

# Treasury Strategies' Quarterly UK & European Corporate Cash Briefing™

11 January 2012

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Treasury  
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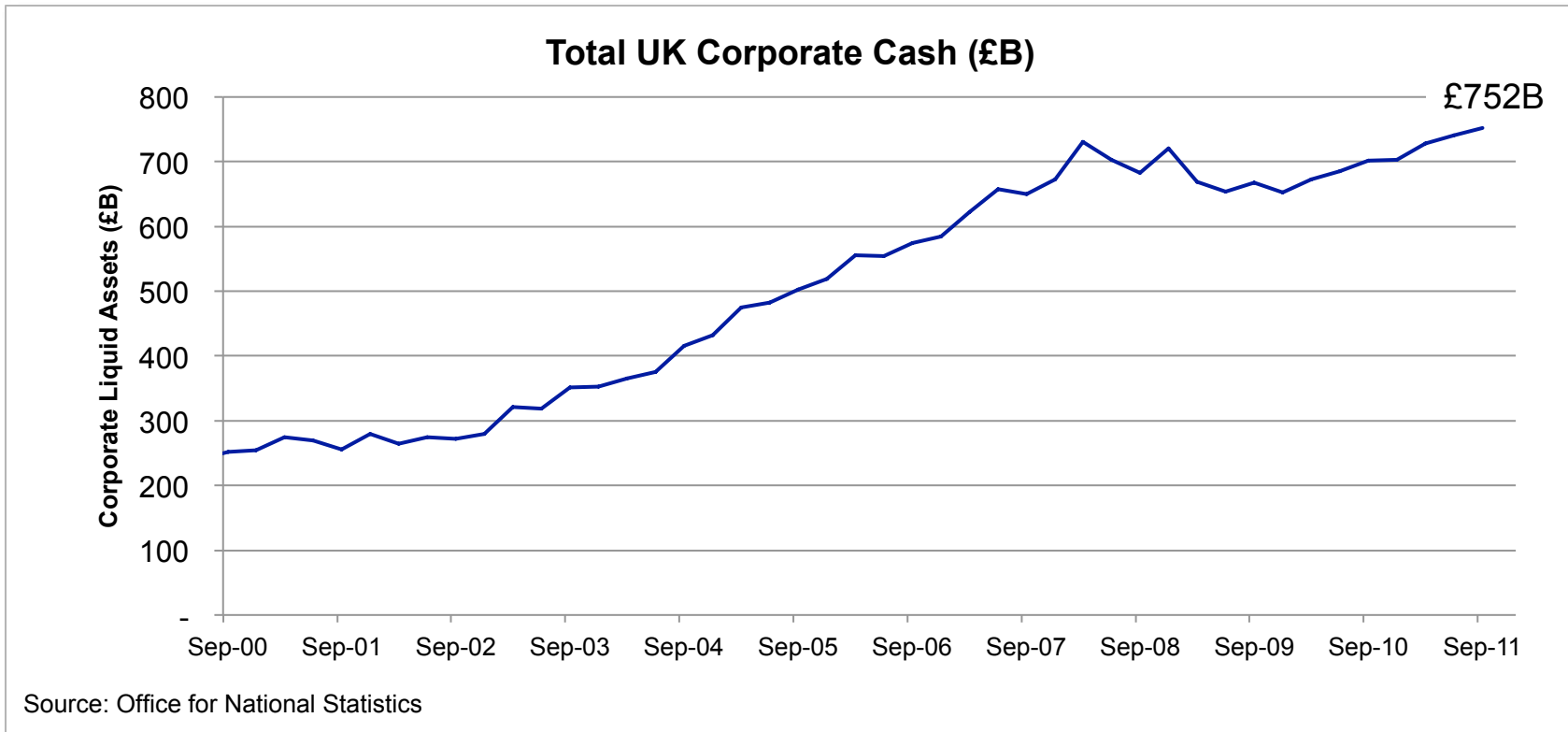
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# UK Corporate Cash



The Office for National Statistics reported that as of September 30, 2011 UK corporate cash levels were £752 billion.

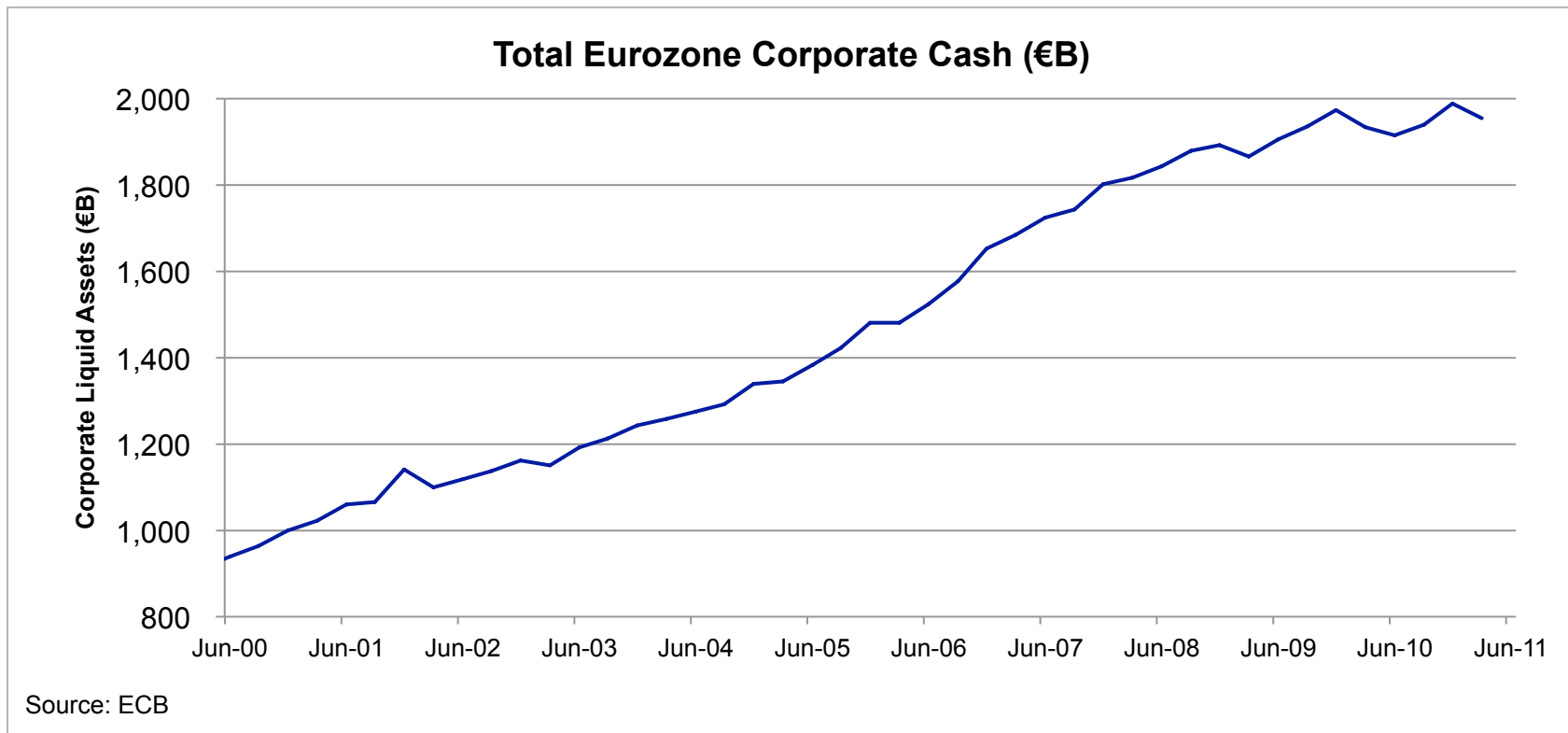




# Eurozone Corporate Cash

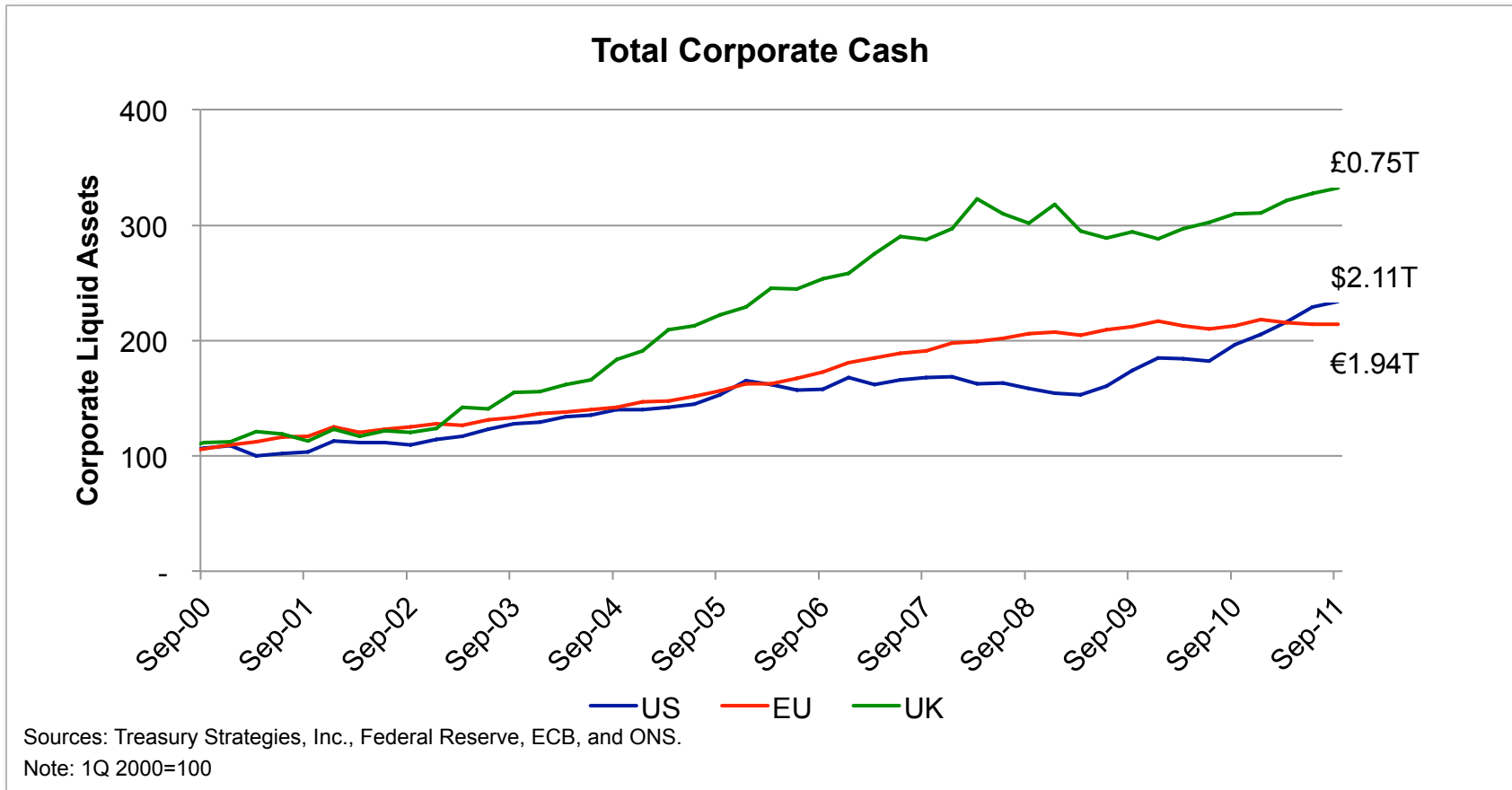


The ECB reported that as of June 30, 2011 Eurozone corporate cash levels were €1,939 billion.



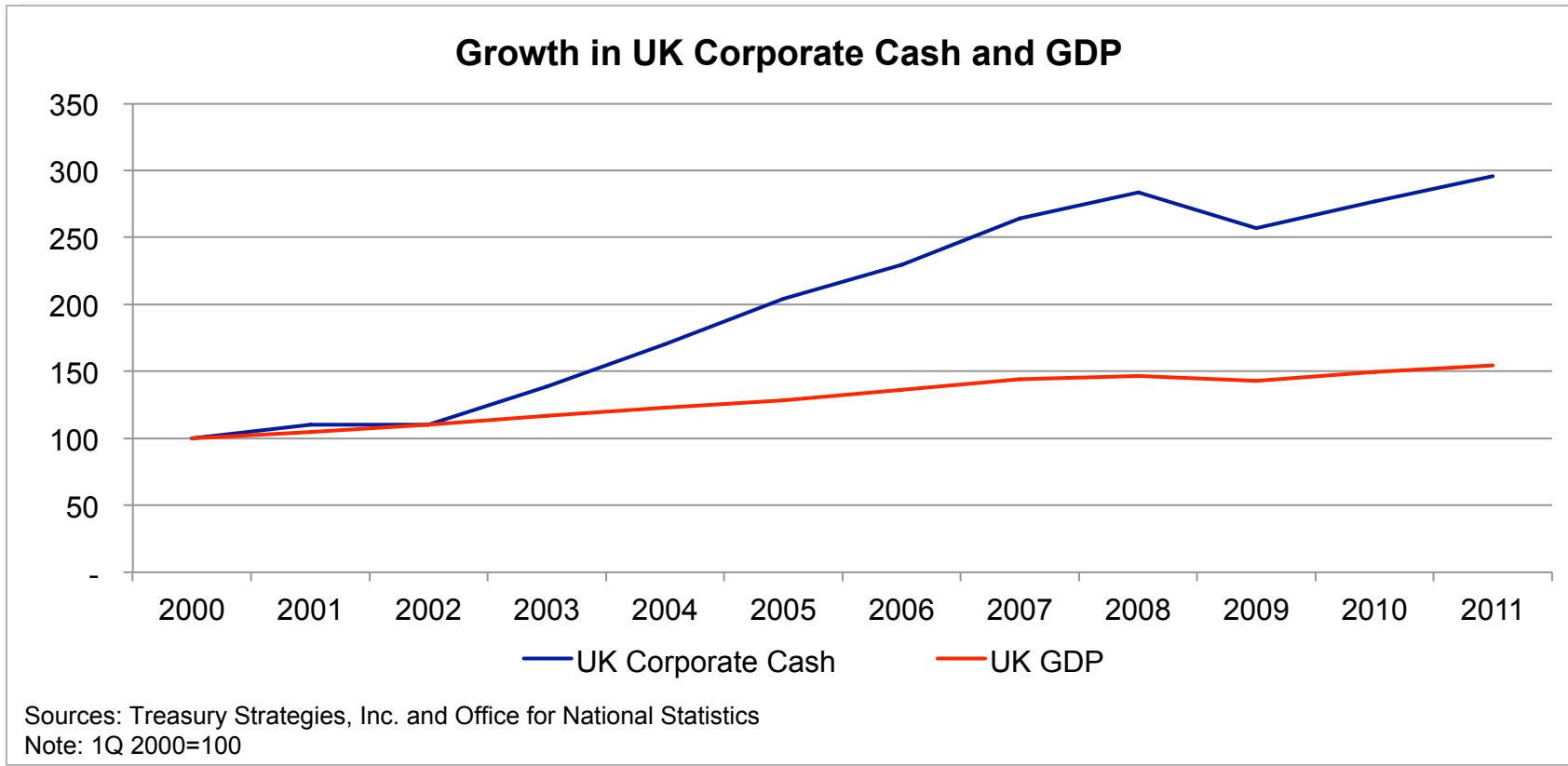


# Corporate Cash in Selected Regions



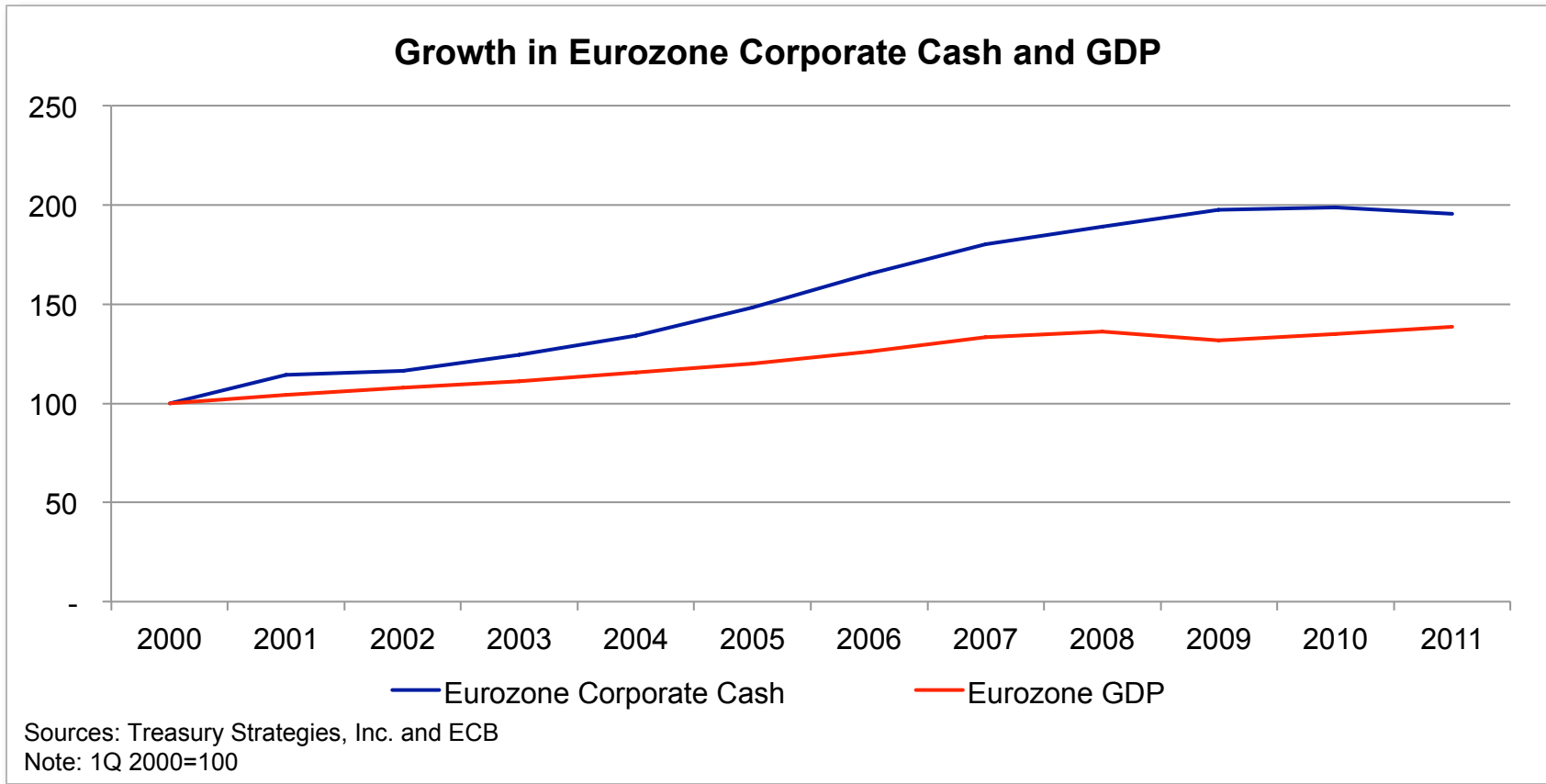


# UK Corporate Cash Growing Faster than GDP



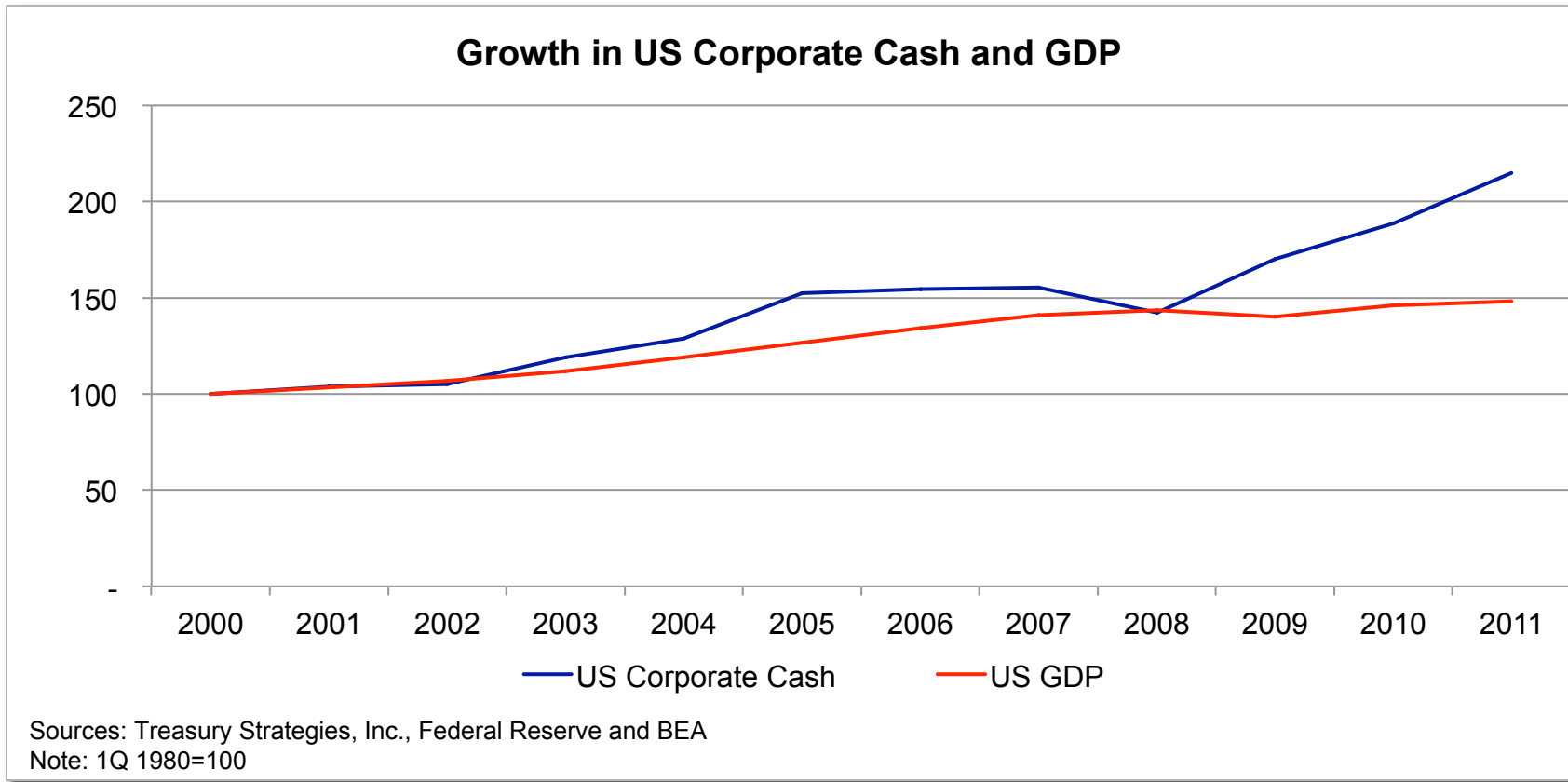


# Eurozone Corporate Cash Growing Faster than GDP





# US Corporate Cash Growing Faster than GDP





# Corporate Cash as % of GDP by Region



Country/Region	2000	2011
United Kingdom	26%	50%
Eurozone	15%	21%
United States	10%	14%

Source: Treasury Strategies estimate







# Distribution of GDP and Corporate Cash by Region



Country/Region	% of 2011 GDP	% of Corporate Cash
United Kingdom	8%	20%
Eurozone	41%	43%
United States	51%	37%
Total	100%	100%

Source: Treasury Strategies estimate

Note: Conversion to single currency based on 30 September 2011 exchange rates.





# Expected Levels of Corporate Cash: Next 6 Months



Expected Levels of Cash (UK and Europe)	Dec-10	Jun-11	Dec-11
Increase	29%	36%	33%
Decrease	15%	30%	23%
Remain about the same	56%	34%	44%

Source: Treasury Strategies Inc. Quarterly Corporate Cash Survey™, December 2011





## Sources of Corporate Cash: Past 6 Months



Sources of Cash (UK and Europe)	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%

Source: Treasury Strategies Inc. Quarterly Corporate Cash Survey™, December 2011





## Uses of Corporate Cash: Past 6 Months



Uses of Cash (UK and Europe)	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%

Source: Treasury Strategies Inc. Quarterly Corporate Cash Survey™, December 2011



# Managing Interest Rate Risk



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# What Do Treasurers Say About Risk?



UK and EU Only	Past Six Months (Dec-11)	Next Six Months (Expected)
<b>Maturity Structure</b>		
Shorter	25%	15%
Longer	15%	13%
About the Same	60%	72%
<b>Credit Risk</b>		
More Conservative	38%	14%
Less Conservative	5%	10%
About the Same	57%	76%

Source: Treasury Strategies, Inc. Quarterly Corporate Cash Survey™, December 2011





# What Do Treasurers Say About Risk?



UK and EU Only	Past Six Months (Dec-11)	Next Six Months (Expected)
Hedges of FX Exposures		
Increasing	29%	25%
Decreasing	10%	8%
About the Same	61%	67%

Source: Treasury Strategies, Inc. Quarterly Corporate Cash Survey™, December 2011

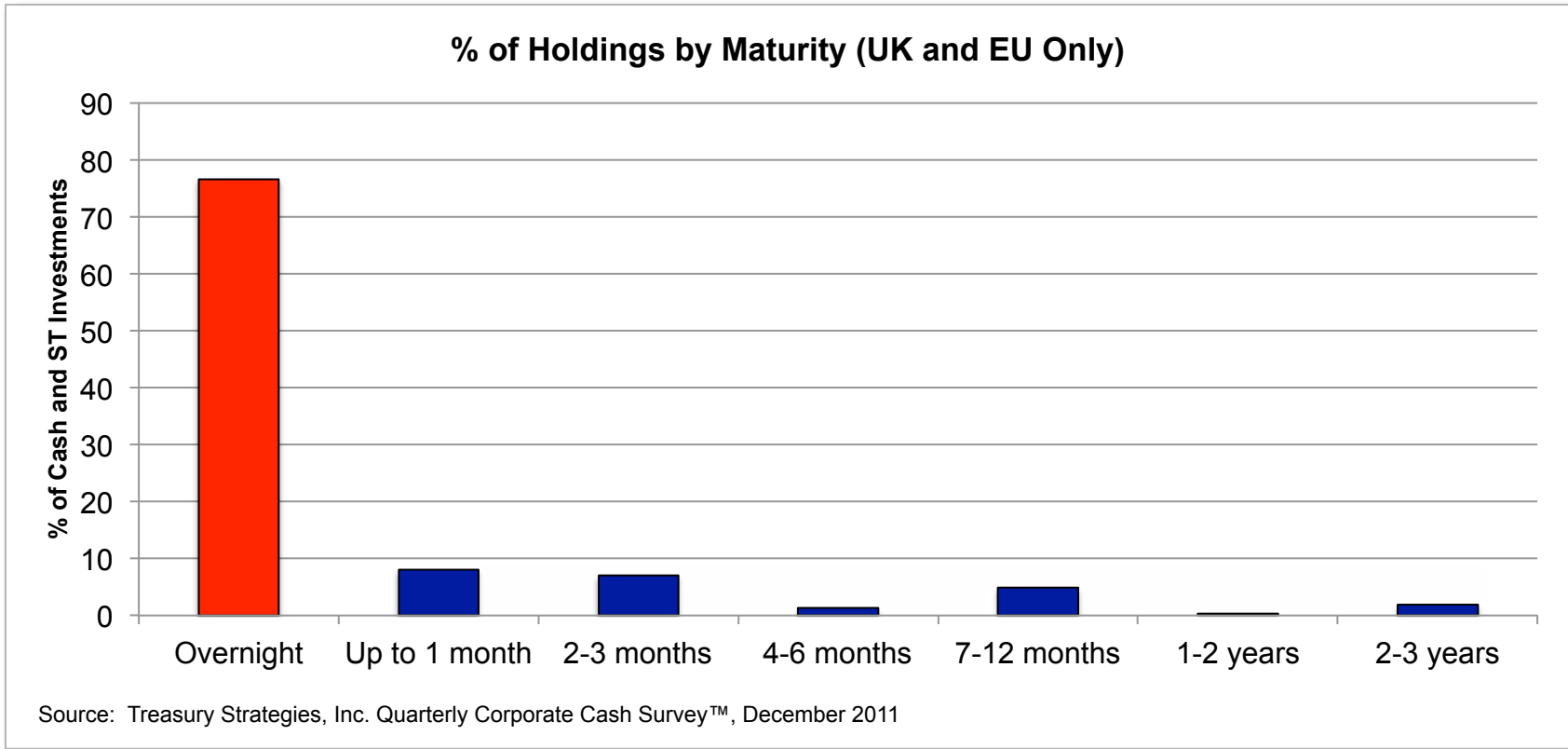




# Maturity Structure



UK and EU corporations hold over 75% of total liquidity in overnight investments and bank deposits.







# Instruments



UK and EU corporations hold approximately 68% of total liquidity in bank accounts (current accounts and term deposits).

<b>% of Holdings by Instrument (UK and EU Only)</b>	<b>Dec-11</b>
Current Accounts	52%
Term Deposits	16%
Commercial Paper	13%
Money Market Mutual Funds	5%
Other Instruments	14%

Source: Treasury Strategies Inc. Quarterly Corporate Cash Survey™, December 2011





## What Treasury Strategies' Clients Are Saying



**"Lack of suitable investment opportunities in current market environment."**

**"We are holding a strategic reserve against possible default risk of the Group's bank facilities"**

**"...liquidity buffer for when banks increase short-term borrowing costs"**

**"We have benefited the exchange rate change in Asia against euros. Overall, our cash flow increased due to better controls and increased activities."**

**"Issuance of 'bonds' to prepare for 'capital expenditures.'"**

**"Recent issuance in Debt; holding cash in preparation for corporate activities."**





# How Management of Corporate Cash is Changing



Current market dynamics encourage corporate treasurers to move more quickly to the third generation of corporate treasury where they are the financial nerve center of the corporation.

Changes to Corporate Treasury (UK and EU)	Past 6 Months	Next 6 Months
Increasing reliance on cash forecasting	44%	38%
Implementing new technology for cash management	18%	23%
Formally modifying risk management policies	23%	21%
Formally modifying investment policies	15%	19%

Source: Treasury Strategies, Inc. Quarterly Corporate Cash Survey™, December 2011



# Implications of Current Turmoil The Euro



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## Redenomination Risk



What will happen if the eurozone does not remain intact?

**Low probability x Significant impact = Cause for concern**

The slim probability of a collapse, combined with the severe magnitude of its impact, makes the expected value a material concern for many global companies.

It is now incumbent on financial managers, perhaps even a fiduciary responsibility, to consider this issue.

### Scenarios

- Single country exit
- Multi-country exit
- Total breakup





# Redenomination Risk



## Key Issues

- Denomination of obligations
- Jurisdiction
- Sovereign immunity

## Levels of impact

- Primary
- Secondary
- Overall economy



# Conclusions



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## Key themes emerging from our work with Corporate Treasurers

- Review and clarify investment policies in the “grey areas”
- Keep maturities short
- Increase credit quality
- Move assets into money market funds (MMFs)
- Issue commercial paper – as much as market will absorb
- Issue debt securities – as much as market will absorb
- Improve treasury technology tools
- Improve cash forecasting

*Disclaimer:*

*Treasury Strategies' recommendations are situation-specific and based upon careful, individual analysis. The advice cited above may or may not be appropriate for your specific situation.*







## Managing Redenomination Risk



**Treasury Strategies advises our clients to institute a five-step process in evaluating the implications of a eurozone breakup:**

1. Assess all primary and secondary eurozone exposures.
2. Stress test these exposures under the three scenarios of a single country exit, multi-country exit and full dissolution.
3. Amend or clarify all contracts as appropriate.
4. Implement as many natural hedges as feasible.
5. Structure financial hedges to manage the remaining risks.

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# Exit Poll



1. Is your company's technology up to the demand of managing a larger corporate cash pool?
2. Is your company's cash forecasting up to the demand of managing a larger corporate cash pool?
3. How has the use of the following short-term instruments changed in the past year?

	Increased	Decreased	Unchanged	N/A
Bank deposits				
Money market funds				
Direct commercial paper				
Government securities				

4. Would you like to learn more about Treasury Strategies' services?





## Contact Us



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# About Treasury Strategies, Inc.



## Who We Are

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.

## What We Do

### Corporations

We help you maximize worldwide treasury performance and navigate regulatory and payment system changes through a focus on best practices, technology, liquidity and controls.

### Treasury Technology

We provide guidance through every step of the technology process. Our expert approach will uncover opportunities to optimize the value of your treasury through fully integrated technology solutions.

### Financial Services

Our experience, analytic approach and benchmarks provide unique consulting solutions to help you strengthen and grow your business.


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