Tactical Liquidity Management (How to make cash work in a low interest rate environment)

Gary Greene, CTP, AIF
Managing Director
Raymond James

Dwight Seeley, CPA, CTP
Director, Cash Management
Community Health Systems
Historical Perspective on Corporate Cash

- **Prior to 2008**
  - Commercial Paper
  - Money Markets
  - Auction Rates

- **2008 – 2012**
  - FDIC (unlimited) – Bank deposits/ECR
  - US Treasury Securities

- **2012 - 2013**
  - FDIC ($250k limit) – Bank deposits/ECR
  - US Treasury Securities
  - Money Markets
  - Commercial Paper
  - CDAR’s

% of Total
- 50%
- 74%
Current Perspective on Corporate Cash

• 2013 has issued in the “Fiscal Cliff”
• Safety of money is over
• Floating NAV on money markets
• How do we measure risks – Credit Risks and Market Risks? If we are going to measure risks, we want to get earn something for those risks.
• How much liquidity do we really need?
Balance Sheet Cash Buckets

**Liquidity**
- Typical Investments
  - Overnight
  - DDA/ECR
- Tenure 1-7 days

**Cyclical/Seasonal**
- Typical Investments
  - VR Demand Notes
  - CP
  - CDRS
- Tenure – 30-90 days

**Core Cash**
- Typical Investments
  - Customized Portfolio
  - Stocks
  - Bonds
- Tenure – < 90 days

Priority
- High
- Medium
- Low

Capital Preservation
Liquidity
Return

AFP® Annual Conference
Daily Cash Volatility
Cash Flow at Risk

Millions

(150) (100) (50) 0 50 100 150 200
Cash Flow Statistics

- Days of Net Inflow : Days of Net Outflow
  189 days : 122 days
  1.55 : 1.00

- Average Change in Daily Cash $808,850

- Standard Deviation of Daily Change $34,480,146
Economic Update

1. What is up with the Fed?
2. Federal Debt & Deficit
3. Markets
4. Economic Game Changers
   1. Housing & Population
   2. Energy Renaissance
   3. Industrial Renaissance
   4. 3D Printing
Fed’s Balance Sheet: Assets

Fed’s Balance Sheet: Liabilities

Money Multiplier

Federal Funds Rate & FOMC Interest Rate Projections


Monetary base is defined as the total amount of a currency that is either circulated in the hands of the public or in the commercial bank deposits held in the central bank’s reserves. Money multiplier defined as M2 divided by the monetary base. Long-term Fed projection is the average of expectations of FOMC members. Other liabilities of the Federal Reserve primarily consist of the monetary base.

Data are as of 6/30/13.
Billions

Source: Treasury Direct – Graph represents the total outstanding direct, excluding non direct debt and unmet entitlement obligations.

Outstanding Debt

Source: Treasury Direct – Graph represents the total outstanding direct, excluding non direct debt and unmet entitlement obligations.
Billions

Source: Treasury Direct – Graph represents the total interest cost on direct debt, excluding non direct debt and unmet entitlement obligations.

Interest Cost on Debt

[Graph showing the interest cost on debt from 1988 to 2012 in billions]

AFP® Annual Conference
The 2013 Federal Budget
CBO Baseline forecast, trillions USD

Total Spending: $3.5tn
- Other: $359bn (10%)
- Net Int.: $223bn (6%)
- Non-defense Disc.: $461bn (13%)
- Defense: $751bn (22%)
- Social Security: $809bn (23%)
- Medicare & Medicaid: $852bn (25%)
- Social Insurance: $952bn (28%)
- Corp.: $291bn (8%)
- Income: $1,333bn (39%)

Borrowing: $642bn (19%)

Federal Outlays and Receipts
1960 - 2013, % of GDP

2013 Federal Budget is based on the CBO's May 2013 Baseline Scenario. Other spending includes, but is not limited to, health insurance subsidies, income security, and federal civilian and military retirement.
Note: Years shown are fiscal years (Oct. 1 through Sep. 30).
Data are as of 6/30/13.

AFP Annual Conference
Graph show the S&P 500 index on a month end closing basis with a logarithmic scale. The line study is the linear regression with the 1st and 2nd standard deviations.
Source: Bloomberg LP – Graph show the S&P 500 index on a month end closing basis with a logarithmic scale. The lines are for informational purposes only and are not intended to be exact or accurate, but are to simply indicate markets movements.
S&P 500 Earnings Per Share
Operating basis, quarterly

- 2Q07: $24.06
- 1Q13: $25.77

Adjusted After-Tax Corporate Profits (% of GDP)
Includes inventory and capital consumption adjustments

- 1Q13: 9.7%

50-yr. avg.: 6.2%

Total Leverage
S&P 500, ratio of total debt to total equity, quarterly

- Average: 172%
- 1Q13: 107%

Source: Standard & Poor’s, Compustat, BEA, J.P. Morgan Asset Management.
EPS levels are based on operating earnings per share. Most recently available data is 4Q12 as 1Q13 are Standard & Poor’s estimates with 99.7% of companies reported.
Past performance is not indicative of future returns.
Data are as of 6/30/13.
Corporate Cash as a % of Current Assets
S&P 500 companies – cash and cash equivalents, quarterly

Corporate Growth
$bn, nonfarm nonfinancial capex, quarterly value of deals completed

Dividend Payout Ratio
S&P 500 companies, LTM

Cash Returned to Shareholders
S&P 500 companies, rolling 4-quarter averages, billions USD


(Top left) Standard & Poor's, FactSet, J.P. Morgan Asset Management. (Top right) M&A activity is the quarterly value of deals completed and capital expenditures are for nonfarm nonfinancial corporate business. (Bottom left) Standard & Poor’s, FactSet, J.P. Morgan Asset Management. (Bottom right) Standard & Poor’s, Compustat, FactSet, J.P. Morgan Asset Management. Data are as of 6/30/13.
Home Building Must “Boom” to Normalize

Housing Starts, thousands, annual rate  Jan 2004 – Apr 2013

Normal = 1.5 Million

Source: Census Bureau

AFP® Annual Conference
World Labor Force Growth

Source: Census Bureau

2011-2050 data estimated

- United States: 73.8%
- China: 42.4%
- Western Europe: 29.1%
- Japan: -9.8%
- India: -123.9%
- Russia: -43.5%
- Brazil:
U.S. Crude Oil Production, 1992 – May 2013

Source: Department of Energy, FT Advisors
Total Petroleum Production: Saudi Arabia vs. U.S.

mlllion barrels per day    Jan. 2001 – Feb. 2013

Source: EIA
Middle East Energy Production & Chokepoints
Percent of global liquid fuel production, 2012*

- Suez Canal: 2.2%
- Syrea: 0.2%
- Kuwait: 3.4%
- Egypt: 0.8%
- Libya: 1.8%
- Sudan: 0.1%
- Bab el-Mandeb: 3.4%
- Strait of Hormuz: 17.0%

U.S. Natural Gas Production
Trillions of cubic meters, USD

Natural Gas Prices by Country
USD per mmBTU*

<table>
<thead>
<tr>
<th>Major Producers</th>
<th>Major Consumers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Saudi Arabia</td>
<td>United States</td>
</tr>
<tr>
<td>United States</td>
<td>China</td>
</tr>
<tr>
<td>Russia</td>
<td>Japan</td>
</tr>
</tbody>
</table>

- Saudi Arabia: 13%
- United States: 21%
- Russia: 12%
- United States: 5%
- China: 11%
- Japan: 5%
- China: 4%
- Saudi Arabia: 3%
- Brazil: 3%

Source: EIA, J.P. Morgan Asset Management.
Forecasts are from the EIA Annual Energy Outlook 2013. *mmBTU represents 10,000 million British thermal units. Natural gas prices are as of June 2012. *Production numbers as of 2012, while chokepoints are 2011 data.

Data are as of 6/30/13.
North Dakota Bakken and Texas Eagle Ford Shale

Texas Eagle Ford Shale
Barrels Per Day
- 2008: 352
- 2009: 843
- 2010: 15,163
- 2011: 127,984
- 2012: 362,935
- 2013 – Q1: 512,455

North Dakota Bakken Shale
Barrels Per Day
- 2008: 172,000
- 2009: 218,000
- 2010: 310,000
- 2011: 419,000
- 2012: 728,000
- 2013 – Q1: 766,663

Source: Railroad Commission of Texas, EIA, FT Advisors

AFP® Annual Conference
## Manufacturing Coming Back to the U.S.

<table>
<thead>
<tr>
<th>Company</th>
<th>Plant Location</th>
<th>Investment</th>
<th>Announced</th>
</tr>
</thead>
<tbody>
<tr>
<td>BMW</td>
<td>South Carolina</td>
<td>$900 Million</td>
<td>1/12/2012</td>
</tr>
<tr>
<td>General Motors</td>
<td>Kansas City, KS</td>
<td>$600 Million</td>
<td>1/28/2013</td>
</tr>
<tr>
<td>GE Aviation</td>
<td>MS, AL, OH</td>
<td>$580 Million</td>
<td>2/13/2012</td>
</tr>
<tr>
<td>Sundrop Fuels</td>
<td>Louisville, KY</td>
<td>$450 Million</td>
<td>2/20/2012</td>
</tr>
<tr>
<td>Toyota</td>
<td>Indiana</td>
<td>$400 Million</td>
<td>2/08/2012</td>
</tr>
<tr>
<td>Timken</td>
<td>Stark County, OH</td>
<td>$225 Million</td>
<td>2/28/2012</td>
</tr>
<tr>
<td>Weispun</td>
<td>Little Rock, AR</td>
<td>$100 Million</td>
<td>2/25/2012</td>
</tr>
<tr>
<td>InBev</td>
<td>Missouri</td>
<td>$80 Million</td>
<td>2/21/2012</td>
</tr>
<tr>
<td>Rolls Royce</td>
<td>Indianapolis, IN</td>
<td>$42 Million</td>
<td>3/06/2012</td>
</tr>
<tr>
<td>Behr Iron &amp; Metal</td>
<td>Illinois</td>
<td>$30 Million</td>
<td>2/18/2012</td>
</tr>
<tr>
<td>Hiedtman Steel</td>
<td>Calvert, AL</td>
<td>$19 Million</td>
<td>1/25/2012</td>
</tr>
</tbody>
</table>

Source: BAC Merrill Lynch U.S. Manufacturing Renaissance, FT Advisors
<table>
<thead>
<tr>
<th>Company</th>
<th>Plant Location</th>
<th>Investment</th>
<th>Announced</th>
</tr>
</thead>
<tbody>
<tr>
<td>Samsung</td>
<td>Austin, TX</td>
<td>$4 Billion</td>
<td>8/20/2012</td>
</tr>
<tr>
<td>Michelin</td>
<td>SC</td>
<td>$750 Million</td>
<td>4/10/2012</td>
</tr>
<tr>
<td>Denso</td>
<td>MI, TX, IA, CA, ND</td>
<td>$750 Million</td>
<td>1/15/2013</td>
</tr>
<tr>
<td>Airbus</td>
<td>Mobile, AL</td>
<td>$600 Million</td>
<td>7/2/2012</td>
</tr>
<tr>
<td>Ford</td>
<td>Flat Rock, MI</td>
<td>$555 Million</td>
<td>9/10/2012</td>
</tr>
<tr>
<td>Apple</td>
<td>Nevada</td>
<td>$400 Million</td>
<td>8/3/2012</td>
</tr>
<tr>
<td>Chrysler</td>
<td>Indiana</td>
<td>$374 Million</td>
<td>2/28/2013</td>
</tr>
<tr>
<td>Chrysler</td>
<td>Michigan</td>
<td>$240 Million</td>
<td>11/15/2012</td>
</tr>
<tr>
<td>Starbucks</td>
<td>Augusta, GA</td>
<td>$175 Million</td>
<td>3/21/2012</td>
</tr>
<tr>
<td>NGK Ceramics</td>
<td>Mooresville, NC</td>
<td>$93 Million</td>
<td>8/7/2012</td>
</tr>
<tr>
<td>Ohio CAT</td>
<td>Ohio</td>
<td>$50 Million</td>
<td>10/17/2012</td>
</tr>
<tr>
<td>Denver Global</td>
<td>Denver, NC</td>
<td>$30.2 Million</td>
<td>10/15/2012</td>
</tr>
</tbody>
</table>

Source: www.areadevelopment.com, FT Advisors
3D Printing

Source: theatlanticwire.com, Birds of Prey Northwest, LiveScience.com, medgadget.com, FT Advisors
Wrap Up - Questions

• What is your thesis/projection on cash?
• Is it possible to make changes in your cash strategy?
• How do you start the conversation?
Contact Information

Gary Greene
Raymond James
Gary.greene@raymondjames.com
615-764-4152

Dwight Seeley
Community Health Systems
Dwight_Seeley@chs.net
615-465-7191