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US companies' cash pile hits $1.7tn

Eric Platt in New York

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Five tech groups hold $504bn in cash between them, nearly a third of the $1.7tn on balance sheets of US non-financials

Five US tech giants are hoarding more than half a trillion dollars, a record sum that underscores how cash has become increasingly concentrated at a handful of groups seeking to avoid a tax hit.

Apple, Microsoft, Alphabet, Cisco and Oracle had amassed $504bn of cash by the end of 2015, nearly a third of the total $1.7tn held on the balance sheets of US non-financial companies, according to a new report from rating agency Moody's. The top 50 holders accounted for $1.1tn of that amount.

US multinationals have left roughly $1.2tn of their earnings overseas in an effort to skirt the tax charge of moving profits back to US shores under the country's complex tax code.

It is the first time the top five cash hoarders have been made up exclusively of tech groups, an industry that generates more of its sales abroad than any other sector and one that has been embroiled in tax disputes in both the US and Europe.

The ever increasing amount of cash also highlights <u>how US boardrooms are reticent to invest in their businesses</u>, choosing instead to increase dividends, in a sign of the continued anxiety that economic activity could still slow at home or in China.

The report showed the first annual dip in capital spending since the US emerged from recession. Expenditures on things like new equipment slipped 3 per cent to $885bn as energy and mining groups retrenched in the face of sharply lower commodity prices.

"Companies are hoarding cash," said Jack Ablin, chief investment officer at BMO Private Bank.

<u>Apple accounted for more than a tenth of the total cash reserves, holding $216bn, 93 per cent of which is overseas.</u> The top-five list included the addition of Oracle, which ousted Pfizer after the pharmaceuticals group completed its $17bn takeover of Hospira.

The iPhone maker is currently under investigation by the European Commission for its overseas tax practices, with Brussels questioning whether its huge cash pile was compiled by sweetheart tax deals in Ireland. A decision in the case, which could include a multibillion-dollar fine, is expected within the next two months.

Despite the mounting pressure, Moody's analysts expect companies to leave cash abroad as the US election looms. Groups are instead expected to deepen their reliance on debt, issuing bonds to finance shareholder returns and mergers and acquisitions.

"At this stage in the political cycle and given strong differences on both sides of the aisle in Washington, we do not expect tax law reform that would prompt overseas cash repatriation," said Moody's Richard Lane.

<u>The failure of companies to invest their cash pile has frustrated investors</u> who say companies are not ploughing enough back into their underlying businesses, in research and development, to reinvigorate sales.

"If you look at the most recent GDP report . . . investment was down at an annualised rate of well over 5 per cent, a dramatic drop," said Mr Ablin.

<u>But the rising cash piles mask a rapid increase in debt</u>. For the first time since 2012, cash, short-term investments and liquid long-term investments slipped below debt maturities due over the next five years, Moody's found.

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Total debts rose nearly $850bn last year to $6.6tn, a separate report from S&P showed, which put overall cash levels in the US at a slightly higher $1.8tn. While cash had increased by about $600bn over the past five years, obligations surged by $2.8tn.

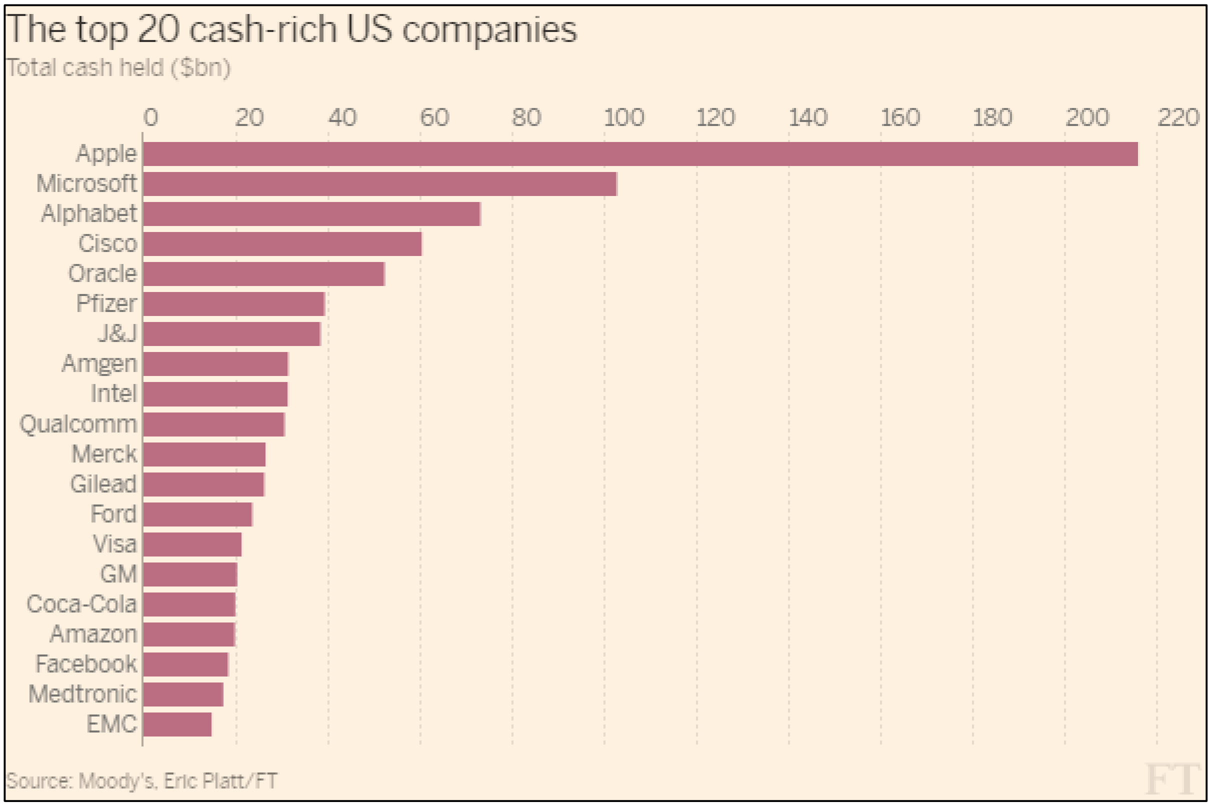
<u>The increased leverage has been concentrated in smaller and lower quality groups that took advantage of record-low borrowing costs spurred by stimulative monetary policy.</u>

While the top 25 cash hoarders hold cash in excess of their obligations, the cash-to-debt ratio fell to 12 per cent for low-rated junk companies. In 2010, that figure stood above 20 per cent.

"Companies aren't exactly flush with cash," S&P analyst Andrew Chung added. "As the credit cycle ages, rates rise and macroeconomic growth slows, that's when companies in the bottom 99 per cent who levered up [could have] funding issues."

The increased leverage has not deterred investors from hoovering up large US debt sales, which topped $400bn earlier this week as bankers completed billion-dollar plus transactions for Dell, CVS Health, Southern Co and Boeing.

Investors have pointed to the drop in sovereign debt yields as they buy up corporate bonds, with nearly $10tn of debt trading with a negative yield.


The top 20 cash-rich US companies
Total cash held ($bn)
0
20
40
60
80
100
120
140
160
180
200
220
Apple
Microsoft
Alphabet
Cisco
Oracle
Pfizer
J&J
Amgen
Intel
Qualcomm
Merck
Gilead
Ford
Visa
GM
Coca-Cola
Amazon
Facebook
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