

## **Supply Chain Risk: Changes in Supplier Composition and Vertical Integration**

Abstract:

Using textual analysis of earnings conference calls, we quantify firms' supply chain risk and its sources. Our proxy for supply chain risk exhibits large cross-sectional and time-series variation that aligns with reasonable priors and is unprecedentedly high during the Covid-19 pandemic. Controlling for the first moment of supply chain shocks, we find that firms that experience an increase in supply chain risk increase investment and establish relationships with closer and domestic suppliers and with suppliers that are industry leaders. In addition, firms that do not face financial constraints become more likely to engage in vertical mergers and acquisitions.