REUTERS

Cash is king for companies facing hard times

Tue Feb 10, 2009 9:19am EST

By Emily Chasan - Analysis

NEW YORK (Reuters) - As the global recession deepens, companies increasingly are turning their attention to a single line on the balance sheet: Cash.

Corporate executives who used to focus on trimming expenses and growing sales are now looking for pockets of cash in their companies to build "internal liquidity" and hunker down for tough times, turnaround experts say.

"It's self help time," Tim Coleman, co-head of the Restructuring & Reorganization Advisory group at Blackstone said at a press briefing last week.

"Our advice to our clients right now is, 'You have to have liquidity, you have to have cash, and don't kid yourself.'"

In the past few weeks, companies from blue chips to those teetering on bankruptcy have announced layoffs, abandoned research and development projects, and cut everything from benefits and 401(k) matches to dividends.

Such cuts can be largely attributed to the quest for cash, said Bill Wexler, head of the corporate advisory group at turnaround firm BBK.

"These are strategic decisions for the conservation of cash," Wexler said. "There is an absence of available credit in the markets and the vigilance of existing lenders is forcing companies to turn inward."

The U.S. economy purged 598,000 jobs in January, the biggest monthly loss in 34 years, and in lieu of layoffs some companies cut work hours, or gave time off without pay.

The dividends paid by companies in the benchmark Standard & Poor's 500 index are expected to decline 13.3 percent in 2009 -- the worst annual decline since 1942, according to S&P.

By contrast, cash levels for the third quarter of 2008 were at $647.8 billion for the S&P industrials, just below the all-time high of $648.4 billion in the second quarter of 2008, according to S&P.

JUGGLING ACT

Corporate attempts to raise cash are getting increasingly creative and run the gamut, turnaround experts say.

General Electric said last week that it is evaluating its dividend, General Motors Corp and Chrysler have offered workers cash and car vouchers if they leave, and Lyondell Chemical Co, in the weeks before it filed for bankruptcy, avoided paying some bills, its chief financial officer said in court last month.

"Companies are juggling bills. They're asking what they have to pay now and what they can delay for another 30 to 60 days," said Heidi Sorvino, co-head of the bankruptcy practice at Smith Gambrell & Russell. They are also cutting back on perks for corporate executives, Sorvino said

In fact, financially troubled companies are trying to control all cash outflows and battling higher cash burn rates at the same time, according to a new study from Duke University's Fuqua School of Business and the University of Illinois at Urbana-Champaign.

The study, which polled more than 1,000 chief financial officers globally in December, found companies were cutting off investment projects, selling real estate, and drawing down credit lines at their bank just in case they need the cash.

Almost 86 percent of CFOs at financially constrained companies said they were unable to pursue value-enhancing projects because they lacked external funds, and 70 percent said they were selling off more assets now than before, despite the difficult market conditions.

"Firms are in survivor mode right now, and to maximize your chance of surviving this thing, you need cash," said Campbell Harvey, one of the Duke professors who ran the study.

One of the first things to go is inventory, since it is among the easiest things to sell, Harvey said.

Liquidity Services Inc which runs the retail inventory auction website Liquidation.com, said struggling retailers are paying much closer attention to their inventory levels.

Volume on the website was eight times above 2007 levels even before Christmas last year, as retailers sent goods straight to auction to raise cash, without even trying to sell them on their shelves.

"People are battening down the hatches, looking forward in a more thoughtful way, and are trying to proactively manage their cash," said Lisa Donahue, head of restructuring at turnaround firm AlixPartners. "Arguably it should have been a discipline all along, but when there's ample liquidity in the market it isn't necessarily top of mind."

(Reporting by Emily Chasan; Editing by Gary Hill)