The Quarterly UK and Eurozone
Corporate Cash Report™

Treasury Strategies

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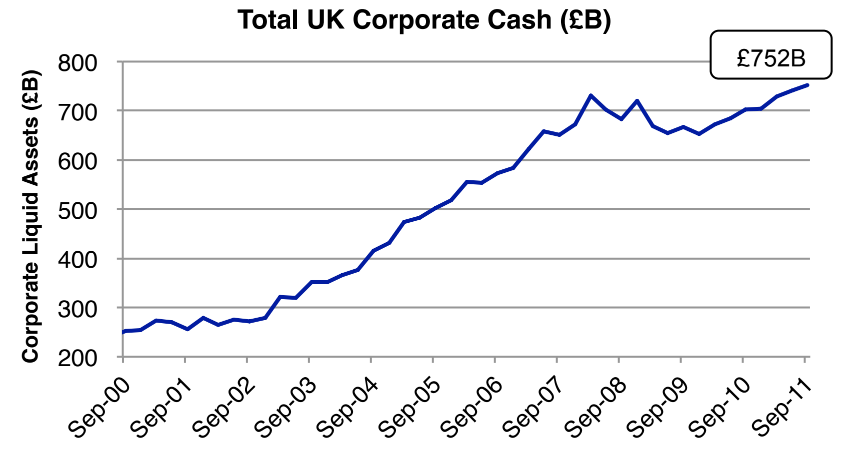
Corporate Cash Remains Near Record Highs

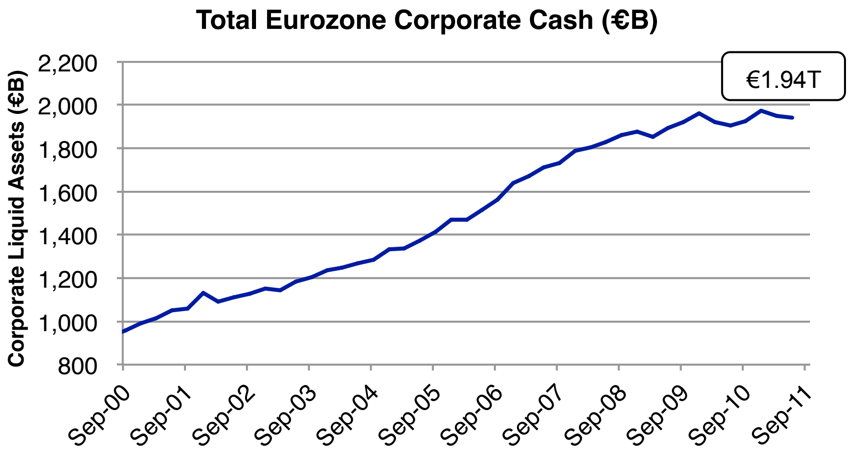
UK and Eurozone corporate cash and short-term investments remain near all-time highs as of the third quarter of 2011. The region has been experiencing a general trend of moderate-to-strong corporate cash growth for over a decade. An acceleration in cash growth occurred in 2002 that levelled off at the onset of the financial crisis in 2008. The current trend indicates businesses are still adjusting income and expenditures and that corporate treasurers remain cautious about deploying current cash pools.

Background

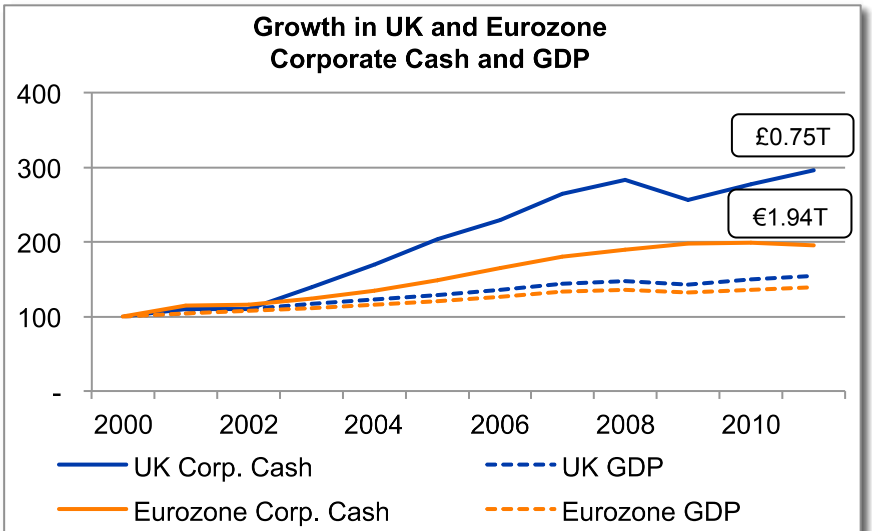
Over the past 10 years, corporate cash has grown across the region at an unprecedented rate. The historical relationship between corporate cash and GDP changed materially in 2002 and continues to evolve as post-recession policies develop. Since the recession began, growth in corporate cash has plateaued in the Eurozone, and is now tracking more closely with GDP as it did in the past. However, cash balances have continued to grow in the UK after a short period of decline during the recession.



Source: Office for National Statistics



Source: ECB

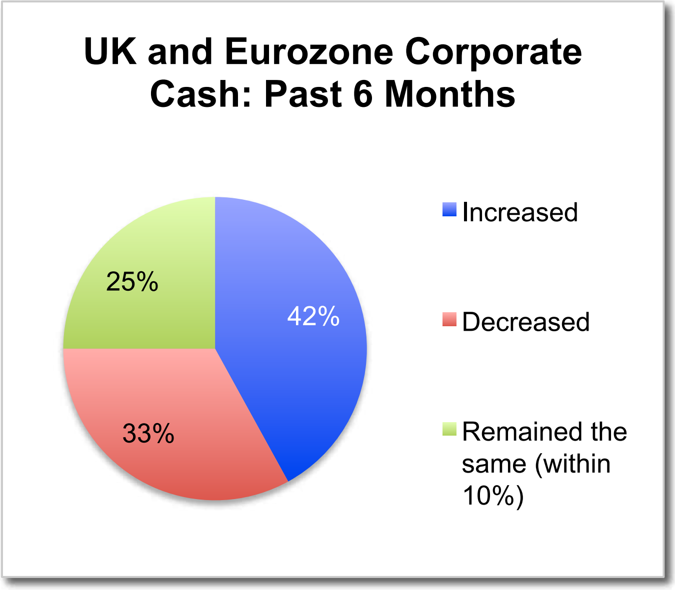


Sources: Treasury Strategies, Inc., Office for National Statistics, and ECB
Note: 1Q 1980 = 100

Overview

Based on conversations and surveys with 50 clients from the UK and Eurozone, Treasury Strategies found several key trends related to what's happening with cash levels.

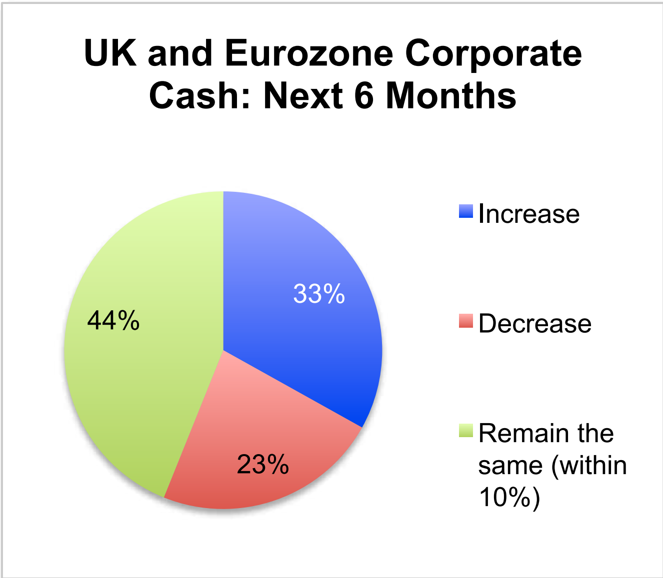
1. Over the last year, the number of companies that reported using their cash for capital expenditures is solidly up.
2. In the same period, significantly more companies say they are using cash for acquisitions.
3. There are dramatically fewer reports of cash declining due to negative operating cash flow.



Corporate Cash Levels

During the past six months, 42% of our UK and Eurozone clients increased their cash levels, while 33% actually decreased cash.

In projections for the next six months, the number of companies planning to increase cash drops to 33%.
At the same time, fewer companies are expecting negative cash flow, with only 23% expecting a decrease in cash levels. Our clients indicate that improved cash flow from operations is still outpacing strategic investments and other uses of cash, which leads us to conclude that corporate cash levels will continue to rise across the region.



UK and Eurozone Corporate Cash Next 6 Months	Dec-10	Jun-11	Dec-11
Expected Increase	29%	36%	33%
Expected Decrease	15%	30%	23%
Expected to Remain the Same	56%	34%	44%

The Past Six Months

Cash Levels – Driven by the 42% of companies indicating increases in cash levels, corporate cash levels have remained at or near all-time highs over the past 6 months. This consistency indicates corporations remain optimistic about the prospects for future investments.

Drivers of Increased Cash Levels – "Positive cash flow from operations" continues to be the most powerful contributor to increased cash levels. Over the course of the last year, companies have limited the importance of other drivers such as inventory reduction, because operations have adjusted to the current economic environment.

Drivers of Decreased Cash Levels – Over the last year, capital expenditures and acquisitions have both become increasingly important uses of cash. One year ago, 40% of our clients noted "negative cash flow from operations" as a significant driver of cash levels, but that figure has fallen steadily to 22% this year. This change indicates that the number of companies improving their operational efficiency is actually increasing.

Sources of Cash Past 6 Months (UK and Eurozone)	Dec-10	Jun-11	Dec-11
Positive cash flow from operations	77%	97%	89%
Increased short-term borrowing	25%	3%	25%
Reduction of inventories	52%	13%	22%
Debt issuance (medium- and long-term)	15%	8%	16%
Sale of company assets, divestitures	13%	23%	8%
Reduction in dividends	11%	17%	7%
Equity issuance	2%	0%	1%

Uses of Cash Past 6 Months (UK and Eurozone)	Dec-10	Jun-11	Dec-11
Capital expenditures	30%	17%	41%
Acquisitions	8%	24%	27%
Increased dividends or special dividends	0%	5%	24%
Negative cash flow from operations	40%	39%	22%
Debt redemption (medium- and long-term)	3%	24%	16%
Paydown of short-term borrowing	48%	27%	16%
Increased inventories	43%	17%	11%
Equity repurchase, stock buyback	28%	7%	10%
Increased pension fund contributions	0%	7%	2%

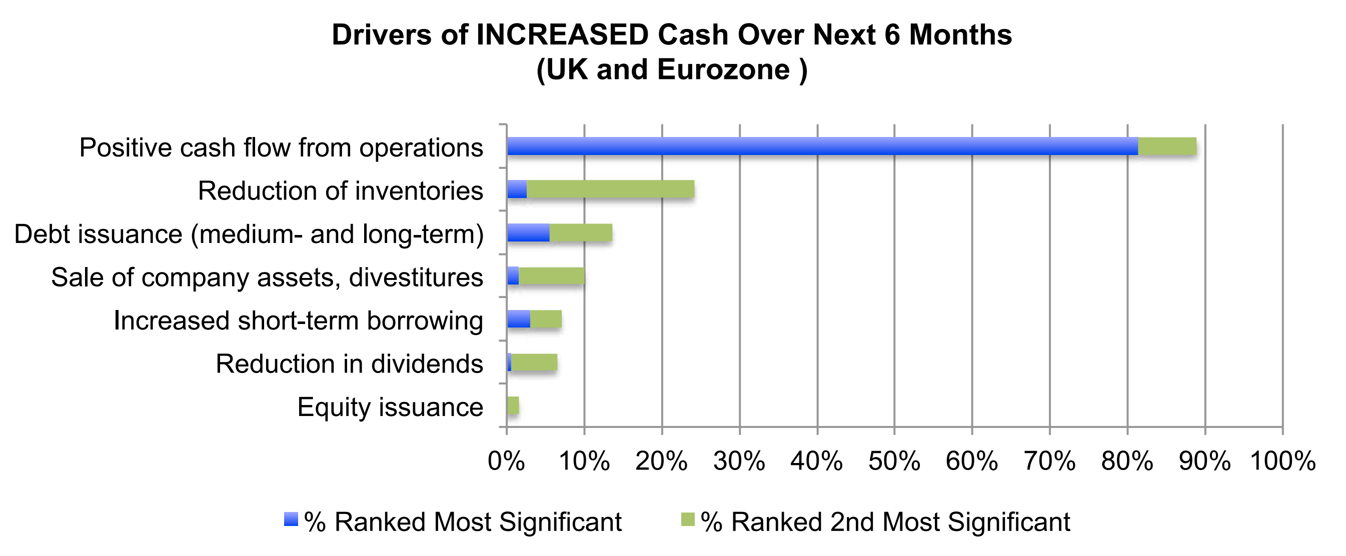
The Next Six Months

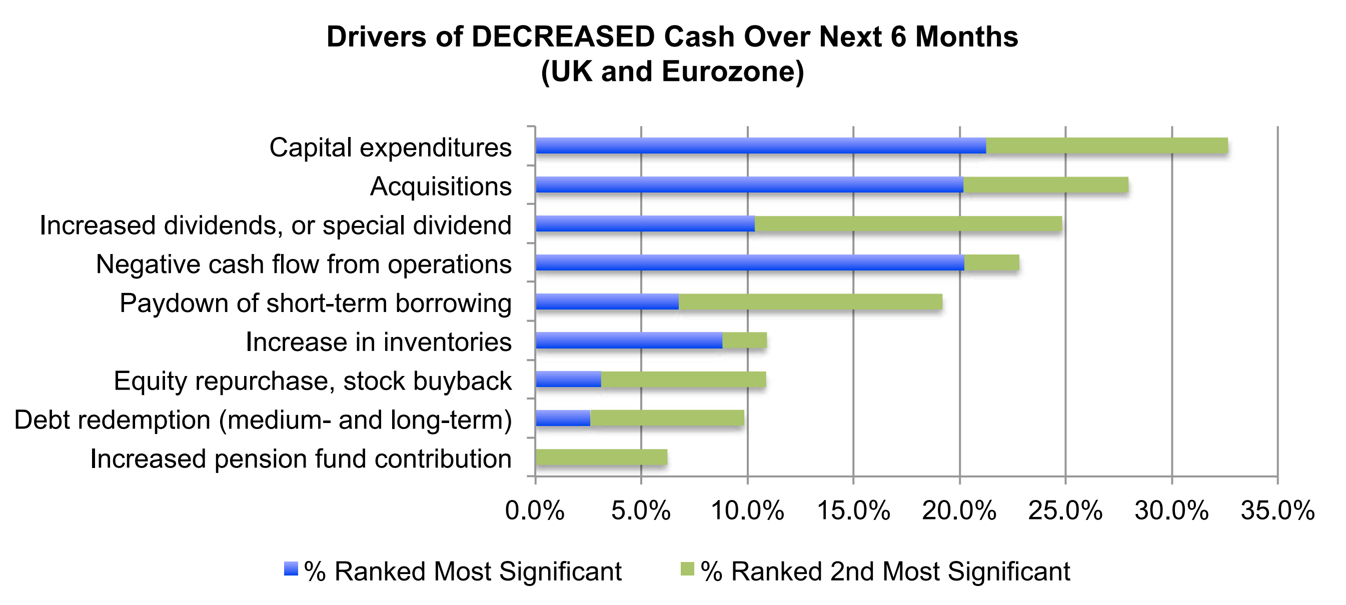
Looking forward, signs indicate that businesses are bracing for continued uncertainty in Europe. Many companies are adapting to the instability caused by the sovereign debt crisis and preparing for a potential redenomination in the Eurozone.

Drivers of Increased Cash Levels – Companies continue to expect strong cash flow from operations. Our clients indicate they will continue to run lean operations, and they are limiting excess inventory in order to remain as liquid as possible in an increasingly uncertain environment. Clients also indicate a higher preference for using just-in-time processes as they move into the 3rd generation of corporate treasury.

Drivers of Decreased Cash Levels – In the next six months, our clients plan to use their cash to invest in their businesses. Capital expenditures and acquisitions remain at the top of the list. Many companies are also expecting to return some cash to shareholders through increased or special dividends.

As a whole, these factors indicate that companies are deploying cash strategically in an effort to maximise efficiency and the potential for growth. However, limited increases in inventories and short-term borrowing signal that businesses remain cautious and are keeping cash to remain liquid.





Other Factors Impacting Corporate Cash

Current regulatory and monetary policies continue to distort corporate investment. The persistence of low-rate policies encourages corporates to hold balances in short-term investments rather than investing further out on the yield curve. Additionally, treasurers remain cautious about their investments and are exercising more conservative portfolio management than usual, both in terms of maturity and credit quality.

Instruments

UK and Eurozone companies hold the majority of their cash and short-term investments in highly liquid current accounts.

In the past, clients considered alternative investment options, however the following factors are pushing cash into current accounts:

1. Fees to execute and maintain direct investment are too high given the low rates of return.

2. Uncertainty about government debt and commercial paper is leading companies to limit direct investment in these securities.

% of Holdings by Instrument (UK and Eurozone)	
Current Accounts	52%
Term Deposits	16%
Commercial Paper	13%
Money Market Mutual Funds	5%
Other Instruments	14%

Maturity Structure

UK and Eurozone companies are holding almost 77% of their total liquidity in overnight investments (including bank accounts, MMFs, and securities with overnight maturities). The expectation that interest rates will rise over the next several years is preventing companies from investing cash out further on the yield curve because of the potential for price risk.

% of Holdings by Maturity (UK and Eurozone)	
Overnight	77%
Up to 1 month	8%
2 to 3 months	7%
4 to 6 months	1%
7 to 12 months	5%
1 to 2 years	0%
2 to 3 years	2%

Changes to Corporate Cash Management

Companies expect cash levels to remain high for a long time and we see many clients making substantial investments in their treasury infrastructure to accommodate these new balances.

- 44% of UK and Eurozone clients have already made improvements to cash forecasting over the past six months. Additionally, 38% plan to increase their reliance on cash forecasting in the next 6 months, which signals an increased need for meaningful intelligence and strategic business support. This finding is confirmed by our direct work with clients. We see companies demanding more accuracy and precision in all their cash management activities.

- 18% of UK and Eurozone clients implemented new technology for cash management and 23% plan to upgrade their treasury technology over the next 6 months. Such a large percentage of companies investing in treasury technology reflects the greater demands and responsibilities that have been placed upon treasury. Corporations are using technology to improve their visibility to cash, bank balances, investment portfolios and counterparty risk.

- In conjunction with these investments in improved forecasting and treasury technology, companies are also formally modifying their risk management and investment policies.

Changes to UK and Eurozone Corporate Treasury (Past 6 Months)	
Increased reliance on cash forecasting	44%
Formally modified risk management policies	23%
Implemented new technology for cash management	18%
Formally modified investment policies	15%

Plans for Next 6 Months (UK and Eurozone)	
Increase reliance on cash forecasting	38%
Implement new technology for cash management	23%
Formally modify risk management policies	21%
Formally modify investment policies	19%

Outlook on Liquidity

Corporate cash is indeed near record levels. However, companies need appropriate amounts of cash and access to credit in order to fund working capital requirements. As companies continue to fine tune their liquidity and working capital requirements, they are making rational, individual decisions regarding inventories, capital expenditures, borrowing, debt repayment, acquisitions and dividends within the context of their operating cash flows. Through a series of tremendously challenging economic events, treasurers have done a tremendous job finding ways to maintain the liquidity necessary to run their businesses.

Treasury Strategies

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