

AFP Corporate Cash Indicators® January 2021

U.S. organizations continued to build cash and short-term investment holdings during the fourth quarter of 2020 and did so at a more rapid pace than the previous quarter; the quarter-over-quarter index reading increased 20 points to +39, the highest reading recorded since AFP began collecting this data in 2011. In last quarter's CCI, organizations had anticipated that they would be forced to draw down on cash reserves during the last quarter of the year, a consequence of poor business performance due to the COVID crisis for some, while others were looking to deploy cash to strategically grow their businesses. However, these readings suggest that organizations were able to avoid depleting their cash holdings and were instead able to focus on accumulating cash—a result of improved performance for some, while others were looking to preserve cash to protect against any upcoming uncertainty. Organizations that decreased their cash and short-term investment holdings in the fourth quarter explained that their actions were primarily due to poor business performance which forced them to draw down their cash reserves, though some companies deployed cash to invest in their organizations. Other reasons provided for mobilizing cash were seasonal cash needs, debt repayment and share repurchase. The year-over year indicator increased 5 points to +29.

The forward-looking indicator, measuring expectations for changes in cash holdings in the current quarter, decreased 12 points from last quarter's reading of -4 to -16. Over one-third of companies planning to draw down on their cash holdings in the first quarter of 2021 are doing so to invest in their businesses, which suggests some business leaders are leaning towards a more positive outlook than we have seen in the past few months. However, a few financial professionals continue to be challenged with worsening business performance, compelling them to rely on their cash holdings to stay viable. Business seasonality is also prompting companies to mobilize their cash in the first few months of the year. Another positive indicator is that a large majority of those with plans to increase their cash holdings this quarter are doing so because they have experienced an uptick in business performance, while some are building cash as a defensive measure to protect against an uncertain economic environment.

The CCI measure for short-term investment aggressiveness increased from -13 during the third quarter of 2020 to -5 in the last quarter, signaling a continued conservative posture amongst financial professionals. These results are based on 99 responses from senior treasury and finance professionals.

Over the past quarter, did your organization's cash and short-term investment holdings increase, decrease or remain the same?

January 2020	April 2020	July 2020	October 2020	January 2021
+31	+24	+20	+19	+39

Index: "Increase" percentage minus "decrease" percentage. The higher the index reading, the greater net percentage of organizations that have increased cash and short-term investment holdings over the past quarter.

Over the past year, did your organization's cash and short-term investment holdings increase, decrease or remain the same?

January 2020	April 2020	July 2020	October 2020	January 2021
+33	+32	+29	+24	+29

Index: "Increase" percentage minus "decrease" percentage. The higher the index reading, the greater net percentage of organizations that have increased cash and short-term investment holdings over the past year.

During the current quarter, do you expect your organization will increase, decrease or maintain its current cash and short-term investment holdings?

January 2020	April 2020	July 2020	October 2020	January 2021
-3	-15	-8	-4	-16

Index: "Increase" percentage minus "decrease" percentage. The higher the index reading, the greater net percentage of organizations expected to increase cash and short-term investment holdings during the current quarter.

Over the past quarter, did your organization's investment selection for its cash and short-term investments become more aggressive, more conservative, or remained unchanged?

January 2020	April 2020	July 2020	October 2020	January 2021
-1	-23	-17	-13	-5

Index: "More aggressive" percentage minus "more conservative" percentage. The higher the index reading, the greater net percentage of organizations that have become more aggressive with their investment selection for their cash and short-term investments over the past quarter.

Demographics

Revenue

Less than \$50 million	25%
\$50-99.9 million	10%
\$100-249.9 million	9%
\$250-499.9 million	11%
\$500-999.9 million	13%
\$1-4.9 billion	21%
\$5-9.9 billion	4%
\$10-20 billion	3%
Over \$20 billion	3%

Industry Categories

Agricultural, Forestry, Fishing & Hunting	--
Banking/Financial Services	8%
Administrative Support/Business Services Consulting	4%
Construction	5%
Education	3%
Energy	3%
Government	7%
Health Care and Social Assistance	7%
Hospitality/Travel Food Services	2%
Insurance	3%
Manufacturing	22%
Mining	--
Non-profit (including education)	4%
Petroleum	--
Professional/Scientific/Technical Services	3%
Real Estate/Rental/Leasing	3%
Retail Trade	3%
Wholesale Distribution	7%
Software/Technology	9%
Telecommunications/Media	2%
Transportation and Warehousing	2%
Utilities	2%

About the Index Values

Note: Rounding may lead to minor differences in the final index value

- 56 percent of organizations held larger cash and short-term investment balances at the end of Q4 2020 than they did at the end of Q3 2020, while 17 percent reduced cash holdings in the past three months. The +39 difference was up 20 points from the previous quarter's reading and up by eight points from a year ago.
- 47 percent of organizations held greater cash and short-term investment balances at the end of Q4 2020 than they had one year earlier, while 18 percent held smaller cash balances relative to a year ago. The difference of +29 is five points higher than the previous quarter's reading and 4 points lower than the January 2020 reading.
- 15 percent of organizations anticipate expanding cash and short-term investment balances over the next three months, while 31 percent plan to reduce these balances. The net index reading of -16 decreased 12 points from last quarter's reading and decreased 13 points from a year ago.
- 7 percent of organizations were more conservative with their short-term investments in Q4 2020 and 2 percent were more aggressive. The -5 reading is 8 points higher than last quarter and 4 points lower than a year ago.

About the AFP Corporate Cash Indicators®

The AFP Corporate Cash Indicators® (www.AFPonline.org/CCI), are produced by the Research Department of the Association for Financial Professionals as forward-looking measures of corporate cash and short-term investment holdings and of expected business conditions. On the opening days of each quarter, AFP asks select members about the size and make up of their short-term investment holdings.

Survey Methodology

The AFP Corporate Cash Indicators® are derived from a quarterly survey sent to a select group of financial professionals consisting of four questions about how companies manage their cash and short-term investment portfolios. The survey goes to people whose day-to-day job is manage their companies' cash and short-term investment portfolios and are fully aware of their organizations' cash strategies. Companies' decisions to grow/shrink the size of their cash and short-term investment portfolios reflect their business outlook and direction, making these decisions leading indicators of economic activity.

The first three questions are:

- *Over the past quarter, did your organization's cash and short-term investment holdings increase, decrease or remain the same?*
- *Over the past year, did your organization's short-term holdings increase, decrease or remain the same?*
- *During the current quarter, do you expect your organization will increase, decrease or maintain its current cash and short-term investment holdings?*

To arrive at the index values for each of the first three questions, subtract the percentage of respondents who report "decrease" from those that report "increase." (For example, if 40 percent of respondents indicate that their organizations' holdings have increased over the past quarter and 30 percent indicate a decrease, the index reading is +10.).

The final question asks about strategy:

- *Over the past quarter, did your organization's investment selection for its cash and short-term investments become more aggressive, more conservative, or remained unchanged?*

The index value from this question is the difference of the percentage of respondents who indicated "more aggressive" and those that indicated "more conservative."