The Quarterly UK & Eurozone Corporate Cash Report™

Treasury Strategies

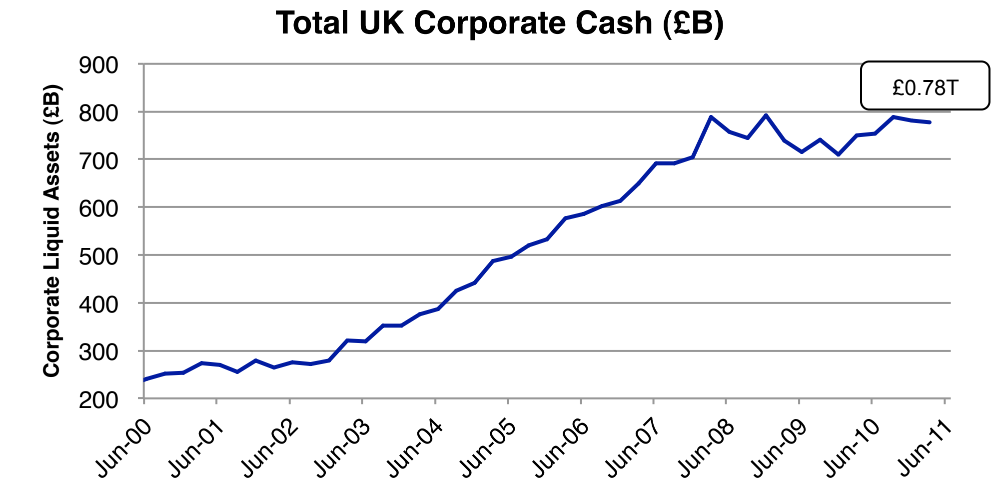
October 2011
Volume 2, Issue 1

Corporate Cash Remains Near Record Highs

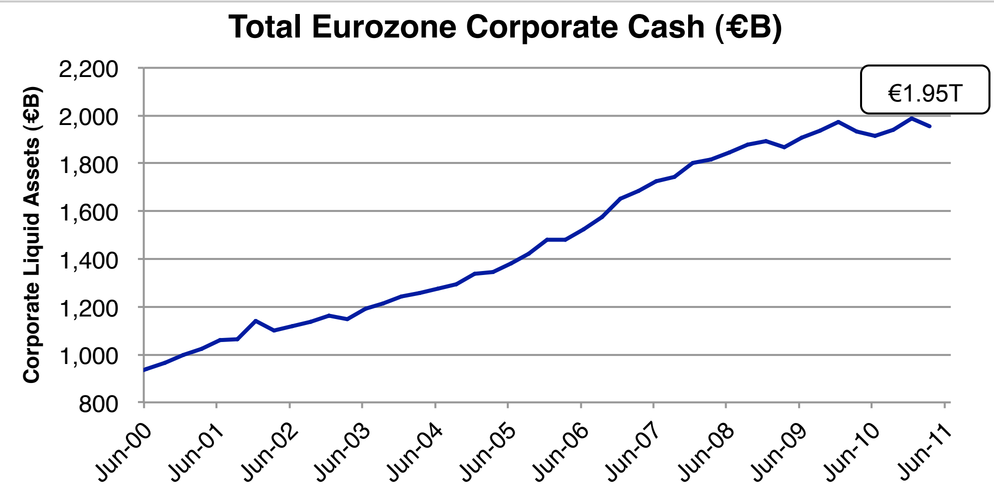
UK and Eurozone corporate cash and short-term investments remain near all- time highs as of the first quarter of 2011. The region has been experiencing moderate-to-strong corporate cash growth for over a decade. An acceleration in cash growth occurred in 2002 that leveled off at the onset of the financial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

Background

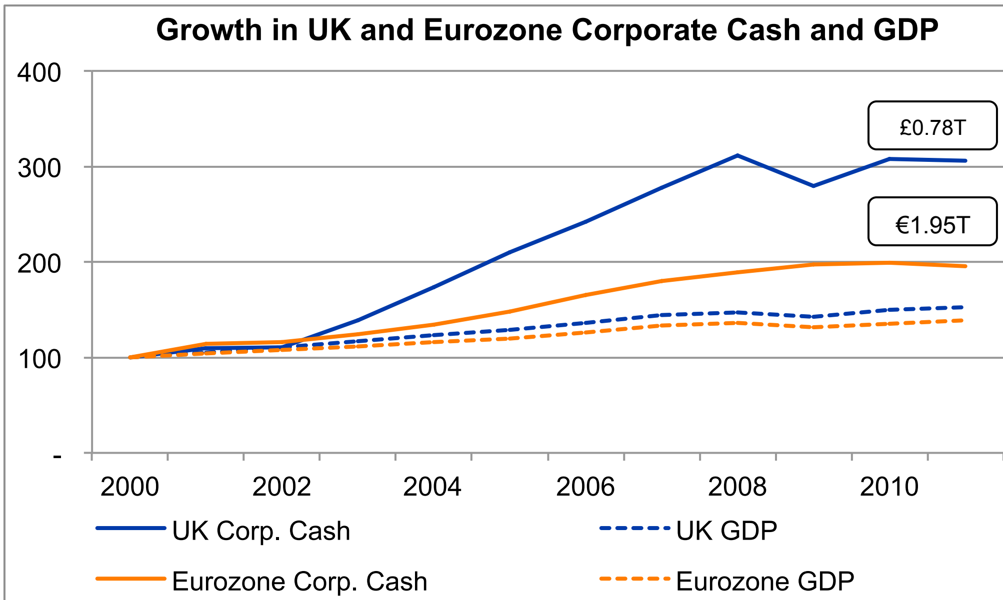
Over the past 10 years, corporate cash has grown across the region at an unprecedented rate. The historical relationship between corporate cash and GDP changed materially in 2002 and continues to evolve as post-recession policies develop. Since the recession began, growth in corporate cash has plateaued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



Source: Office for National Statistics



Source: ECB

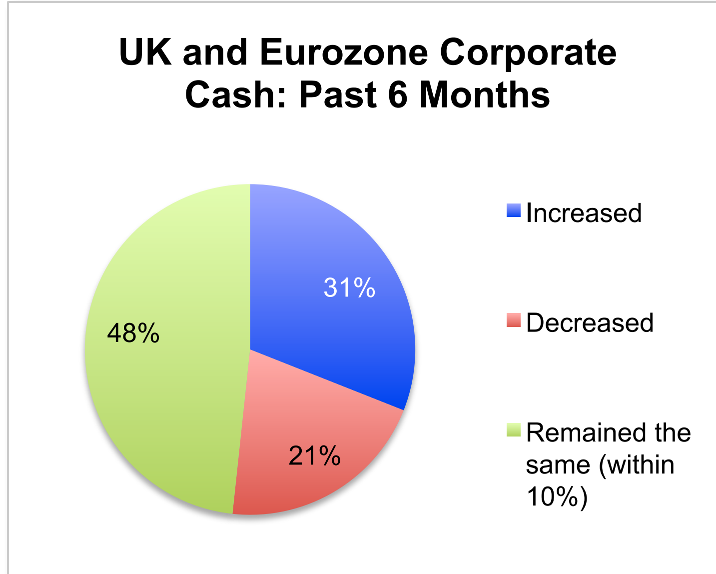


Sources: Treasury Strategies, Inc., Office for National Statistics, and ECB
Note: 1Q 1980 = 100

Overview

Based on conversations and surveys with 80 clients from the UK and Eurozone, Treasury Strategies found several reasons why corporations continue to increase their cash levels.

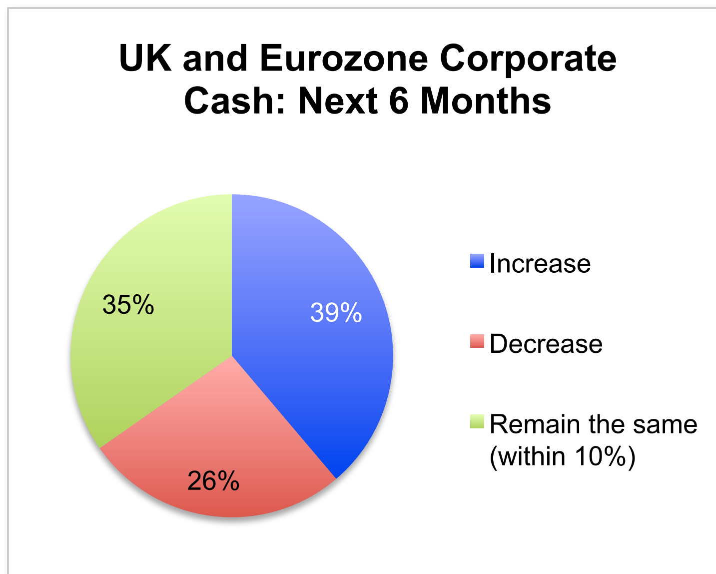
1. Cash flow from operations is strong, but Treasurers remain cautious.
2. Corporations are looking to invest in their businesses through capital expenditures, albeit at modest levels.
3. The number of corporations expecting to increase cash is rising.



Corporate Cash Levels

During the past six months, 31% of our UK and Eurozone clients increased their cash levels, while 21% actually decreased cash.

In projections for the next six months, 39% plan to increase cash. Additionally, our clients indicate that improved cash flow from operations is outpacing strategic investments and other uses of cash. Thus, we anticipate total corporate cash levels will continue to rise across the region.

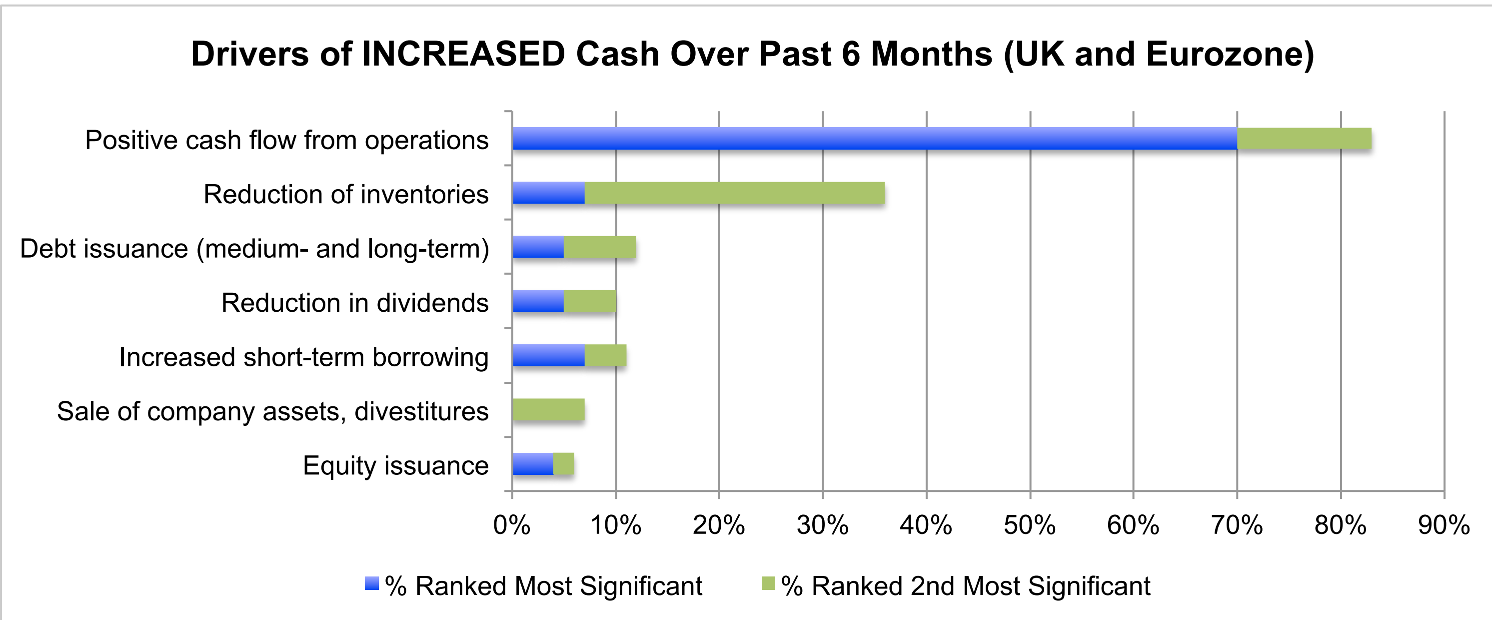


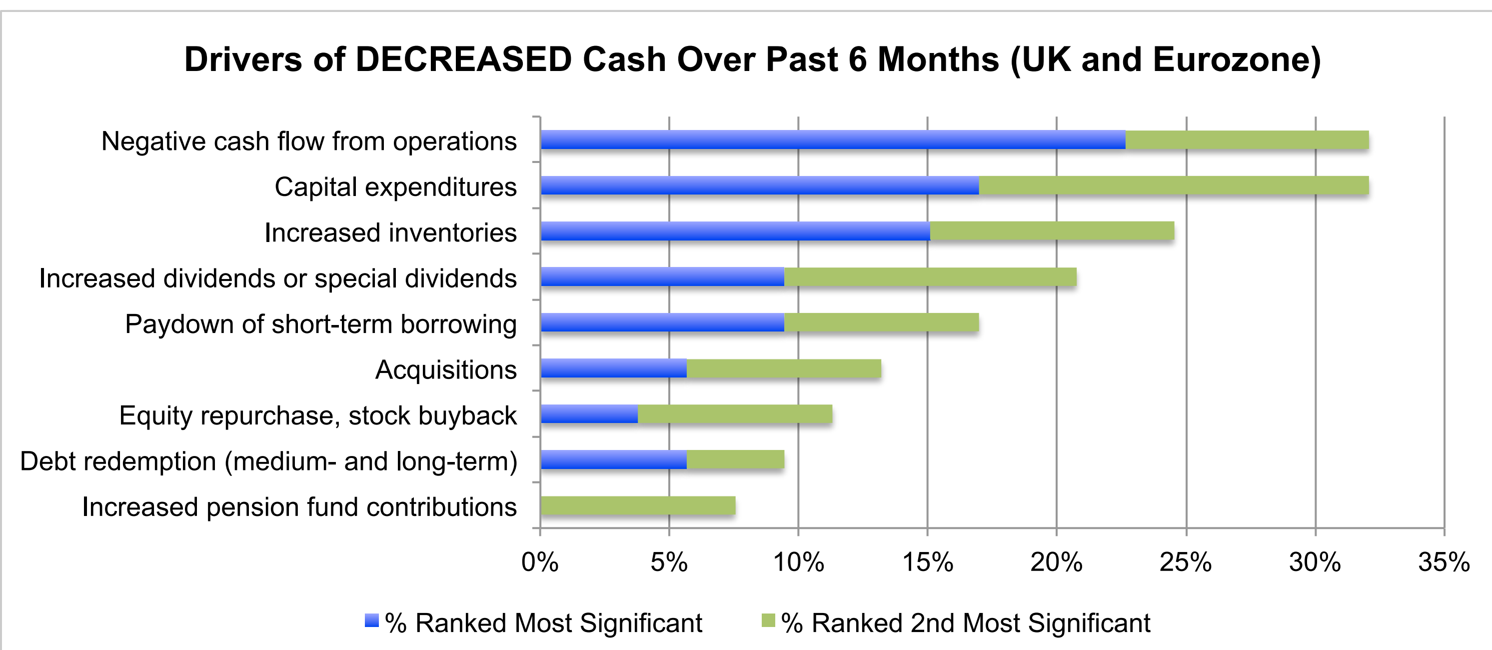
UK and Eurozone Corporate Cash Next 6 Months	Sep-10	Dec-10	Mar-11	Jun-11	Sep-11
Expected Increase	44%	24%	60%	27%	39%
Expected Decrease	29%	9%	13%	36%	26%
Expected to Remain the Same	27%	67%	27%	36%	35%

The Past Six Months

Drivers of Increased Cash Levels – "Positive cash flow from operations" was noted by 82% of companies as either their 1st or 2nd most powerful contributor to increased cash. The second most often cited driver was the reduction of inventories at 36%. These figures demonstrate that the business outlook is improving.

Drivers of Decreased Cash Levels – Over the past six months, 32% of UK and Eurozone companies indicate they invested in capital expenditures, and 32% also had to replenish negative operating cash flow. An additional 13% of clients made an acquisition.





The Next Six Months

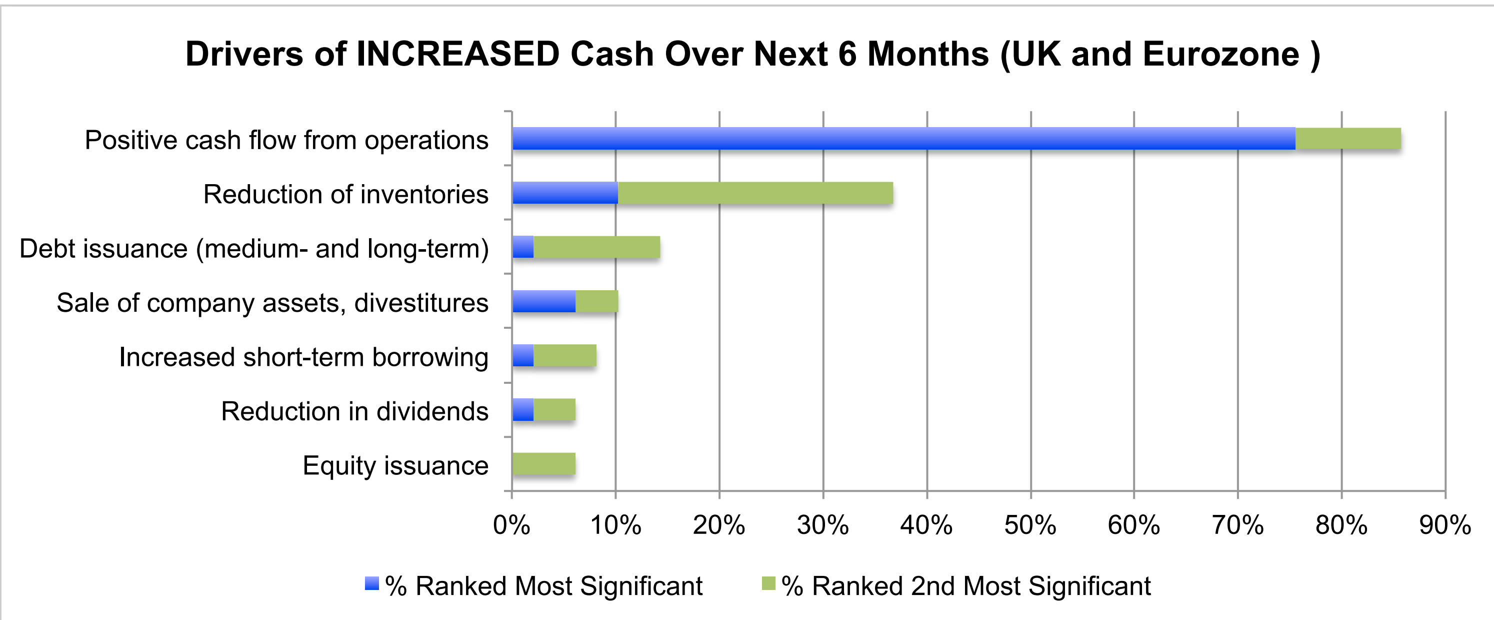
Looking forward, a number of signs indicate the business outlook is becoming more optimistic.

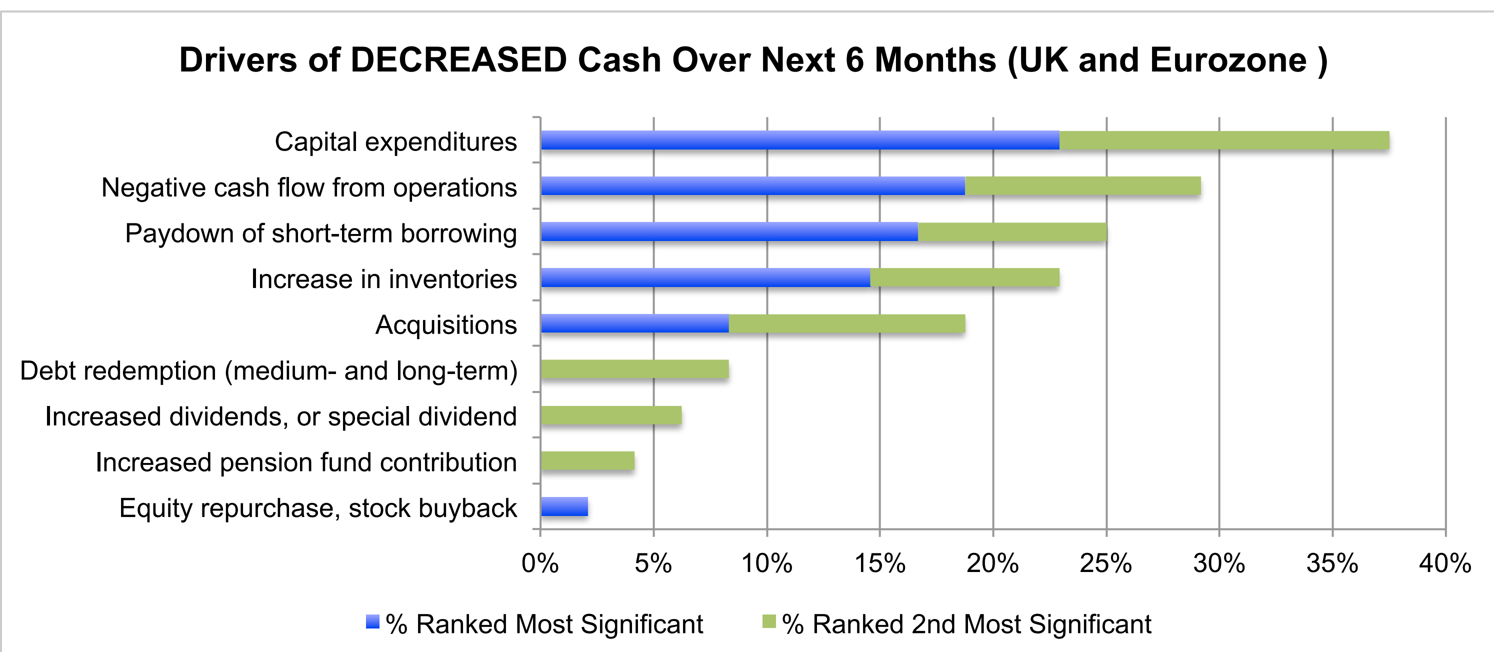
Cash Levels – We anticipate cash will continue to rise over the next six months.

Drivers of Increased Cash Levels – Companies continue to expect strong cash flow from operations.

We see that companies continue to run lean operations, and they are taking steps to remain as liquid as possible in an uncertain environment.

Drivers of Decreased Cash Levels – The largest anticipated uses of cash in the next six months are capital expenditures at 38% and replenishing negative cash flow from operations at 29%.





Changes to Corporate Cash Management

Companies expect high cash levels to remain for a long time. We see them making substantial investments in their treasury infrastructure.

- 33% plan to invest in improved 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.

- 25% plan to invest in upgraded 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.

Outlook on Liquidity

Corporate cash is indeed at record levels, and our clients told us the growth in cash is unlikely to slow down anytime soon.

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.

Plans for Next 6 Months (UK and Eurozone)	
Increase reliance on cash forecasting	33%
Implement new technology for cash management	25%
Formally modify risk management policies	23%
Formally modify investment policies	18%

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.

Treasury Strategies

The Power of Experience®

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

© Copyright 2011 Treasury Strategies, Inc. All rights reserved