The Quarterly Corporate Cash Report™

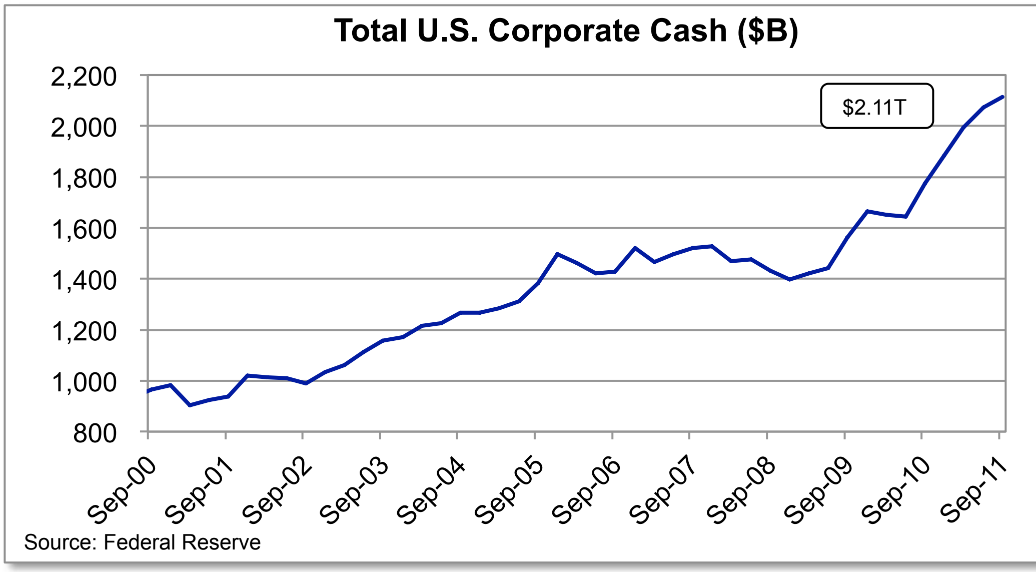
December 2011
Volume 2, Issue 2

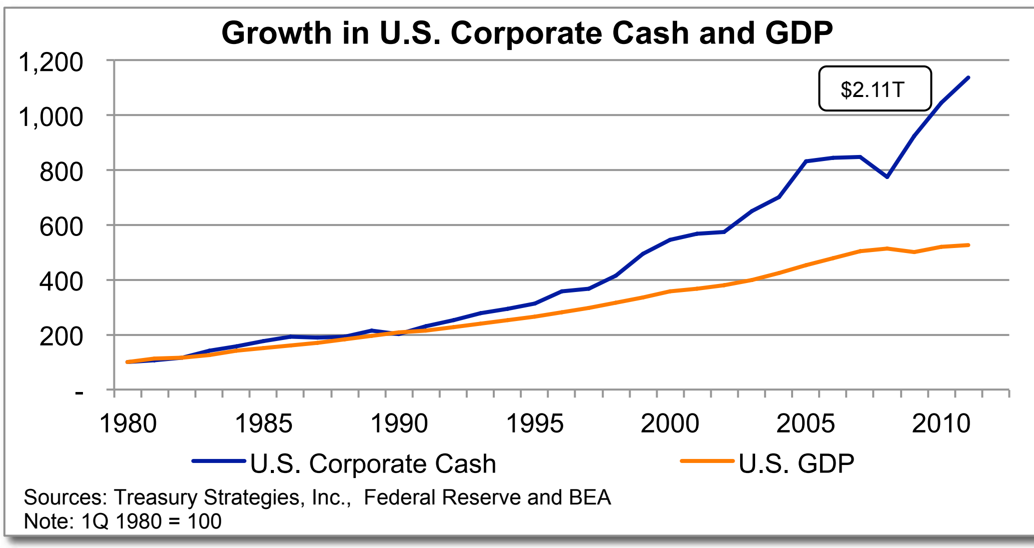
Corporate Cash Remains Above $2 Trillion

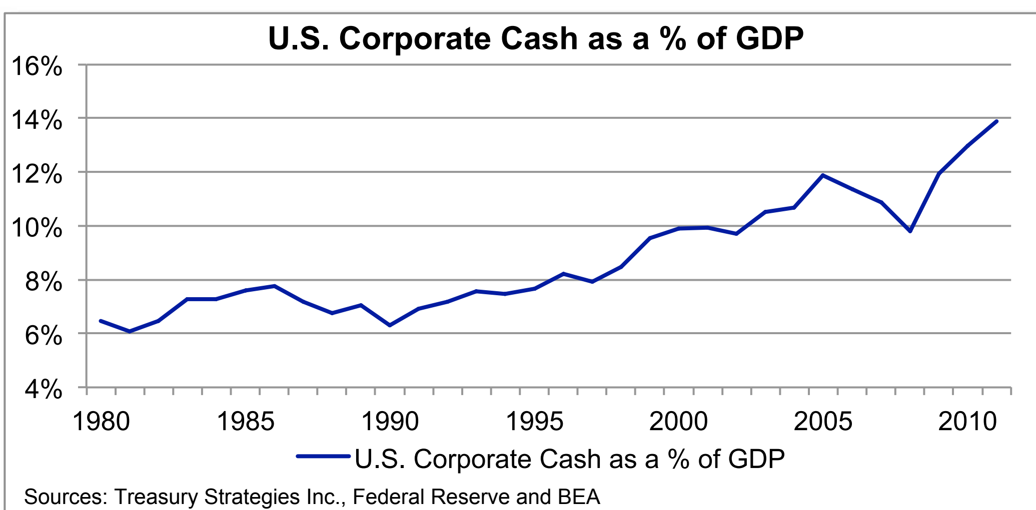
U.S. corporate cash and short-term investments increased $41 billion in the third quarter of 2011, reaching a new high of $2.11 trillion.[1] Corporate cash remains $716 billion (51%) above its level at the beginning of 2009. This increase indicates that businesses continue to generate cash from operations, but remain cautious about deploying current cash pools given the uncertainty surrounding the economic and regulatory environments.

Background

U.S. corporate cash has grown at an unprecedented rate over the past two years. The historical relationship between corporate cash and GDP began to change materially just over 10 years ago and the financial crisis accelerated this divergence. The relationship will continue to evolve as post-recession policies develop. This evolving dynamic is further illustrated by the significant increase in corporate cash as a percentage of U.S. GDP.





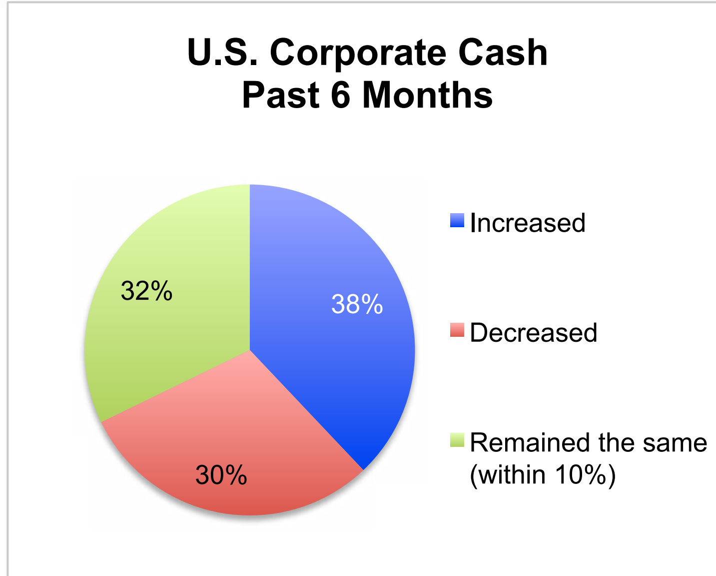


[1] $2.11 Trillion is an estimate noted by the Federal Reserve's Dec. 8, 2011 report, *Flow of Funds Accounts in the United States.*

Overview

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

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.

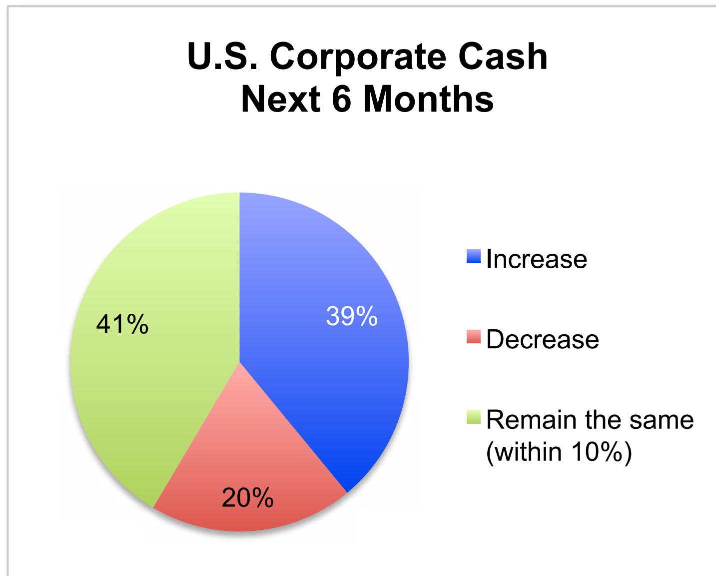


Corporate Cash Levels

During the past six months, 38% of our U.S. clients increased their cash levels while 30% actually decreased their cash.

In projections for the next six months, the distribution of companies planning to increase cash remains stable, but only 20% plan to decrease cash levels. Given this distribution, it appears likely that corporate cash levels will continue to grow at an increasing rate.

Over the past year, more companies have indicated expected increases in cash levels. A relatively consistent number of clients have noted expected decreases. This trend parallels the growth in U.S. corporate cash and provides an explanation for why balances have grown so quickly over the past year.



U.S. Corporate Cash Next 6 Months	Dec-10	Jun-11	Dec-11
Expected Increase	23%	36%	39%
Expected Decrease	23%	24%	20%
Expected to Remain the Same	53%	40%	41%

The Past Six Months

Cash Levels – Over the past 6 months, corporate cash levels have risen by $121 billion, driven by the 38% of companies indicating increases in cash levels. The increase indicates that 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 as 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, 55% of our clients noted "negative cash flow from operations" as a significant driver of cash levels, but that figure has fallen steadily to 15%. This change indicates that the number of companies improving their operation efficiency is actually increasing.

Sources of Cash Past 6 Months (U.S.)	Dec-10	Jun-11	Dec-11
Positive cash flow from operations	94%	92%	87%
Debt issuance (medium- and long-term)	20%	15%	18%
Reduction of inventories	46%	3%	14%
Sale of company assets, divestitures	6%	14%	14%
Increased short-term borrowing	9%	16%	10%
Equity issuance	6%	3%	5%
Reduction in dividends	0%	1%	1%

Uses of Cash Past 6 Months (U.S.)	Dec-10	Jun-11	Dec-11
Capital expenditures	27%	33%	39%
Acquisitions	9%	19%	28%
Debt redemption (medium- and long-term)	14%	21%	18%
Paydown of short-term borrowing	14%	10%	17%
Negative cash flow from operations	55%	22%	15%
Equity repurchase, stock buyback	10%	18%	14%
Increased inventories	18%	5%	11%
Increased pension fund contributions	0%	12%	7%
Increased dividends or special dividends	5%	5%	5%

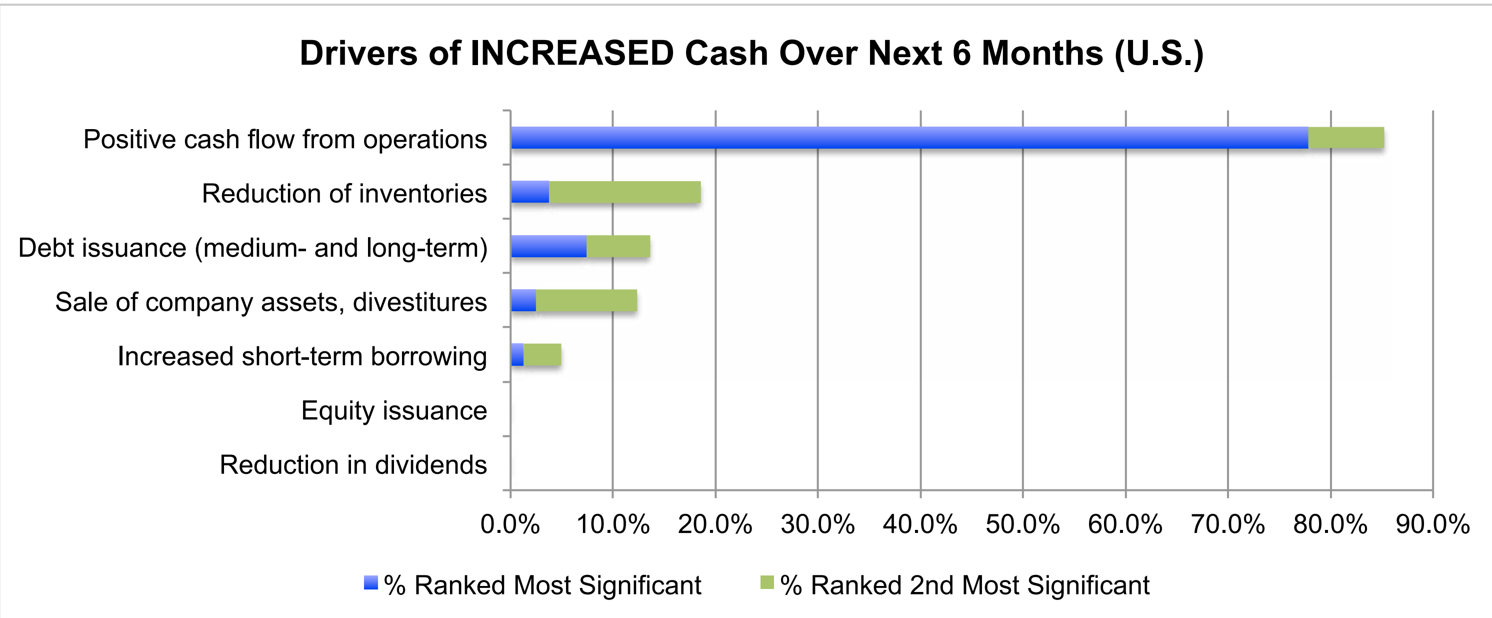
The Next Six Months

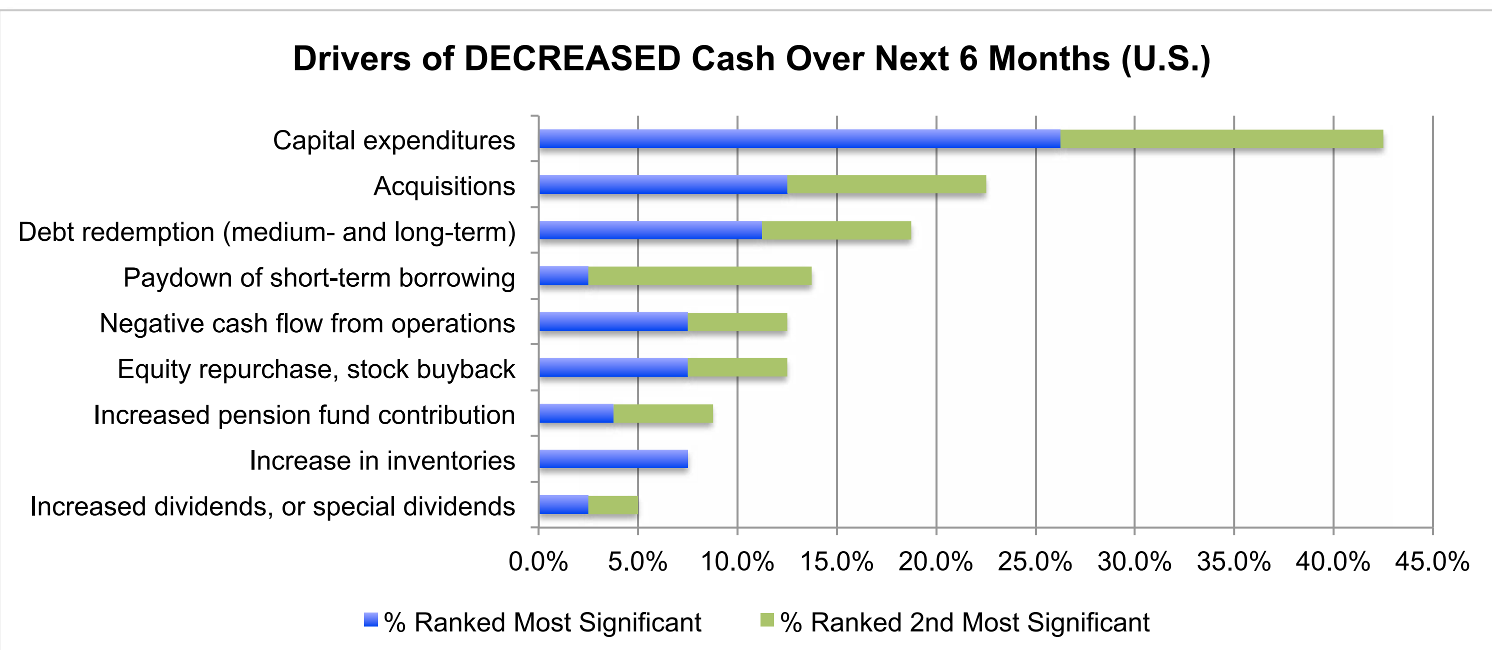
Looking forward, a number of signs indicate the business outlook is becoming more optimistic.

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 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 looking to take advantage of the low rate environment to refinance or pay off debt.

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





Regulatory Factors Impacting Corporate Cash

Current regulatory and monetary policies distort corporate investment practices. The low rate policy of the Federal Reserve has created a flat yield curve, which eliminates the differentiation in rates required by corporate treasurers to invest 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.

Instruments

U.S. companies are holding a majority of their cash and short-term investments in highly liquid checking (DDA) and MMF accounts. Our clients indicate that the unlimited deposit insurance on non-interest-bearing accounts is a major contributor to the levels of cash they are placing with banks.

In the past, our clients would have considered investment options other than checking accounts, however the following factors are pushing cash into checking (DDA) accounts:

1. Federal Reserve interest rate policy is limiting returns on other types of investments.
2. Fees for sweeps and direct investment are too high given the low rates of return.

% of Holdings by Instrument (U.S.)	
Checking Accounts (DDA)	38%
Money Market Mutual Funds (MMF)	23%
MMDA / Savings Accounts	12%
Government Securities	7%
Sweep Accounts	7%
Other Instruments	13%

Maturity Structure

U.S. companies are holding almost 75% of their total liquidity in overnight investments (includes checking accounts, MMDAs, and MMFs). 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 (U.S.)	
Overnight (includes Checking Accounts, MMDA, and MMFs)	74%
Up to 1 month	9%
2 to 3 months	4%
4 to 6 months	3%
7 to 12 months	4%
1 to 2 years	3%
2 to 3 years	3%

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.

- 47% of U.S. clients made improvements to cash forecasting over the past six months. Additionally, 43% 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.

- 15% of U.S. clients implemented new technology for cash management and 31% 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 corporate 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.

Outlook on Liquidity

Corporate cash is indeed at record levels. However, 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.

Changes to U.S. Corporate Treasury (Past 6 Month)	
Increased reliance on cash forecasting	47%
Implemented new technology for cash management	15%
Formally modified investment policies	30%
Formally modified risk management policies	8%

Plans for Next 6 Months (U.S.)	
Increase reliance on cash forecasting	43%
Implement new technology for cash management	31%
Formally modify investment policies	20%
Formally modify risk management policies	5%

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