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THE CORPORATE CASH DILEMMA

By,
Sonia Mintun, CFA
Director, Portfolio Manager
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According to ISI Group, the Standard and Poor's 500 largest companies had over $1.9 trillion in cash outside of the U.S. at the end of 2013, which is four times the level a decade ago. Since the financial crisis, many companies have focused on fortifying their balance sheets with cash. In fact, U.S. Trust put out a ranking showing that Apple's corporate cash hoard was greater than that of the cash reserves of Malaysia, Turkey and Poland.

Exhibit 2: Global Cash Reserves – Top U.S. Companies vs. Nations.

(Cash and international reserves levels)*

Rank	Company/country	Cash/reserves ($billion)	Rank	Company/country	Cash/reserves ($billion)
1	Apple	159	26	South Africa	42
2	Malaysia	130	27	Colombia	41
3	Turkey	109	28	Qatar	41
4	Poland	99	29	Chile	39
5	Indonesia	93	30	Germany	39
6	Microsoft	84	31	Oracle Corporation	37
7	Denmark	82	32	Lebanon	36
8	Israel	80	33	Italy	36
9	Iraq	74	34	Angola	32
10	Philippines	74	35	Qualcomm	32
11	UK	70	36	Johnson & Johnson	29
12	UAE	67	37	Kuwait	29
13	Peru	63	38	Spain	29
14	Google	59	39	General Motors	28
15	Canada	58	40	France	27
16	Sweden	55	41	Merck	27
17	Norway	55	42	Intel	26
18	Verizon Communications	54	43	Ford Motor	25
19	Czech Republic	54	44	Argentina	25
20	Pfizer	49	45	Amgen	23
21	U.S.	48	46	Coca-Cola Company	20
22	Cisco Systems	47	47	Ukraine	19
23	Hungary	46	48	Kazakhstan	19
24	Romania	45	49	Morocco	18
25	Australia	43	50	EMC	18

*International reserves exclude gold holdings.

Sources: Company filings and Moody's Financial Metrics; IMF.

Data as of 2013.

U.S Trust bank

Furthermore, corporate cash is concentrated in a few hands with the top 50 cash holders accounting for 62% of the total. Moody's has a recent study which shows the five largest cash holders-Apple, Microsoft, Google, Verizon and Pfizer with $404 billion in collective cash at the end of 2013 which was 16.4% greater than the end of the previous year. Technology, healthcare and industrial sectors dominate the top cash holders, often because these industries move intellectual property and patents to low tax jurisdictions to avoid paying a U.S. tax rate of 35%.

For investor, what are the implications of these large cash positions?

1. While many say that cash is king, it has also made some of these companies targets for activists. One example of this is Carl Icahn putting pressure on Apple to return cash to shareholders. Companies are also winning fewer proxy fights with activists increasingly in the fold, 35% win rate in 2013 versus 65% in 2010 according to Moody's.

2. Companies could look to make more large foreign acquisitions such as a General Electric's $17 billion bid for the electricity assets of France's Alstom, or Pfizer's cash and stock bid for AstraZeneca valued at $117 billion. As part of the Pfizer/ AstraZeneca deal, Pfizer would reincorporate their headquarters in the UK for significant U.S. tax savings. With this corporate inversion, Pfizer would retain its material operations in the U.S. About 15 companies have moved their U.S. headquarters overseas due to higher U.S. corporate tax rates since 1999 including Eaton, AON, Weatherford and Actavis as examples.

3. Companies can take a large tax hit to bring funds back to the U.S. eBay recently announced that they are bringing back $9 billion back to the U.S., resulting in a $3 billion tax charge or 4% of their market cap.

4. Companies can increase their debt while keeping tax dollars overseas. Some top U.S. companies have increased borrowing in the last three years while keeping their cash dollars overseas and avoiding taxes. Companies such as Merck, Chevron, Cisco and Apple have all used the proceeds from debt issuance to increase dividends and stock buybacks.

5. Companies can spend shareholder money to lobby for a lower U.S. corporate tax rate.

One thing is without question; many U.S. corporations haven't forgotten the credit crunch and have a lot of cash at their disposal. More importantly, many companies are better positioned to face uncertain times than they were in 2007. The cash cushion allows them the flexibility to make new investments, return capital to shareholders, support the dividend or increase their R&D effort when the competition may not be able to. Finally, it also raises the awareness for corporate tax reform and increases the potential for corporate activism.

Sonia Mintun, CFA, is a Director, Portfolio Manager at Ancora Advisor LLC a SEC Registered Investment Advisor. She is also a Registered Representative of Safeguard Securities, Inc. (Member FINRA/SIPC)