Top 50 US boardroom hoarders sit on $1tn in cash

May 10, 2015

Just five US companies are hoarding nearly half a trillion dollars as the country’s tax code and a tepid global economy deter businesses from spending their overseas cash piles.

Apple, Microsoft, Google, Pfizer and Cisco are sitting on $439bn of cash — accounting for more than a quarter of the total $1.73tn being held by US groups, according to Moody’s Investor Services. The top 50 together hold almost $1.1tn, with the iPhone maker alone accounting for more than a 10th of the cash reserves.

The Moody’s analysis showed 4 per cent growth in the cash on corporate balance sheets of the companies it covers, excluding the financial sector, over the past year. The growing cash piles underline the reluctance of boardrooms to repatriate money0020held abroad even as they tap debt markets to fund record spending on dividends, buybacks and acquisitions. Moody’s estimated that 64 per cent of the cash, or about $1.1tn, was held overseas, up from $950bn or 57 per cent a year ago.

“There has been little progress toward corporate tax reform that would incentivise US companies to permanently repatriate funds held overseas,” said Richard Lane of Moody’s. Economists with Goldman Sachs said they saw such reform as “unlikely” to happen this year or next.

Cheap borrowing costs have kept companies from dipping into foreign cash, as executives seek to avoid a tax bill on profits earned abroad. Instead, Oracle, AT&T, AbbVie and Microsoft have completed multibillion-dollar debt issuances ahead of a recent sell-off in Treasury markets, as investors prepare for the Federal Reserve to lift rates.

That could change if borrowing costs rise. Activist shareholders continue to press companies to return cash — in the form of buybacks and dividends — on which S&P 500 constituents are set to spend $1tn this year.

Executives’ desire to buy into faster growing business areas has unleashed a wave of M&A activity, with total announced deals up 26 per cent to $1.4tn since the start of 2015, according to Dealogic.

Capital spending has also climbed, up nearly 8 per cent to $937bn last year at non-financial companies rated by Moody’s. However, strategists say that growth will probably reverse, as
energy companies slash spending after a rout in oil prices to protect shareholder returns and financial liquidity.

Dubravko Lakos-Bujas, US equity strategist with JPMorgan, noted that the technology and healthcare sectors had the highest cash balances abroad, adding that the status quo was “likely to prevail” as the odds of a deal being reached in Washington were quite low.

“We believe US corporates continue to grow earnings at a high-single-digit rate with increasing corporate actions including higher buyback and M&A activity with or without repatriated cash,” he said.

Questions:

1. How much cash do 5 major US companies hold? How does it compare to the other US firms?
2. How much did the cash reserves grow over the past year? Why?
3. How much cash is estimated to be held overseas?
4. Why is it “unlikely” that firms will repatriate funds overseas?
5. What are companies doing for funds instead of using foreign cash?
6. What will be the effect of increasing borrowing rates on foreign cash holdings?
7. What are the recent trends on M&A and capital spending? Do you think these trends will continue?
8. Which sectors have the highest cash balances overseas? Do you think they will go on keeping high cash reserves?
European companies stash more cash away

Sarah Gordon, business editor

Europe’s companies have increased the amount of cash they are hoarding, preferring to use cheap debt to finance deals or investment.

“Companies are finding it more attractive to finance their deals through debt rather than using their cash, due to abundant liquidity and low interest rates,” said Jean-Michel Carayon, senior vice-president at Moody’s, the credit rating agency.

Cash holdings remain very concentrated in a few companies and sectors, with the top 10 holders accounting for €211bn, nearly a quarter of the total. In December Volkswagen held €26bn, Électricité de France and BP €25bn each, followed by Fiat Chrysler and Poste Italiane with €23bn. The energy, car, telecoms and utilities sectors were the greatest hoarders, with €490bn — 56 per cent of the total.

BP’s large cash pile is partly explained by the uncertainty the oil company has faced since the 2010 Deepwater Horizon disaster, some of which was removed last week after it agreed a $18.7bn settlement with the US government and five Gulf states. BP’s Deepwater Horizon-related bill now totals $54bn.

The cash holdings of companies in Europe, the Middle East and Africa have risen 69 per cent in euro terms since 2008. William Coley, senior vice-president at Moody’s, said better discipline and more awareness of the risks around liquidity since the financial crisis underpinned corporate treasurers’ decision to hang on to their cash.

“Continuing circumstances around Greece are a reminder that these risks have not gone away,” he said.
The rise in cash holdings at Europe’s companies comes despite the rewards for doing so hitting record lows. Some banks have even imposed negative interest rates on deposits — charging corporate clients for holding their cash.

Gross cash and cash equivalents held by 672 Emea companies rated by Moody’s rose 6 per cent last year, from €820bn at the end of 2013 to €870bn at the end of December. In US dollar terms, the total cash held by Emea companies was $1.06tn at the end of 2014, slightly lower than $1.13tn at the end of 2013.

Russian companies’ cash balances fell over 2014, mainly as a result of lower new debt issuance and oil prices, Moody’s said. While in June 2013 Gazprom had the second-highest cash balance among the rated Emea universe, it now no longer appeared in the top 10.

Italian companies held nearly two and a half times as much cash at the end of 2014 as they did in 2008, with the surge in Fiat Chrysler’s holdings explained by its acquisition of Chrysler. The car manufacturer also has large borrowings — net debt stood at €8.6bn at March 31. Moody’s said that, as well as holding large cash balances, Emea companies had increased their total debt every year since 2011.

German companies decreased their cash piles in 2014, with the fall mainly due to three companies, BMW, Daimler and Volkswagen. In December Daimler made a €2.5bn contribution to its company pension fund to reduce underfunding caused by low levels of interest rates.

The findings mirror trends in the US, where nine companies, six of them in the tech sector, have holdings of more than $30bn each. US non-financial companies rated by Moody’s held $1.73tn of cash as of the end of 2014, up 4 per cent from $1.67tn at the end of 2013.

Questions:

1. What are European companies doing with their cash?
2. Why are companies using debt rather than cash in financing according to Moody’s?
3. Who are manila holding large amounts of cash? How much?
4. Why does BP hold large amount of cash?
5. According to Moody’s how much did cash holdings of companies in Europe, Middle East and Africa increase? Why?
6. How are banks handling deposits latterly?
7. How does Russian companies doing in terms of cash holdings?
8. What about Italian companies?
9. What about German companies?
10. Do developments in the Europe in regards to cash holdings look like what is observed in US? Why? Why not?