In Panel A, we plot the likelihood of firms disclosing monetary policy risk over event years. In Panel B, we plot estimated $\hat{\beta}$ and confidence intervals at the 95% level from equation (6) (see [Subsection 6.1](#)). Standard errors are clustered at the level of Fama-French 48-industry classification.

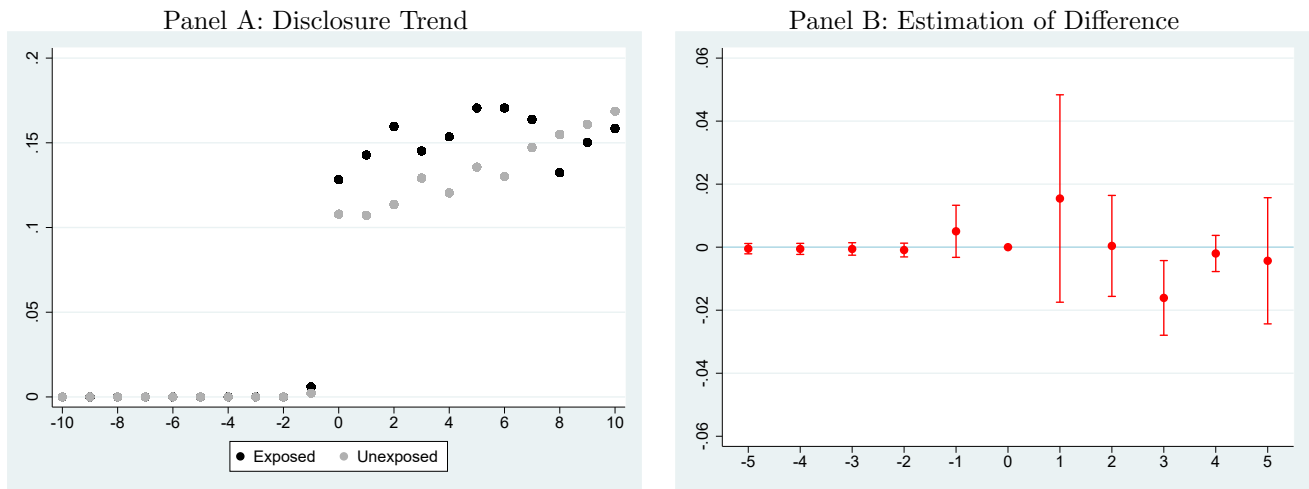


Figure A.7: Material Inflation Risk and Oil & Gas Risk Disclosure: Exposed vs. Unexposed Firms around Regulation S-K

This figure shows the probabilities of firms initiating oil and gas risk disclosures following Regulation S-K between firms exposed and firms unexposed to material inflation risk (see Subsection 6.1). The y-axes are estimated probabilities of firms initiating oil and gas risk disclosures. The x-axes are event years. For firms with a fiscal year-end from December 2005 to May 2006, fiscal year 2005 is set as year 0; for firms with a fiscal year-end from June 2005 to November 2005, fiscal year 2006 is set as year 0. We identify firms that are exposed to inflation risk over the 1996 – 2005 sample period. In Panel A, we plot the likelihood of firms disclosing either oil or natural gas risk over event years. In Panel B, we plot estimated $\hat{\beta}$ and confidence intervals at the 95% level from equation (6) (see Subsection 6.1). Standard errors are clustered at the level of Fama-French 48-industry classification.

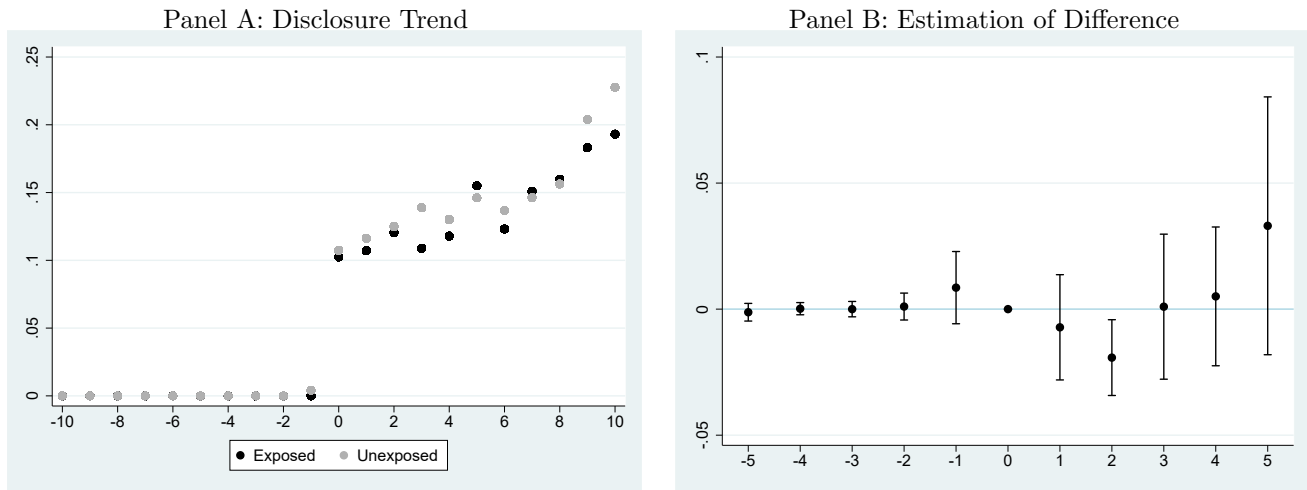


Figure A.8: Material Inflation Risk and Financial Derivative Disclosure: Exposed vs. Unexposed Firms after Regulation S-K

This figure shows the probabilities of firms disclosing unrealized derivative gain or loss following Regulation S-K between firms exposed and firms unexposed to material inflation risk (see Subsection 6.1). The y-axes are estimated probabilities of firms reporting non-zero unrealized derivative gain or loss. The x-axes are event years. For firms with a fiscal year-end from December 2005 to May 2006, fiscal year 2005 is set as year 0; for firms with a fiscal year-end from June 2005 to November 2005, fiscal year 2006 is set as year 0. We identify firms that are exposed to material inflation risk over the 1996 – 2005 sample period. In Panel A, we plot the likelihood of firms reporting non-zero unrealized derivative gain or loss over event years. In Panel B, we plot estimated $\hat{\beta}$ and confidence intervals at the 95% level from equation (6) (see Subsection 6.1). Standard errors are clustered at the level of Fama-French 48-industry classification.

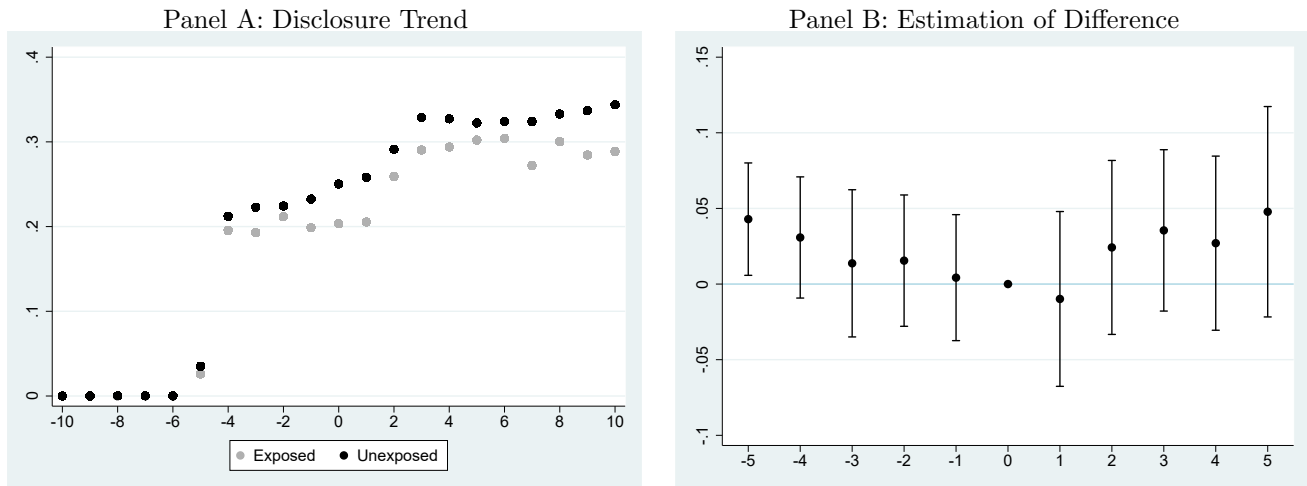


Figure A.9: Examples of Sentences Extracted from Conference Call Transcripts

We provide 10 examples to illustrate sentences that we extracted from earnings conference calls. These sentences are proxies for managers' quantitative forecast about future input costs.

1. "Second quarter was 67 cents and, you know, if prices stay where they are, if – if crude oil stays in the \$30/31 a barrel range, I think we will be seeing jet fuel costs all end somewhere around 70, 71 cents." — Southwest Airlines, July 21, 2003
2. "We anticipate that the overall streamlining cost that would be incurred in this year we have previously talked about, about \$400 million, and we now think that it will be about \$500 million for the year." — Coca-Cola , October 16, 2003
3. "Increased costs caused by the stronger Canadian dollar have increase cartridge costs by 17 cents or about 7% per cartridge this year, and represent a cost element that we anticipate will continue." —Abbott Laboratories, October 23, 2003
4. "We will continue to control our capital expenditures and expect our spending for the year to be around \$125 million to \$135 million; with substantially higher cash flow from operations combined with aggressively managing cast investments we expect to make good progress on debt reduction in 2004." —Cummins, January 27, 2004
5. "As a result, despite the fact that cost of goods was 17% for the quarter, we continue to expect cost of goods as a percent of sales to be approximately 15% for the full year." — Pfizer, July 18, 2007
6. "In the second quarter we plan to increase our expense levels to drive select new product introductions, which we anticipate will total \$3 million to \$4 million in the quarter." — Honeywell, April 29, 2010
7. "And our outlook is that during the third quarter raw material prices will have stabilized and will be somewhere plus or minus a couple points from 200." — Cooper Tire & Rubber, August 5, 2010
8. "We expect on unit cost, our unit cost to be below 2%." — Delta Air Lines, December 17, 2015
9. "We now expect total costs of 1.75% to 3%, while continuing to expect script comps of 3.5% to 4.5%." — CVS Health, May 3, 2016
10. "Based on this work we believe that the cost for a full battery cell will go below \$100 by 2025 as we reach the optimal scale." — Ford Motor Company, September 14, 2016

Table A.1: Firms Exposed to Material Inflation Risk across Industries

This table reports the distribution of sample firms that are exposed to material inflation risk across the Fama-French 48 industries. Our sample consists of all U.S.-headquartered firms that filed financial reports from January 1, 2005 through April 14, 2021, excluding firms with either a market value of equity lower than \$10 million or a fiscal-year-end stock price lower than \$1 at least once during the sample period. Firms exposed to material inflation risk in columns (1)-(3) are identified by the rule in equation (2). Firms exposed to material inflation risk in columns (4)-(6) are identified by the rule in equation (4). Section 4 provides detailed procedures for how we identify firms' exposure to material inflation risk.

	Static Window			Rolling Window		
	Total#	Exposed#	%	Total#	Exposed#	%
	(1)	(2)	(3)	(4)	(5)	(6)
Agriculture	12	4	33.3%	98	29	29.6%
Food Products	67	7	10.4%	386	55	14.2%
Candy & Soda	12	1	8.3%	57	5	8.8%
Beer & Liquor	16	1	6.3%	151	26	17.2%
Tobacco Products	4	0	0.0%	39	5	12.8%
Recreation	26	5	19.2%	211	41	19.4%
Entertainment	56	7	12.5%	476	79	16.6%
Printing and Publishing	27	6	22.2%	196	42	21.4%
Consumer Goods	50	5	10.0%	461	67	14.5%
Apparel	51	3	5.9%	283	25	8.8%
Healthcare	85	32	37.6%	664	149	22.4%
Medical Equipment	164	36	22.0%	1,147	225	19.6%
Pharmaceutical Products	487	89	18.3%	2,891	398	13.8%
Chemicals	88	10	11.4%	775	67	8.6%
Rubber and Plastic Products	21	2	9.5%	223	25	11.2%
Textiles	8	1	12.5%	49	11	22.4%
Construction Materials	73	9	12.3%	634	59	9.3%
Construction	55	7	12.7%	526	29	5.5%
Steel Works Etc	40	2	5.0%	358	13	3.6%
Fabricated Products	8	1	12.5%	73	2	2.7%
Machinery	126	12	9.5%	1,149	88	7.7%
Electrical Equipment	68	8	11.8%	541	58	10.7%
Automobiles and Trucks	60	11	18.3%	551	65	11.8%
Aircraft	25	1	4.0%	236	9	3.8%
Shipbuilding, Railroad Equipment	11	3	27.3%	92	10	10.9%
Defense	9	1	11.1%	106	6	5.7%
Precious Metals	17	3	17.6%	110	10	9.1%
Non-Metallic and Industrial Metal Mining	29	2	6.9%	203	26	12.8%
Coal	18	2	11.1%	104	11	10.6%
Petroleum and Natural Gas	237	24	10.1%	1,571	144	9.2%
Utilities	136	40	29.4%	1,304	184	14.1%
Communication	137	40	29.2%	999	240	24.0%
Personal Services	49	5	10.2%	378	70	18.5%
Business Services	559	103	18.4%	4,027	548	13.6%
Computers	125	22	17.6%	930	164	17.6%
Electronic Equipment	268	49	18.3%	1,733	260	15.0%
Measuring and Control Equipment	81	16	19.8%	765	139	18.2%
Business Supplies	37	5	13.5%	298	52	17.4%
Shipping Containers	12	0	0.0%	145	5	3.4%
Transportation	115	22	19.1%	991	157	15.8%
Wholesale	133	30	22.6%	1082	144	13.3%
Retail	206	23	11.2%	882	143	16.2%
Restaurants, Hotels, Motels	85	9	10.6%	287	18	6.3%
Banking	1,235	250	20.2%	10,952	1,871	17.1%
Insurance	301	62	20.6%	2,972	314	10.6%
Real Estate	56	14	25.0%	400	102	25.5%
Trading	651	93	14.3%	5,725	465	8.1%
Almost Nothing	153	36	23.5%	1,111	162	14.6%
Total	6,289	1,114	17.7%	49,342	6,817	13.8%

Table A.2: **Firms Exposed to Material Inflation Risk across Industries**

This table reports the distribution of the top 30 largest firms (ranked by market capitalization as of 2019) that are exposed to material inflation risk conditioning on whether these firms disclosed material inflation risk at least once in Item 1A of the 10-K report over the 2005 – 2020 sample period. Firms exposed to material inflation risk are identified by the rule in equation (2).

Exposed disclosing	Exposed not disclosing
Comcast	AT&T
Amgen	Verizon Communications
Thermo Fisher Scientific	AbbVie
Accenture	CVS Health
IBM	FIS Global
Enbridge	Stryker
United Parcel Service	Automatic Data Processing
Gilead Sciences	Enterprise Products
Fiserv	NXP Semiconductors
T-Mobile US	Johnson Controls
Duke Energy	SiriusXM
Global Payments	ONEOK
HCA Healthcare	Zimmer Biomet
Baxter International	WEC Energy Group
IQVIA	Eversource Energy
McKesson	PPL
Synopsys	MPLX
Equifax	Paychex
CooperCompanies	Agilent Technologies
Atmos Energy	CoStar Group
Fidelity National Financial	Omnicom Group
Bio-Rad Laboratories	Discovery
VEREIT	Labcorp
BorgWarner	Magellan Midstream Partners
Euronet Worldwide	Quest Diagnostics
Jazz Pharmaceuticals	Gartner
Catalent	Plains All American Pipeline
Teledyne FLIR	Equity Lifestyle Properties
Arrow Electronics	Universal Health Services
Encompass Health	Teradyne

Table A.3: Inflation Risk Exposure and Inflation-Risk-Related Disclosure: Lead-Lag Analysis

This table reports the results for the following linear equation:

$$Disclosure_{i,t+n} = \alpha + \beta_1 \times InflationExposure_{i,t} + X'_{i,t} \times \theta + \gamma_j + \gamma_t + \epsilon_{i,t},$$

where *Disclosure* refers to *FirstInflation* in column (1), *FirstMonetary* in column (2), *FirstOilGas* in column (3), and *Derivative* in columns (4). *FirstInflation*_{*i,t+n*} is a dummy variable equal to 1 if firm *i* mentions inflation for the first time in Item 1A of the 10-K report of fiscal year *t+n* ($1 \leq n \leq 3$), and 0 otherwise. *FirstMonetary*_{*i,t+n*} is a dummy variable equal to 1 if firm *i* mentions monetary policy for the first time in Item 1A of the 10-K report of fiscal year *t+n* ($1 \leq n \leq 3$), and 0 otherwise. *FirstOilGas*_{*i,t+n*} is a dummy variable equal to 1 if firm *i* mentions oil and natural gas for the first time in Item 1A of the 10-K report of fiscal year *t+n* ($1 \leq n \leq 3$), and 0 otherwise. *Derivative*_{*i,t+n*} is a dummy variable equal to 1 if firm *i* reports non-zero unrealized derivative gain or loss in fiscal year *t+n* ($1 \leq n \leq 3$), and 0 otherwise. *InflationExposure* is a dummy variable equal to 1 if a firm is exposed to material inflation risk as identified by equation (4), and 0 otherwise. Table 1 provides definitions for other variables. Statistics are bootstrapped by resampling observations (with replacement) from the data in memory 200 times. Standard errors are clustered at the level of Fama-French 48 industries.

	Inflation (1)	Monetary (2)	Oil Gas (3)	Hedge (4)
Panel A: Outcome variables in fiscal year <i>t+1</i>				
InflationExposure	0.002 (0.98)	0.001 (0.35)	-0.003 (-0.99)	0.011 (0.90)
<i>N</i>	27,082	27,082	27,082	27,082
<i>R</i> ²	0.01	0.01	0.01	0.24
Panel B: Outcome variables in fiscal year <i>t+2</i>				
InflationExposure	-0.000 (-0.05)	-0.001 (-0.42)	-0.001 (-0.60)	0.013 (1.09)
<i>N</i>	24,180	24,180	24,180	24,180
<i>R</i> ²	0.01	0.01	0.01	0.24
Panel C: Outcome variables in fiscal year <i>t+3</i>				
InflationExposure	0.003 (1.51)	-0.000 (-0.18)	-0.002 (-0.81)	0.016* (1.68)
<i>N</i>	21,323	21,323	21,323	21,323
<i>R</i> ²	0.01	0.01	0.01	0.24
Controls	X	X	X	X
Industry FE	X	X	X	X
Year FE	X	X	X	X

t-statistics in parentheses

p* < 0.10, *p* < 0.05, ****p* < 0.01

Table A.4: Estimation of Inflation Exposure: Summary of Regressions, 1996–2005

This table reports the descriptive statistics for our estimation of firms' exposure to material inflation risk. Our sample consists of all U.S.-headquartered firms that filed financial reports from January 1, 2005 through April 14, 2021, excluding firms with either a market value of equity lower than \$10 million or a fiscal-year-end stock price lower than \$1 at least once during the sample period. *MarketCap* is the end-of-fiscal-year market capitalization (in million USD). We specify the following firm-by-firm regression model over the 1996–2005 sample period to estimate firm i 's exposure to material inflation risk:

$$CAR_{i,t} = \alpha + \beta \times Forecast_Error_t + \epsilon_{i,t},$$

where $CAR_{i,t}$ is the cumulative daily market-adjusted returns (CAR) in the event window of $[-1, +1]$ days relative to the date CPI of the last month of quarter t is released. *Forecast_Error_t* is the difference between CPI and the median value of CPI projected by professional forecasters. *Coefficient* and *t-statistic* refer to estimated $4 \times \beta$ and t -statistics. *InflationExposure* is a dummy variable equal to 1 if *t-statistic* is below -1.96 , and 0 otherwise. Standard errors are adjusted by the Newey-West method.

	Mean	Std	p5	p10	p25	p50	p75	p90	p95	N
InflationExposure	0.086	0.280	0.000	0.000	0.000	0.000	0.000	0.000	1.000	3,793
Coefficient	-0.613	3.567	-6.774	-5.103	-2.337	-0.407	1.460	3.309	4.666	3,793
<i>t</i> -statistic	-0.159	1.368	-2.296	-1.878	-1.057	-0.183	0.686	1.513	2.132	3,793

Table A.5: Inflation Risk Exposure and Consequential Risk Disclosure: The Case of Securities Class Action Lawsuits

This table reports the results for estimating the following linear equation:

$$ConDisclosure_{i,t} = \alpha + \beta_1 \times InflationExposure_{i,t} + \beta_2 \times InflationExposure_{i,t} \times Lawsuit_{i,t} + \beta_3 \times Lawsuit_{i,t} + X'_{i,t} \times \theta + \gamma_j + \gamma_t + \epsilon_{i,t},$$

where *ConDisclosure* refers to *FirstDemand* in column (1), *FirstInput* in column (2), *FirstWage* in column (3), and *FirstFinance* in column (4). *FirstDemand*_{*i,t*} is a dummy variable equal to 1 if firm *i* mentions consumer demand risk for the first time in Item 1A of the 10-K report of fiscal year *t*, and 0 otherwise. *FirstInput*_{*i,t*} is a dummy variable equal to 1 if firm *i* mentions input cost risk for the first time in Item 1A of the 10-K report of fiscal year *t*, and 0 otherwise. *FirstWage*_{*i,t*} is a dummy variable equal to 1 if firm *i* mentions wage risk for the first time in Item 1A of the 10-K report of fiscal year *t*, and 0 otherwise. *FirstFinance*_{*i,t*} is a dummy variable equal to 1 if firm *i* mentions financing risk for the first time in Item 1A of the 10-K report of fiscal year *t*, and 0 otherwise. *InflationExposure* is a dummy variable equal to 1 if a firm is exposed to material inflation risk as identified by equation (4), and 0 otherwise. *Lawsuit*_{*i,t*} is a dummy variable equal to 1 if firm *i* is sued in a securities class action lawsuit either in the current or previous fiscal year, and 0 otherwise. Table 1 provides definitions for other variables. Statistics are bootstrapped by resampling observations (with replacement) from the data in memory 200 times. Standard errors are clustered at the level of Fama-French 48 industries.

	<i>FirstDemand</i> (1)	<i>FirstInput</i> (2)	<i>FirstWage</i> (3)	<i>FirstFinance</i> (4)
InflationExposure×Lawsuit	-0.007 (-0.80)	-0.001 (-0.17)	0.004 (0.32)	0.004 (0.35)
Lawsuit	0.003 (0.65)	0.004 (1.04)	0.003 (0.65)	0.003 (0.52)
InflationExposure	-0.003 (-1.03)	-0.001 (-0.50)	-0.003 (-1.17)	0.001 (0.36)
Controls	X	X	X	X
Industry × Year FE	X	X	X	X
<i>N</i>	29,130	29,130	29,130	29,130
R ²	0.20	0.17	0.14	0.14

t-statistics in parentheses

p* < 0.10, *p* < 0.05, ****p* < 0.01

Table A.6: Descriptive Statistics: Conference-Call Sample

This table reports descriptive statistics at the level of conference call transcripts. Sample firms are restricted to Compustat firms headquartered in the U.S. The total number of words of each conference call transcript is restricted between 500 and 4,500. *InflationExposure* is a dummy variable equal to 1 if a firm is exposed to material inflation risk as identified by equation (4), and 0 otherwise. *CostDiscussion* is a dummy variable equal to 1 if managers quantitatively forecast own company's future input/operating costs during the presentation session of a conference call, and 0 otherwise. *PresentationLength* is the number of words for the presentation section of a conference call. *Lawsuit* is a dummy variable equal to 1 if the firm is sued in a securities class action lawsuit either in the current year or previous year, and 0 otherwise. *LongTermDebt* is long-term debt over assets. *ShortTermMoney* is the short-term monetary position measured as the sum of cash and receivables minus current liabilities, scaled by assets. *Inventory* is total inventory over assets. *PPE* is the gross value of property, plant, and equipment over assets. *ProductSimilarity* is the 10-K-based similarity scores (divided by 1,000) used by [Hoberg et al. \(2014\)](#). *HHI* is the Herfindahl-Hirschman Index at the level of 4-digit SIC industry. *Profitability* is operating income before depreciation over averaged assets. *Ln(MarketCap)* is the logarithm of the end-of-fiscal-year market capitalization (in millions USD). *Book-to-Market* is total equity over market capitalization. *BlockHolder* is a dummy variable equal to 1 if a firm is held by at least one F13 institutional shareholder with more than 5% ownership, and 0 otherwise. *S&P 500* is a dummy variable equal to 1 if a firm is in the S&P 500 Index, and 0 otherwise. *R&D* is the research and development expenditure over assets. *Missing R&D* is a dummy variable equal to 1 if a firm report missing values for the the research and development expenditure, and 0 otherwise.

	Mean	Std	p5	p10	p25	p50	p75	p90	p95	N
InflationExposure	0.126	0.331	0.000	0.000	0.000	0.000	0.000	1.000	1.000	108,239
CostDiscussion	0.168	0.619	0.000	0.000	0.000	0.000	0.000	1.000	1.000	108,239
Presentation	2,800	938	1,154	1,510	2,128	2,839	3,536	4,046	4,254	108,239
Lawsuit	0.102	0.302	0.000	0.000	0.000	0.000	0.000	1.000	1.000	108,239
LongTermDebt	0.416	0.215	0.109	0.155	0.265	0.399	0.530	0.674	0.785	89,227
ShortTermMoney	0.112	0.230	-0.186	-0.116	-0.034	0.059	0.226	0.448	0.587	88,385
Inventory	0.092	0.119	0.000	0.000	0.000	0.046	0.141	0.247	0.346	101,703
PPE	0.414	0.395	0.000	0.000	0.098	0.284	0.648	1.029	1.203	108,150
ProductSimilarity	6.794	11.458	1.039	1.098	1.339	2.361	5.319	19.583	36.147	104,571
HHI	0.059	0.035	0.024	0.028	0.037	0.051	0.068	0.096	0.137	108,239
Profitability	0.050	0.163	-0.263	-0.079	0.025	0.073	0.122	0.182	0.230	99,444
Ln(MarketCap)	7.405	1.909	4.209	4.952	6.141	7.414	8.658	9.853	10.604	101,024
Book-to-Market	0.510	0.369	0.050	0.122	0.250	0.433	0.693	1.016	1.280	100,998
BlockHolder	0.779	0.415	0.000	0.000	1.000	1.000	1.000	1.000	1.000	108,239
S&P 500	0.266	0.442	0.000	0.000	0.000	0.000	1.000	1.000	1.000	108,239
R&D	0.046	0.096	0.000	0.000	0.000	0.000	0.050	0.142	0.235	108,239
Missing R&D	0.440	0.496	0.000	0.000	0.000	0.000	1.000	1.000	1.000	108,239