Google clings to cash for acquisitions, says CFO (Update)

February 28 2013, by Michael Liedtke

Google plans to cling to its bulging stash of cash to pay for potential acquisitions and other technology investments that might boost future profits, a top executive said Thursday.

Patrick Pichette, who oversees Google Inc.'s bank accounts as the company's chief financial officer, explained the company's rationale for hoarding $48 billion in cash during a technology conference hosted by Morgan Stanley.

"It serves the shareholder best to actually have that strategic ability to pounce" when there is the opportunity to make a major acquisition, Pichette said.

Although he didn't identify possible takeover candidates for the future, Pichette cited Google's $12.4 billion acquisition of cellphone maker Motorola Mobility last year as a prime example of why the company believes it needs to have lots of money at its disposal. Although Motorola has been a financial drag on the company so far, Google believes having it will ultimately will help it put its digital services on more smartphones and tablet computers.

The money-management policies of publicly traded companies are getting more attention as more firms hoard huge amounts of cash instead of introducing or increasing dividends to reward stockholders.

Apple Inc., the world's most valuable company and a Google rival, is currently under the most scrutiny because it holds $137 billion in cash. One of Apple's shareholders, hedge fund manager David Einhorn of Greenlight Capital, is pressing Apple to create a new class of dividend-paying stock that would supplement the quarterly dividend of $2.65 per share that the company now pays. Apple CEO Tim Cook told shareholders Wednesday that the iPhone and iPad maker is in "very, very active discussions" about what to do with its money.

Google has never paid a dividend since the company went public in 2004. It hasn't yet faced intense pressure to distribute its cash, partly because its stock has delivered a nice return for long-term investors. The stock is currently hovering around $800, more than nine times its initial public offering price of $85.

Much of the company's success has flowed from the $11 billion Google has paid to buy 237 companies besides Motorola Mobility since its IPO. Some of them have been small deals, such as the ones that brought in the technology for its Android software for mobile devices and the technology for its online maps. Bigger acquisitions such as the $1.76 billion purchase of YouTube and the $2.3 billion purchase of DoubleClick have made Google more successful in Internet video and online advertising.

Google primarily bought Motorola for its portfolio of more than 17,000 patents. Its cellphone business has been slumping. Instead of helping Google boost its profit, Motorola has accumulated operating losses of $1.1 billion since the takeover was completed in May. Google has been trying to turn things around by laying off thousands of workers, shedding some operations and sharpening the focus on the development of the most promising products.

Pichette said the company is confident Motorola's cellphone business will eventually bounce back.

"These are not easy transitions," Pichette said of the Motorola acquisition. "We have great plans for Motorola. There is still really hard work to be completed at Motorola before we see tangible signs" of progress.

Like Apple and many other U.S. technology companies, Google is keeping most of its cash overseas to reduce its tax bill. Any money transferred, or "repatriated," would be subject higher U.S. tax rates. Although the $31.4 billion that Google holds in foreign countries can't be used to buy U.S. companies, Pichette said the company still has ample uses for the overseas money. Among other things, Google recently bought more offices in London for its operations in the U.K. and plans to invest in more data centers outside the U.S. to run its data centers.

Google's cash philosophy may change as circumstances dictate, Pichette said.

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