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Lean Green Machines: The 2000 Optimal Cash Scorecard

When it comes to cash balances, lots of companies are keeping low profiles.

S.L. Mintz

How much cash is enough cash? As debates in corporate finance go, few are more basic or more persistent. On the one hand, cash supplies a cushion against hard times or a war chest to bankroll growth strategies. Yet cushions and war chests, if judged excessive, invite criticism and occasional proxy battles.

Increasingly, finance executives are becoming critics of high cash balances. “I hate cash on hand. It is anathema to me,” says CFO Fred Salerno of Bell Atlantic Corp.

“The appropriate level of cash, in my opinion, is zero,” declares Salerno.

Zero cash is a tough bar to get near, much less under. But Bell Atlantic is not alone in aiming low. Haverty Furniture, an Atlanta-based furniture retailer, seldom lets cash accumulate. “I prefer to impress people with a low level of cash rather than a high level,” says CFO Dennis Fink. “You don’t make money with cash.”

Not all finance executives are ready to jettison spare cash, however. Take Ford Motor Co.’s stand on appropriate cash levels. “There is no answer for a company this size,” declares CFO Henry Wallace. Until recently, however, Ford’s answer was a treasury bulging with some $24 billion in cash and cash equivalents, nearly half the company’s market value in early June. A recapitalization announced in May will shrink cash by $10 billion.

Short of settling the debate over optimal cash levels, this month *CFO* introduces a means to survey its dimensions. The first Optimal Cash Scoreboard, a joint effort with PricewaterhouseCoopers, highlights several measures of cash- on-hand at a cross-section of 550 public companies. The Scoreboard tracks: 1) cash levels at each company as a percentage of sales; 2) a target cash level based on volatility of cash flows and cash requirements; 3) actual cash levels versus target levels, or cash gaps; and 4) cash gap per share. The actual rankings presented are based on average days operating expenses held in cash, or DOEHIC, from low to high, over 20 quarters through year-end 1999.

Overall, the Scoreboard found that DOEHIC levels are unexpectedly lean given the unprecedented stretch of record corporate profits and cash flow. Nearly every industry group, from steel producers to manufacturers of consumer nondurables, features several companies holding only enough cash to cover operating expenses for two weeks or less. And the results suggest that companies are rather confident in sustained economic growth and a strong pace of reinvestment.

It would be hasty to claim, however, that companies with leaner coffers are automatically healthier than companies with more cash on hand. The auto industry, for example, has historically maintained high cash levels as a hedge against cyclical downturns. Other companies are saddled with low debt ratings that curtail access to lenders. But given the wide range of cash levels that the Scoreboard documents, it is fitting to ask why certain companies hold cash, why others shun it, and what their attitudes say about their future outlooks. Ultimately, says the Scoreboard’s designer, PricewaterhouseCoopers’s Eric Wright, DOEHIC puts a number on an attitude. “The discrepancies within industries suggest a quantitative assessment of each company’s confidence in the availability of cash in the future,” he says.

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