

All-cash deals don't portend an end to cash hoarding

We in the financial press are often guilty of overzealousness in our trend-spotting attempts. And we can be just as guilty of overanalyzing -- and under-analyzing -- the tealeaves laid out by those trends.

The Wall Street Journal on Thursday ran a story with a lead of "One year removed from the trough of the recession, American corporations continue to hoard more cash than ever. There are now tentative signs that they are finally comfortable using the money to do some shopping."

I'm just as eager as anyone to see a strong economic turnaround and certainly an uptick in deal-making is a sign that companies are more confident. But pointing to an increase in all-cash deals does not signify companies are at all willing to dip into their cash piles.

The Journal certainly has all the data it needs in the story to draw very different conclusions. It even nods at some of them:

"At a time of low interest rates, reopened credit markets and growing optimism about the economy, CEOs and their boards seem to be questioning the wisdom of sitting on all that cash. And with the S&P 500 still trading 29 percent below its October 2007 peak, companies are deciding that cash is their preferred currency for acquisitions-rather than shares they see as undervalued.

Through the first two months of the year, the percentage of all-cash deals in the U.S. more than doubled from 2009, according to an analysis by Thomson Reuters. Nearly 50 percent of deals this year have been all-cash offers, up from 24 percent of deals in 2009 and on par with 2006 and 2007, when credit was in oversupply."

That last data point is a real kicker. So, the breakdown of deals looks like 2006 and 2007 when credit was overly abundant and this is a good thing?

There's no evidence in the story that companies doing these all-cash deals are using existing cash to execute them and not tapping credit lines or issuing debt. The Journal even points to a step-up in buybacks as a sign companies are opening their wallets without mentioning that even share repurchases can be financed with something other than existing cash. (On a side note, how about the absurdity of quoting an M&A banker about the drawbacks of buybacks and dividends? Let me guess: a CEO with a real game plan would be making acquisitions with that cash.)

I'm curious as to why the story isn't: "Open credit markets and undervalued shares are pushing more companies to strike all-cash deals."

Instead there still seems to be a need to cheerlead a recovery. It's as if we long for the days of deal making run amok.

Next we'll all be scrambling to write good news about the revival of the securitization markets.