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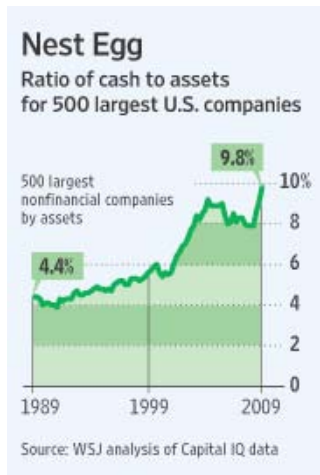
WSJ.com

Jittery Companies Stash Cash

After Crisis, Big Businesses Hoard Most Bucks in 40 Years; Google's \$22 Billion Cache

By TOM MCGINTY and CARI TUNA

Stung by the financial crisis, companies are holding more cash -- and a greater percentage of assets in cash -- than at any time in the past 40 years.



In the second quarter, the 500 largest nonfinancial U.S. firms, by total assets, held about \$994 billion in cash and short-term investments, or 9.8% of their assets, according a Wall Street Journal analysis of corporate filings. That is up from \$846 billion, or 7.9% of assets, a year earlier.

The trend appears to have continued in the third quarter, despite an improving economy. Of those 500 companies, 248 have reported third-quarter results. Their cash increased to 11.1% of assets, from 10.1% in the second quarter. Companies as diverse as [Alcoa Inc.](#), [Google Inc.](#), [PepsiCo Inc.](#) and [Texas Instruments Inc.](#) all reported big third-quarter increases in cash holdings.

"Everyone is hoarding cash," says Carsten Stendevad, head of Citigroup Inc.'s financial-strategy group. He and others call that a hangover from the financial crisis a year ago, when companies couldn't raise money or had to pay much higher rates than usual.

Large cash balances are both a curse for the economy and a potential blessing. Hoarding means companies are spending and investing less, damping economic growth. But that leaves them with more cash to deploy as the economy improves, giving them a freer hand to acquire, and to restart hiring and capital spending.

Large cash balances are "great news for the macroeconomy," says Mr. Stendevad. "A lot of firms now are in a position...to start reinvesting again, and that ultimately is what is going to drive employment."

In response to last year's financial crisis, executives have bolstered rainy-day funds to ensure they can cover day-to-day operations. Aggressive cost cutting and a recent boom in debt issuance also have swelled cash balances.

Many companies have no plans for the cash, beyond peace of mind. "They'd have to beat me over my head to get it out of my hands," says Charles McLane, Alcoa's chief financial officer.

The aluminum maker reported holding \$1.1 billion in cash and cash-equivalents on Sept. 30, up 28% from a year earlier. As revenue slumped this year, Alcoa cut its dividend, its spending and more than 15,000 jobs to save cash. Alcoa posted a profit in the third quarter, but Mr. McLane remains cautious. "We're just going to be extremely prudent" about managing cash, he says.

Some companies are considering targeted spending or acquisitions. Semiconductor maker Texas Instruments this year has acquired two small companies, plus equipment from a bankrupt competitor. TI reported \$2.8 billion in cash and short-term investments as of Sept. 30, up 42% from a year earlier, despite a 26% decline in revenue in the nine months ended Sept. 30, from the year-earlier period.

Chief Financial Officer Kevin March says executives decided a year ago to amass cash so they could seize opportunities to buy cheap manufacturing capacity, technology and other assets. Now, he says, TI can "move very quickly" on deals while maintaining strong reserves.

The cash stockpiling has accelerated a trend that dates back about two decades. In the second quarter of 1991, the 500 largest nonfinancial companies held 3.9% of their assets in cash, according to the Journal's analysis of data from corporate filings compiled by Capital IQ, a Standard & Poor's business. That number rose steadily to 9.2% in mid-2004.

Rene Stulz, a finance professor at Ohio State University's business school, says companies increased cash holdings as globalization and technological change exposed them to more risk. "Firms are riskier than they used to be, so they need a bigger security blanket," he says. They are holding more of their assets in cash than at anytime since the 1960s, when payment automation reduced the need to hold cash for daily operations, he says.

Kathleen Kahle, a professor at the University of Georgia's business school, offers another reason: the growth of high-tech companies, which tend to hold lots of cash. Younger, riskier firms have more difficulty raising money when credit is tight, so they keep more cash on hand, she says. "At the same time, they have a lot of growth opportunities and want to make sure that they have the funds necessary to invest in good projects," she adds.

At the end of the second quarter, the 54 biggest information-technology firms held \$280 billion -- or 27% of their assets -- in cash, according to the Journal's analysis, a higher percentage than any other industry group. Cash balances grew further in the third quarter for the 34 companies in that group that have reported results.

Consider Google. The search giant's cash and short-term investments rose 53% to \$22 billion in the third quarter from a year earlier, accounting for 58% of its total assets.

The cash provides "operating and strategic flexibility," Google Chief Executive Eric Schmidt told analysts last month. "We're very happy to have it sit in our bank account and earn a modest interest rate."

The cash-hoarding trend reversed for a few years earlier this decade, as activist investors and hedge funds pressured companies to put cash to use. Private-equity firms turned cash-flush companies into takeover targets, using the cash to repay acquisition debt. By the first quarter of 2008, the percentage of assets held in cash had fallen to 7.9%.

Then came the credit crisis. Unable to raise money in the bond markets or even issue short-term debt known as commercial paper, companies began slashing expenses and stockpiling cash. "Cash suddenly became very strategic," says Citigroup's Mr. Stendevad.

In the fourth quarter of 2008, cash holdings of the 500 largest companies jumped by \$46 billion, or 5%, to \$886 billion. Their cash balances increased by another 12% in the first half of this year, to \$994 billion.

As investors regained an appetite for corporate debt last spring, companies rushed to take advantage. Through Friday, companies in the S&P 500 have issued \$548 billion in corporate bonds this year, up from \$403 billion in the year-earlier period, according to data provider Dealogic.

Some of that cash is now sitting idle on balance sheets. **Baxter International Inc.** sold \$500 million in 10-year notes in August, helping to increase its cash and short-term investments by \$769 million, or 43%, between the second and third quarters. A spokeswoman says Baxter plans to use the cash over time for working capital, capital spending, dividend payments, share repurchases and business development.

Pepsi plans to issue debt to cover roughly half of the \$7.8 billion cost of acquiring its two largest bottlers without touching the company's \$3.5 billion in cash and short-term investments. The cash total is up from \$1.9 billion a year ago. The money will be reinvested over time with an eye toward growth, says a company spokeswoman.

Today investors are rewarding companies with big cash hoards, says Citigroup's Mr. Stendevad. But some firms have more than they need, he says, and investors are starting to pressure executives to reinvest the money or return it to shareholders through stock repurchases or dividends.

"During the crisis, no amount of cash was sufficient," he says. "Now it's about growth again."

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