

### ***Cash hoarding and stock deals in a market in turmoil***

According to a recent VentureBeat column (“With its mountains of cash, Apple could buy...”), Apple Inc. had sufficient cash on hand at the time of the article to acquire, among a variety of valuable assets, whole companies such as Yahoo!, Sony, Netflix (some twenty times over), and RIM (almost completely). This was not to suggest that such targets would necessarily be a good use of Apple’s cash, but to highlight the sheer enormity of its liquid resources on one hand, and the depressed levels of equity markets on the other. While we were amused by the possibilities described, a number of interesting and more serious issues arise when considering this strange dichotomy of cash wealth and equity poverty, as it were, and the behavior of corporations such as Apple in this environment. Here are some further musings to find meaning in current patterns:

... issues when considering this strange dichotomy of cash wealth and equity poverty...

- Apple’s common shares currently trade at roughly 50% off the 52-week high, and the company’s cash (and equivalents) balance represents about 25% of its equity market cap. In this cash-rich but severely devalued position, Apple is far from alone. Other prominent examples include Microsoft, Google, Cisco, Dell, and to a lesser extent even Amazon. The natural question: Where are the opportunistic buybacks? Stock buyback programs generally create value for shareholders not only through the reduction of outstanding shares and return of cash, but as a positive signal about management’s outlook. By the same token, when the cash is available in massive quantity and the stock price is at a historical low, is there a negative statement in the absence of buybacks? We ask because we don’t see many of these taking place, and we wonder.
- One school of thought, in response to the question, has been that cash-rich companies are waiting for opportunities in volatile equity markets to swoop in on little victims that are less (or il-)liquid and much more exposed to economic downturns. Fair enough, and there could well be a good number of such opportunities in months to come. But on the other hand, there is a speculation to such a strategy which would be far more constrained in a buyback program. From an acquiring CFO’s perspective, the timing of future acquisitions is imprecise and not fully controllable, and the risk/return calculation is also

... when the cash is available in massive quantity and the stock price is at a historical low, is there a negative statement in the absence of buybacks?

... chatter of late about the need to conserve cash... probably [reflects] not so much pessimism as lack of clue [about the future].

... the value of cash these days is greater to many investors and corporations than the value of securities (equity or otherwise, including their own)

more difficult in comparison to the analysis of one's own company prospects. All things being equal, in an uncertain economy in which risk aversion is on the rise (see further comments on this subject below) and equity values steeply fallen across the board, a stock buyback would seem an easier decision for a cash-rich organization.

- However, all things are not equal. There is the possibility that the hypothetical CFO of the hypothetical cash-rich enterprise sees a more substantial value opportunity in third-party targets with deteriorated liquidity and in need of being saved, versus the acquisition of stock that even in a run-down market may trade at a relative premium due to its healthy balance sheet. Additionally, buying back one's own shares is not a strategic exercise that expands product line, capabilities, or customer base. Valid points all, and thus we should be seeing increased M&A activity, particularly as the universe of low-price (and illiquid) targets expands... no? Yet M&A activity, although notable in sectors such as financial institutions, is not widely on the rise.
- What a frustrating situation. All this cash, and no outlet. Limited interest in buying back, limited interest in acquiring, and not even much interest in creating value through internal reinvestment. Just listen to all the executive and investor chatter of late about the need to conserve cash, "hunker down," "batten down the hatches," and be "laser focused" on the core business in a difficult economic period. The implied message in this sweeping hyper-caution is probably not so much pessimism as lack of clue. The economy is in decline, but how steep and how prolonged? The equity market may have bottomed... but just wait until earnings season is upon us next. Debt markets may have stabilized some due to international government intervention, but credit capital is not quite flowing... and who really knows when it will or, for that matter, why.
- And speaking of slow credit, a still other interesting phenomenon about which we are hearing more frequently, and which adds another element of the uncommon, is the relative return equivalence of equity and debt securities these days. As high-quality debt issues are generating near-equity returns in a tumultuous credit market, there is now a debt-created ceiling to the incentive to buy higher-risk stock.



## SPECIALISTS IN SATELLITE, MEDIA AND TELECOM INVESTMENT BANKING

---

Financial investors and even some corporations (see Liberty Media's recently announced Dutch auction program for its own debt securities in a range of 60% of par value), are taking advantage of this unique debt market circumstance. But judging by market prices (60% of par value for Liberty Media), not many of these buyers are around.

... a built-in market mechanism to counter [negative economic effects of cash hoarding]... strategic M&A using stock, rather than cash, as the currency of choice.

The observations above point to one unifying market statement, which is that the value of cash these days is greater to many investors and corporations than the value of securities (equity or otherwise, including their own). While this phenomenon has the potential to feed on itself and become a self-fulfilling prophecy – as cash hoarding actually adds to the economic slowdown and serves to further erode the value of equity – there is a built-in market mechanism to counter such results, which we believe will become increasingly manifest in coming months: strategic M&A using stock, rather than cash, as the currency of choice.

To the extent that the target company is profitable and thus not a cash drain (cash is king!) for the acquirer or merger partner, and to the extent that the target company adds revenue streams and cost savings (i.e., cash flow, which builds cash – king as indicated), then so much the better. And to the extent that everyone's equity – the acquirer's and the target's – are likewise (even if not identically) depressed, then the deal downside to existing shareholders is limited. Best of all, companies such as Apple and others, will hold on to their precious cash in such structures. Perhaps, at some later date, this cash could even be expended. Until such time, it will be good to know that it exists.

By Dan Ramsden  
Near Earth LLC



## **SPECIALISTS IN SATELLITE, MEDIA AND TELECOM INVESTMENT BANKING**

---

### **IMPORTANT DISCLOSURES AND INFORMATION ABOUT THE USE OF THIS DOCUMENT:**

Near Earth, LLC ("Near Earth") has published this report solely for informational purposes. The report is aimed at institutional investors and investment professionals, and satellite, media and telecom industry professionals. This report is not to be construed as a recommendation or solicitation to buy or sell securities. The report was written without regard for the investment objectives, financial situation, or particular needs of any specific recipient, and it should not be regarded by recipients as a substitute for the exercise of their own judgment. The content contained herein is based on information obtained from sources believed to be reliable, but is not guaranteed as being accurate, nor is it a complete statement or summary of any of the markets or developments mentioned.

The authors of this report are employees of Near Earth, LLC, which is a member of FINRA. The opinions expressed in this report accurately reflect the personal views of the authors but do not necessarily reflect the opinions of Near Earth itself or its other officers, directors, or employees.

The portions of this report produced by non-Near Earth employees are provided simply as an accommodation to readers. Near Earth is under no obligation to confirm the accuracy of statements written by others and reproduced within this report.

Near Earth and/or its directors, officers and employees may have, or have had, interests in the securities or other investment opportunities related to the companies or industries discussed herein. Employees and/or directors of Near Earth may serve or have served as officers or directors of companies mentioned in the report. Near Earth does, and seeks to do, business with companies mentioned in this report. As a result, Near Earth may have conflicts of interest that could affect the objectivity of this report.

This report is subject to change without notice and Near Earth assumes no responsibility to update or keep current the information contained herein.

Near Earth accepts no liability whatsoever for any loss or damage of any kind arising out of the use of all or any part of this report.

No part of this report may be reproduced or distributed in any manner, via the Internet or otherwise, without the specific written permission of Near Earth. Near Earth accepts no liability whatsoever for the actions of third parties in this respect.