



## THE REPATRIATION BONANZA WHO'S IN TO WIN?

With the passage of the Tax Act, the once dormant offshore capital that served no benefit to companies and shareholders has been released to supercharge growth and stock price appreciation. The repatriation of cash held offshore is likely to be a bonanza for investors of companies with the most significant cash positions to market value. The higher the percentage of cash to market value, the more that capital allocation should positively affect stock prices. Our list below shows the 20 biggest potential winners in this year's cash repatriation bonanza.

The multi-billion dollar question for analysts and investors is what these companies will do with all that capital. Will they continue plowing money into stock buybacks, creating the illusion of rising earnings per share because earnings are spread over fewer shares? Or will they increase capital expenditures, dividend payouts, and mergers or acquisitions? Or will they do all of the above?

During the post-Financial Crisis recovery, companies have dumped more than \$4 trillion into buybacks, and investors have rewarded large buyback companies with above average share price appreciation.<sup>1</sup> In 2017, companies once again announced over \$500 billion in share repurchases, but for the first time, investors failed to reward buyback companies with above average appreciation.<sup>2</sup> The buyback group only posted an average increase of 22% — basically in line with the market advance of the S&P 500 for the year.<sup>3</sup>

But the repatriation capital story is not all about stock buybacks. In 2017, investors bid up those companies that reinvested in their future by plowing earnings and excess cash into capital expenditures (CapEx) by an average of 34%.<sup>3</sup> The performance divergence seems to have caught the attention of corporate boardrooms because CapEx spending increased dramatically in the second half of 2017. We expect the CapEx outperformance trend to continue as companies allocate a significant portion of repatriated capital to drive future growth.

# THE REPATRIATION BONANZA: WHO'S IN TO WIN? CONTINUED

And you can also bet corporate directors will not forget the unquenchable thirst for dividend income that today's aging investors have as they make strategic capital allocation decisions. We would expect significant dividend increases for large companies as they enjoy not only the increase in deployable capital from repatriation but also increased net profit margins due to corporate tax rate reductions. We would expect investors to cheer outsized dividend increases with greater investment allocations to these companies, and that will likely drive stock prices higher.

We see increased merger and acquisition activity as large cash pools are looking for viable opportunity to provide accretive value to shareholders. Franklin Resources rang the bell this week by using a portion of their cash trove to buy Edinburgh Partners who manage approximately \$10 billion in AUM in global and emerging market equities. Franklin stands at the top of our repatriation bonanza list because the roughly \$9 billion in cash held offshore is 37% of the company's total market value.<sup>4</sup>

Investors need to watch these companies closely to see how they allocate capital to a combination of buybacks, dividend hikes, M&A activity and CapEx spending. No matter how companies choose to implement capital allocation, the cash repatriation bonanza has the potential to drive economic growth and keep this long-running bull going. Let the bonanza begin!

## HIGHEST % OF CASH HELD OFFSHORE (CHO) TO MARKET VALUE

WBI RANK ON CHO/MV FACTOR	TICKER	NAME	CURRENT MARKET CAP	CASH HELD OFFSHORE (CHO)	CHO AS A % of MARKET VALUE
1	BEN	FRANKLIN RESOURCES INC	\$23,938,311,315	\$8,749,700,000	37%
2	CSCO	CISCO SYSTEMS INC	\$197,942,629,845	\$67,500,000,000	34%
3	QCOM	QUALCOMM INC	\$96,556,364,514	\$29,400,000,000	30%
4	AAPL	APPLE INC	\$890,692,635,040	\$252,300,000,000	28%
5	NTAP	NETAPP INC	\$16,357,004,706	\$4,496,000,000	27%
6	AMGN	AMGEN INC	\$131,839,878,632	\$35,900,000,000	27%
7	ORCL	ORACLE CORP	\$202,254,330,357	\$54,400,000,000	27%
8	GILD	GILEAD SCIENCES INC	\$103,090,749,164	\$27,400,000,000	27%
9	GE	GENERAL ELECTRIC CO	\$167,327,880,075	\$38,600,000,000	23%
10	WDC	WESTERN DIGITAL CORP	\$24,292,954,936	\$4,990,000,000	21%
11	MSFT	MICROSOFT CORP	\$677,186,727,317	\$127,900,000,000	19%
12	SYMC	SYMANTEC CORP	\$17,849,283,536	\$3,300,000,000	18%
13	WAT	WATERS CORP	\$16,405,275,210	\$2,766,000,000	17%
14	LRCX	LAM RESEARCH CORP	\$30,849,140,782	\$4,800,000,000	16%
15	CTXS	CITRIX SYSTEMS INC	\$13,545,720,977	\$2,080,000,000	15%
16	XLNX	XILINX INC	\$18,650,818,859	\$2,840,000,000	15%
17	A	AGILENT TECHNOLOGIES INC	\$22,740,469,101	\$2,678,000,000	12%
18	GLW	CORNING INC	\$29,243,869,627	\$3,200,000,000	11%
19	JNJ	JOHNSON & JOHNSON	\$387,550,128,809	\$41,300,000,000	11%
20	KO	COCA-COLA CO/THE	\$196,161,123,229	\$20,200,000,000	10%

Source: Bloomberg, 2018.

## IMPORTANT INFORMATION

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<sup>1</sup> John Aidan . "US companies spent \$4T buying back their own stock." New York Post. 19 Aug. 2017. Web. 23 Jan. 2018.

<sup>2</sup> S&p Dow Jones Indices. "S&P 500 Q3 2017 Buybacks Increase 7.5% to \$129.2 Billion." Pnewswire.com. 13 Dec. 2017. Web. 23 Jan. 2018.

<sup>3</sup> Elena Popina. "No, Trump's Tax Windfall Won't All Be Blown on S&P 500 Buybacks." Bloomberg.com. 28 Dec. 2017. Web. 23 Jan. 2018.

<sup>4</sup> Bloomberg, 2018

