The Quarterly Corporate Cash Report™

Treasury Strategies

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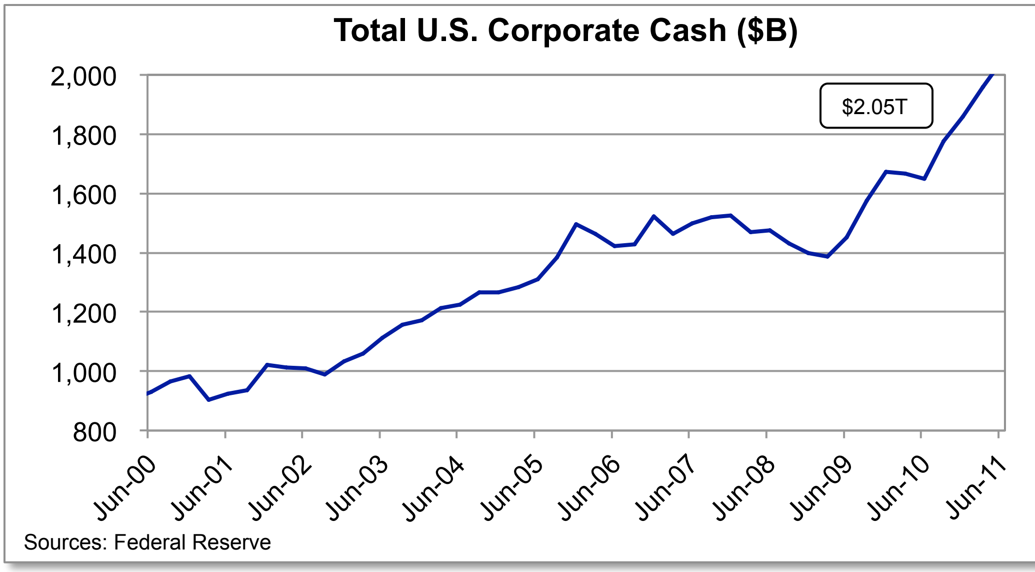
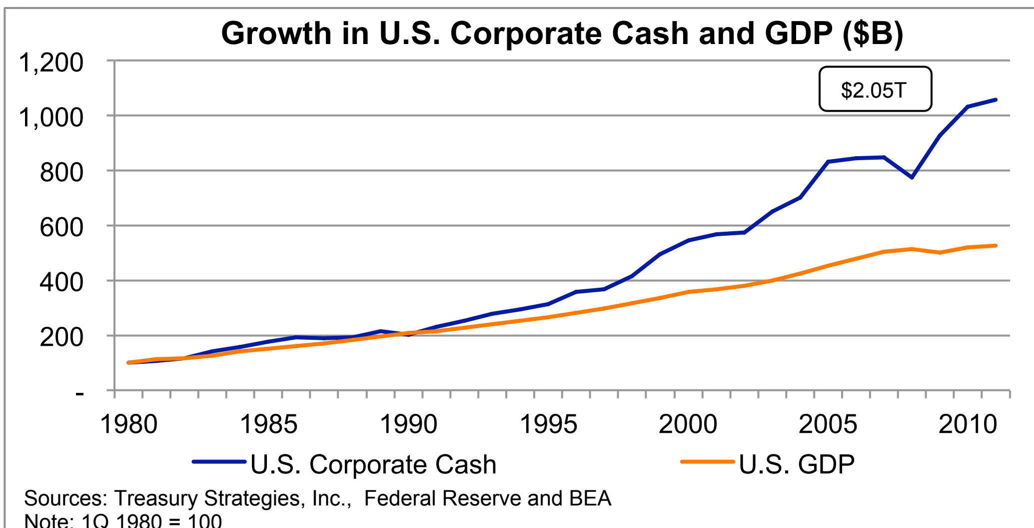
Corporate Cash Tops $2 Trillion

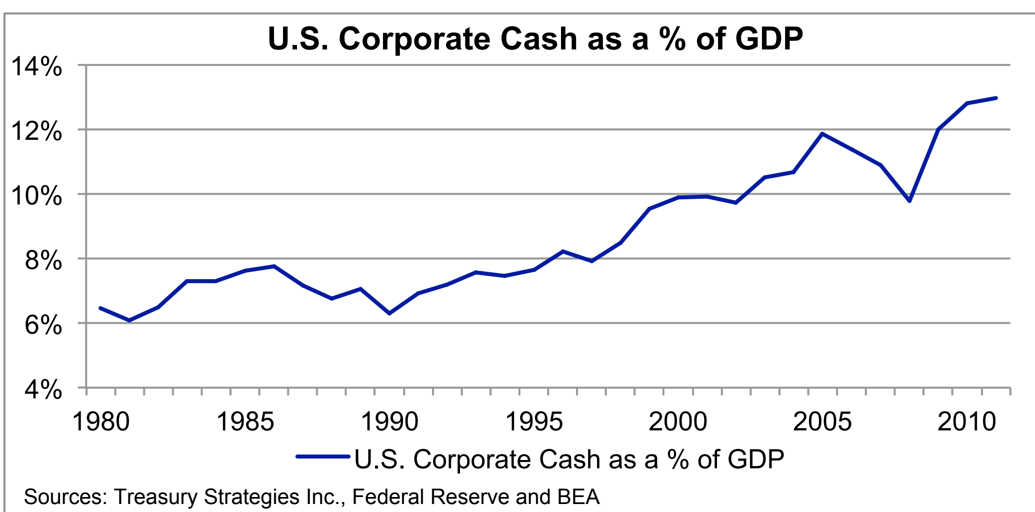
U.S. corporate cash and short-term investments increased $88 billion in the second quarter of 2011, reaching an all-time high of $2.05 trillion.[1] Corporate cash remains 46% ($648 billion) above its level from the first quarter of 2009. This increase indicates that businesses continue to generate cash from operations, and corporate treasurers remain cautious about deploying current cash pools.

Background

U.S. corporate cash has grown at an unprecedented rate. The historical relationship between corporate cash and GDP has also changed materially over the last 10 years, and it continues to evolve as post-recession policies develop. The relationship change is further illustrated by the significant increase in corporate cash as a percentage of U.S. GDP.





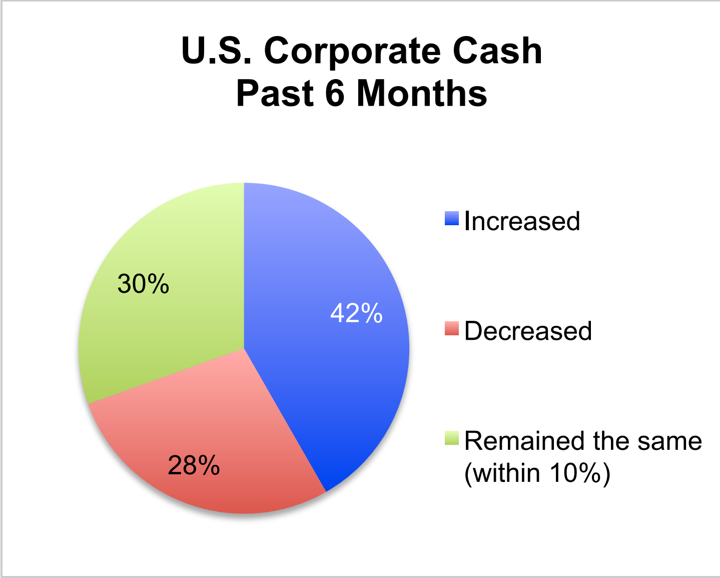


[1] $2.05 Trillion is an estimate noted by the Federal Reserve's Sept. 16, 2011 report, *Flow of Funds Accounts in the United States.*

Overview

Based on conversations and surveys with over 250 U.S. clients, Treasury Strategies identified three key explanations for why cash remains elevated:

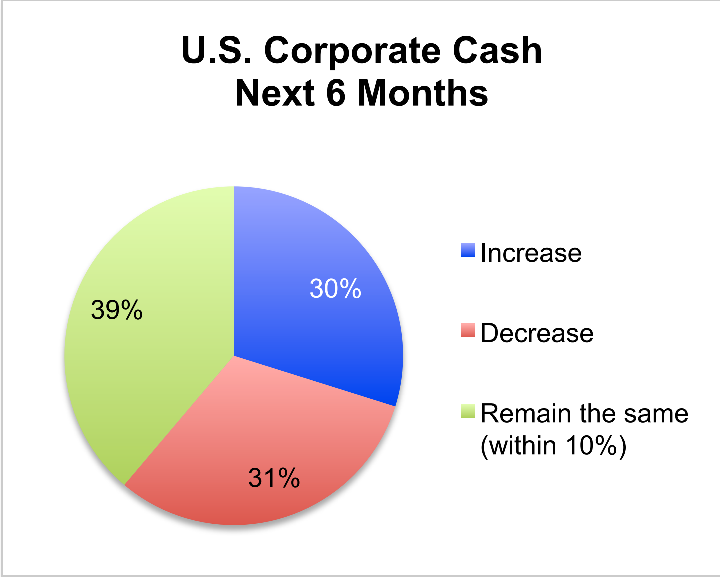
1. Cash flow from operations is strong, but Treasurers remain cautious.
2. Corporations are looking to invest in their businesses through capital expenditures and acquisitions, albeit at modest levels.
3. The number of corporations expecting cash to increase is declining, but still positive.



Corporate Cash Levels

During the past six months, 42% of our U.S. clients increased their cash levels while 28% actually decreased their cash.

In projections for the next six months, the distribution of companies planning to increase, decrease or stay the same is relatively even. Given this distribution, it appears likely that corporate cash levels will continue to grow, though at a much slower rate.



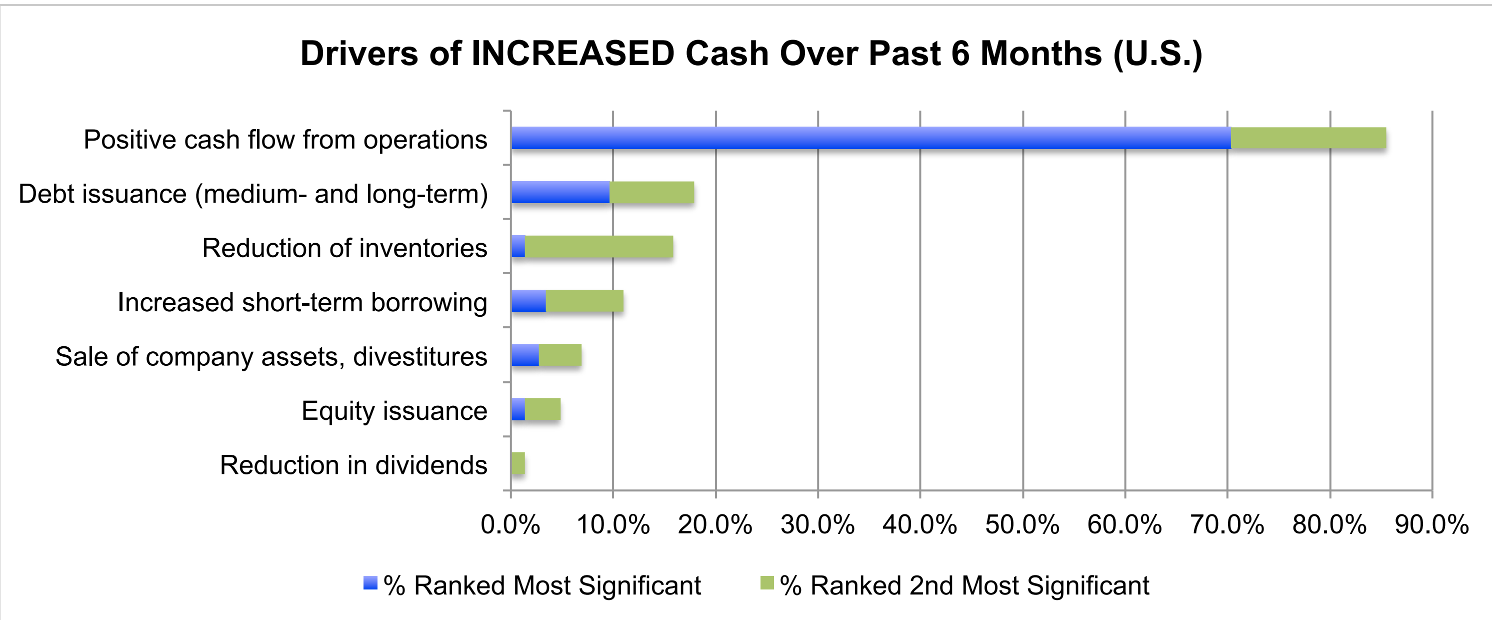
U.S. Corporate Cash Next 6 Months	Sep-10	Dec-10	Mar-11	Jun-11	Sep-11
Expected Increase	28%	23%	31%	36%	30%
Expected Decrease	23%	23%	29%	24%	31%
Expected to Remain the Same	50%	53%	40%	40%	39%

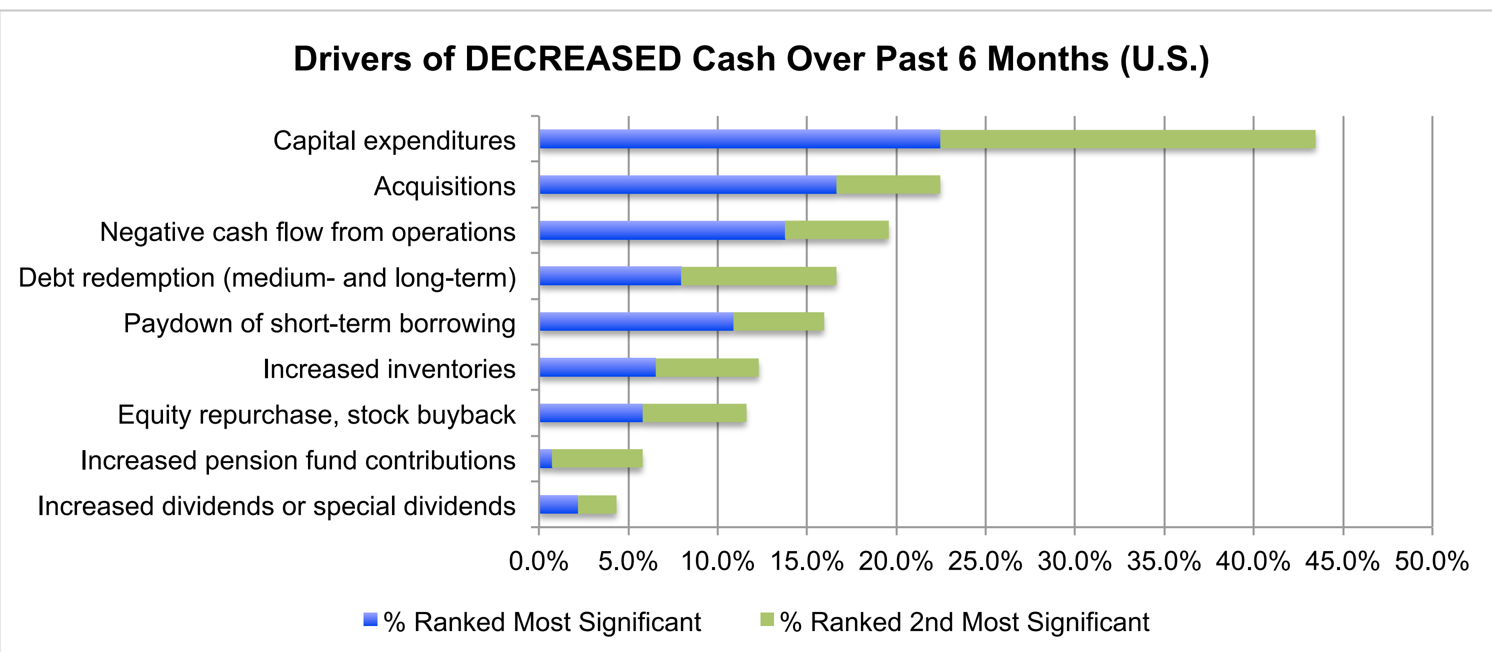
The Past Six Months

Cash Levels – The majority of U.S. companies, 65%, indicated some change in their cash levels. This high degree of change over the last six months demonstrates that corporations are continuing to fine tune their liquidity equations.

Drivers of Increased Cash Levels – "Positive cash flow from operations" was noted by 86% of U.S. companies as either their 1st or 2nd most powerful contributor to increased cash over the last six months.

Drivers of Decreased Cash Levels – Over the past six months, capital expenditures and acquisitions were the two biggest uses of cash. Nearly 20% of companies had negative cash flow from operations. Looking forward, that figure falls slightly to 17% over the next six months, which suggests the number of companies losing money as a result of operational issues is declining.





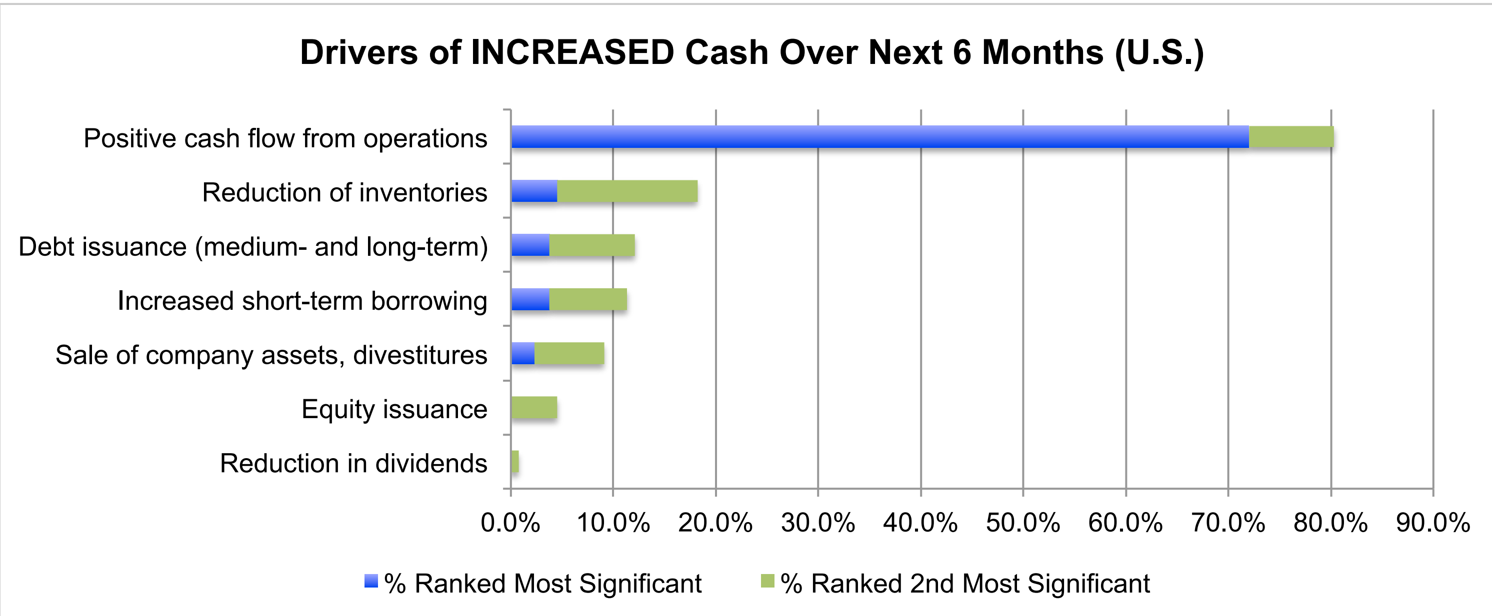
The Next Six Months

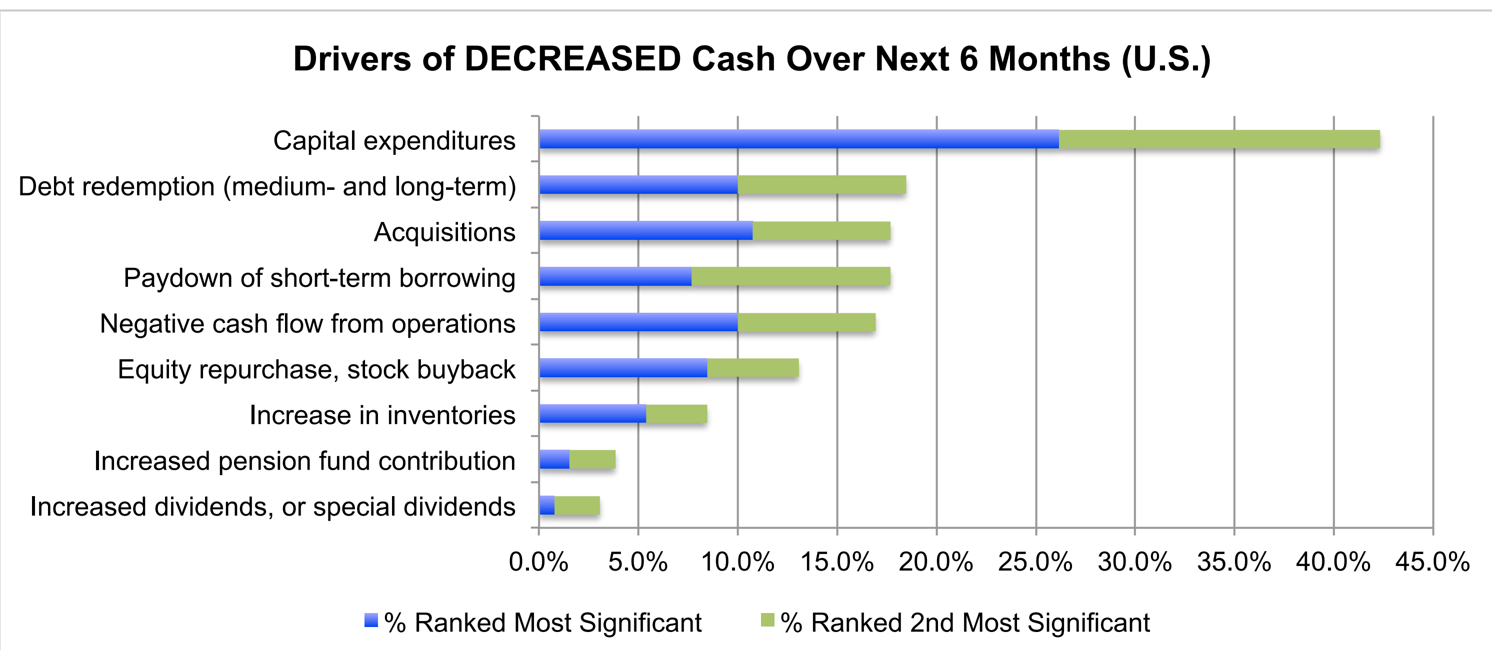
Looking forward, a number of signs indicate the business outlook is becoming more optimistic.

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 are limiting excess inventory in order to remain as liquid as possible in an uncertain environment.

Drivers of Decreased Cash Levels – In the next six months, our clients plan to use their cash to invest back in the business. Capital expenditures and acquisitions are at the top of the list. Many companies are also looking to take advantage of the low rate environment to refinance or pay off debt.

As a whole, these figures are a strong indication that cash is about to be re-deployed into the marketplace and businesses have plans to grow.





Changes to Corporate Cash Management

As an indication that companies expect high cash levels to remain for a long time, we see many clients making substantial investments in their treasury infrastructure:

- 47% of U.S. clients plan to improve cash forecasting over the next six months, which may signal 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.

- 27% of U.S. clients plan to upgrade their treasury technology over the next 6 months. Such a large percentage of companies investing in treasury technology reflects the greater demand and responsibility 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.

Regulatory Factors Impacting Corporate Cash

The current regulatory and monetary policies are continuing to distort corporate investments. The interest on reserve balances at the Fed and the continued low-rate policy create incentive for corporates to continue holding balances in short-term investments versus investing further out on the yield curve. Additionally, the unlimited FDIC encourages companies to carry more cash, since it provides a relatively risk-free place for companies to hold their cash until rates rise. Treasurers continue to exercise more conservative portfolio management, both in terms of maturity and credit quality.

Plans for Next 6 Months (U.S.)	
Increase reliance on cash forecasting	47%
Implement new technology for cash management	27%
Formally modify investment policies	17%
Formally modify risk management policies	9%

Cash Type	Change in Amount	Risk Appetite
Operating Cash	↓	↓↓↓↓↓
Reserve Cash	↑↑↑↑↑	↑
Accumulation Cash	↑↑	↑
Stranded Cash	↑	↓↓↓

Note: *The Four Types of Corporate Cash* was first published by Treasury Strategi in 1995.

Outlook on Liquidity

Corporate cash is indeed at record levels. However, based on our conversations with clients, the rate of growth will continue to decline due to such activities as capital expenditures, acquisitions and paying down debt.

Companies need appropriate amounts of cash and access to credit in order to fund working capital requirements. Companies continue to make rational, individual decisions regarding inventories, capital expenditures, borrowing, debt repayment, acquisitions and dividends within the context of their operating cash flows.

Such responsible actions have kept companies in good operating condition through a tremendously challenging economic period.

About Treasury Strategies, Inc.

Treasury Strategies, Inc. is the leading Treasury consulting firm working with corporations and financial services providers. Our experience and thought leadership in treasury management, working capital management, liquidity and payments, combined with our comprehensive view of the market, rewards you with a unique perspective, unparalleled insights and actionable solutions. For more information, visit www.TreasuryStrategies.com.

Chicago l 309 W. Washington, 13th Floor l Chicago IL 60606
London l 1 Northumberland Avenue l Trafalgar Square l London WC2 N5BW
New York l 61 Broadway, Suite 905 l New York, NY 10006