



BETTERINVESTING
Rocky Mountain Chapter



Why Cash Flow Deserves Your Attention



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Agenda

- What is Cash Flow
- Why it is important
- Foundation of Stock Analysis
- Smaller Companies: Cash Flow or Debt

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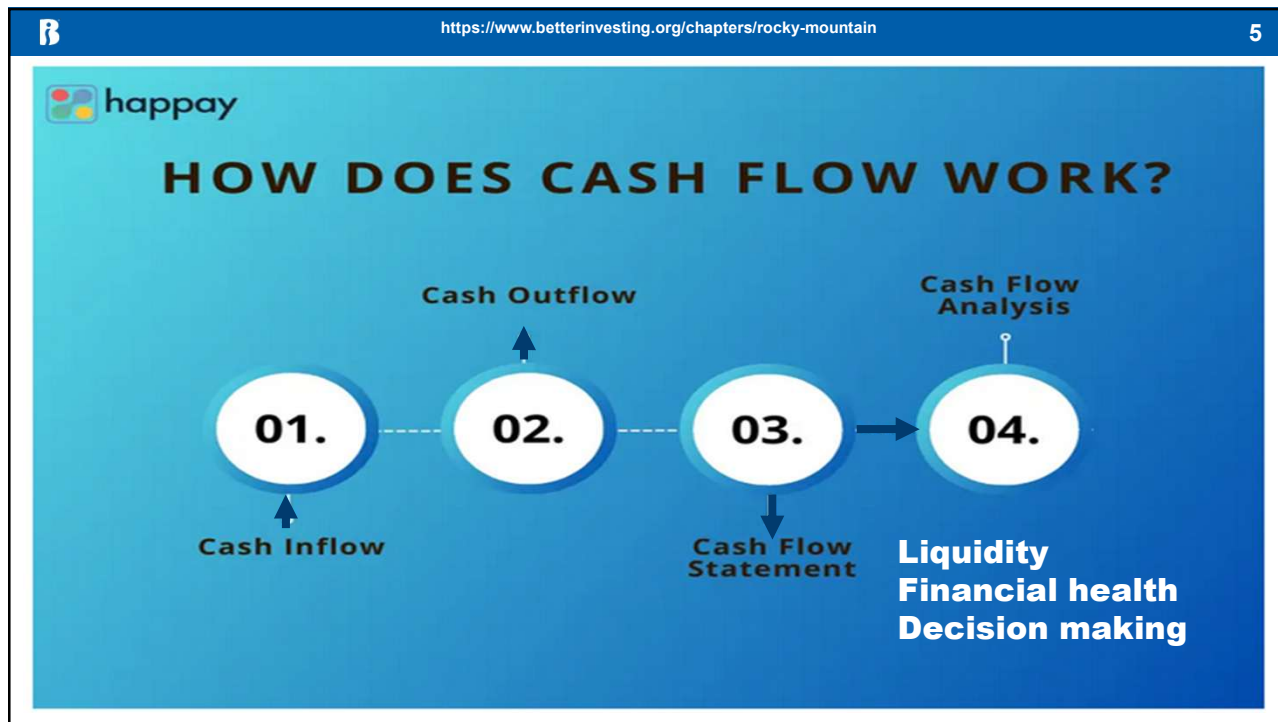
Cash Flow

['kash 'flō]

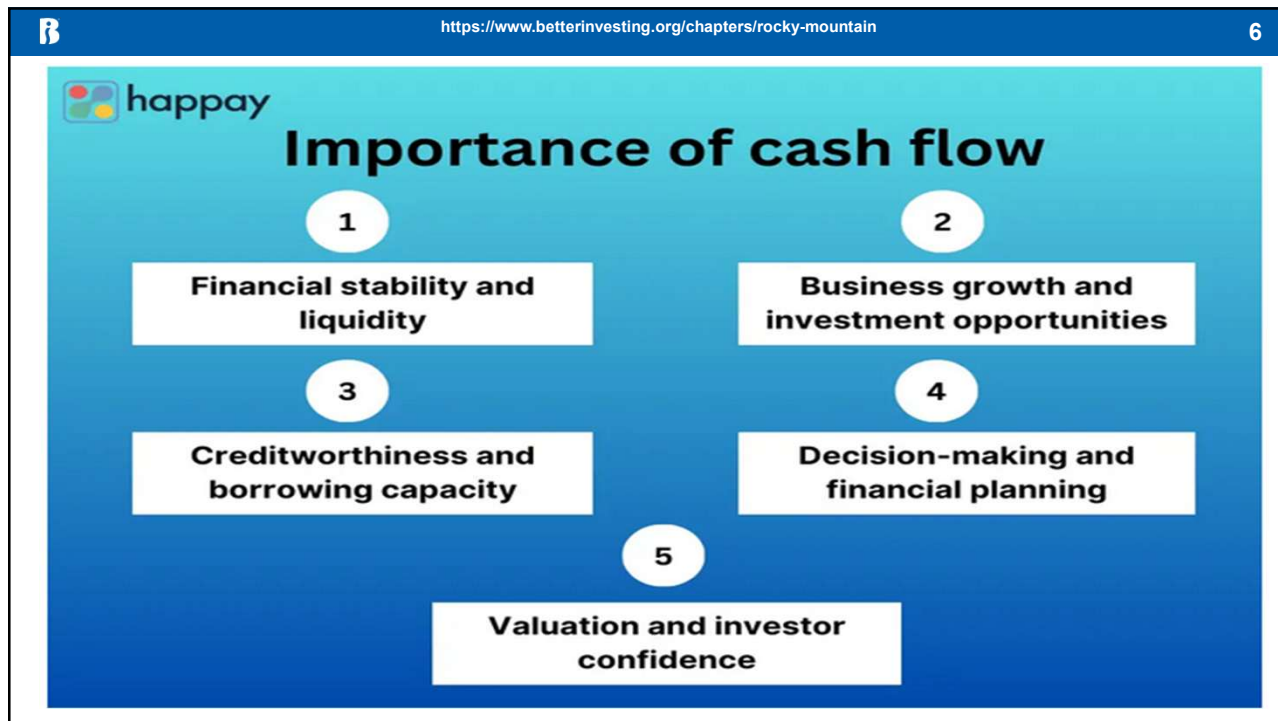
The net amount of cash and cash equivalents being transferred in and out of a company.

 Investopedia

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What if we told you ...



Tom O'Hara, George Nicholson

... that the creator of the Stock Selection Guide, George Nicholson – emphasized “cash flow” over earnings ...

... and that he significantly de-emphasized Wall Street's obsession with P/E ratios as measures of value or how we use it in the development of forecasts and buy/hold/sell.

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Why the emphasis on Cash Flow?

**"Over the long term, it's hard for a stock to earn a much better return than the business which underlies it."
– Charlie Munger**

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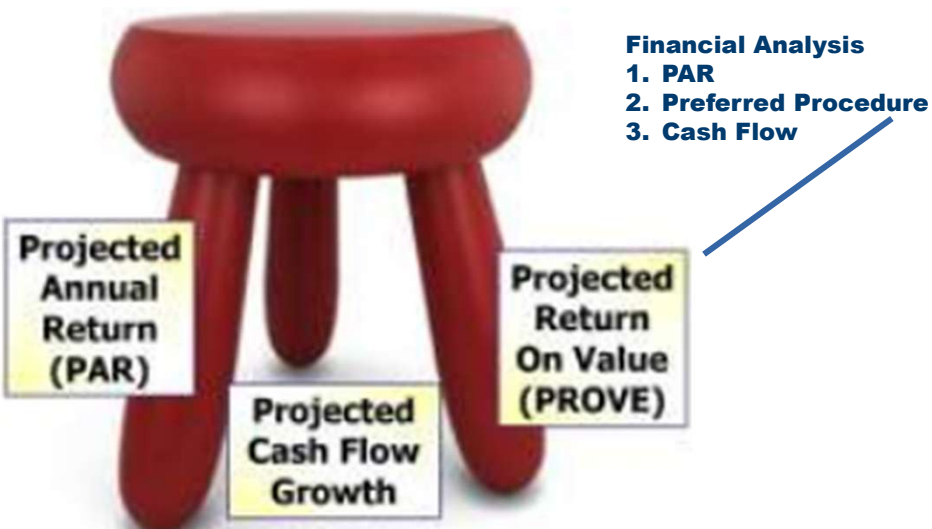
Why Cash Flow is Important

- **Emphasizing companies with strong and growing cash flow is a key indicator of financial health and investment**
- **Companies with robust cash flow performance have historically outperformed the broader market**

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Cash Flow – Part of a three-legged stool



Financial Analysis

1. PAR
2. Preferred Procedure
3. Cash Flow

Projected Annual Return (PAR)

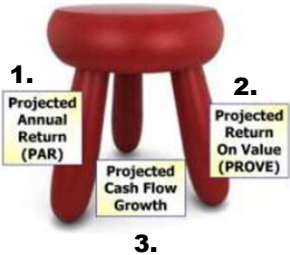
Projected Cash Flow Growth

Projected Return On Value (PROVE)

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Foundation of Stock Analysis



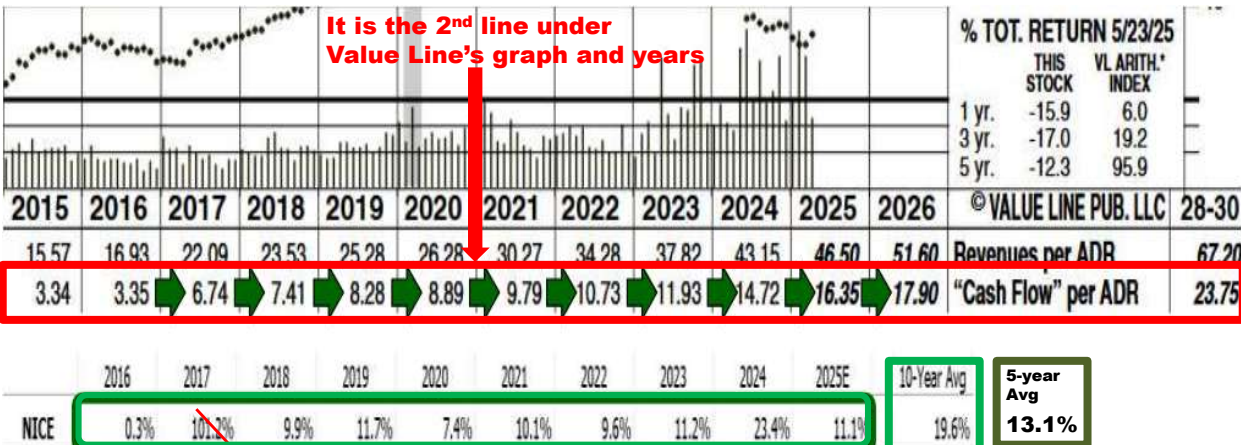
1. PAR is based on P/E judgments
2. Preferred Procedure – based on business centered analysis, sales and profitability trends
3. Cash Flow – it is hard to grow much better than the business that underlies it
 - To make reasonable judgments, these numbers should be in the ballpark of each other (within 5 points range, if not revisit judgments)

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Where to find cash flow - Value Line

NICE Ltd (NICE) (ADR)



It is the 2nd line under Value Line's graph and years

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2025E
Price	15.57	16.93	22.09	23.53	25.28	26.28	30.27	34.28	37.82	43.15	46.50	51.60	67.20
"Cash Flow" per ADR	3.34	3.35	6.74	7.41	8.28	8.89	9.79	10.73	11.93	14.72	16.35	17.90	23.75

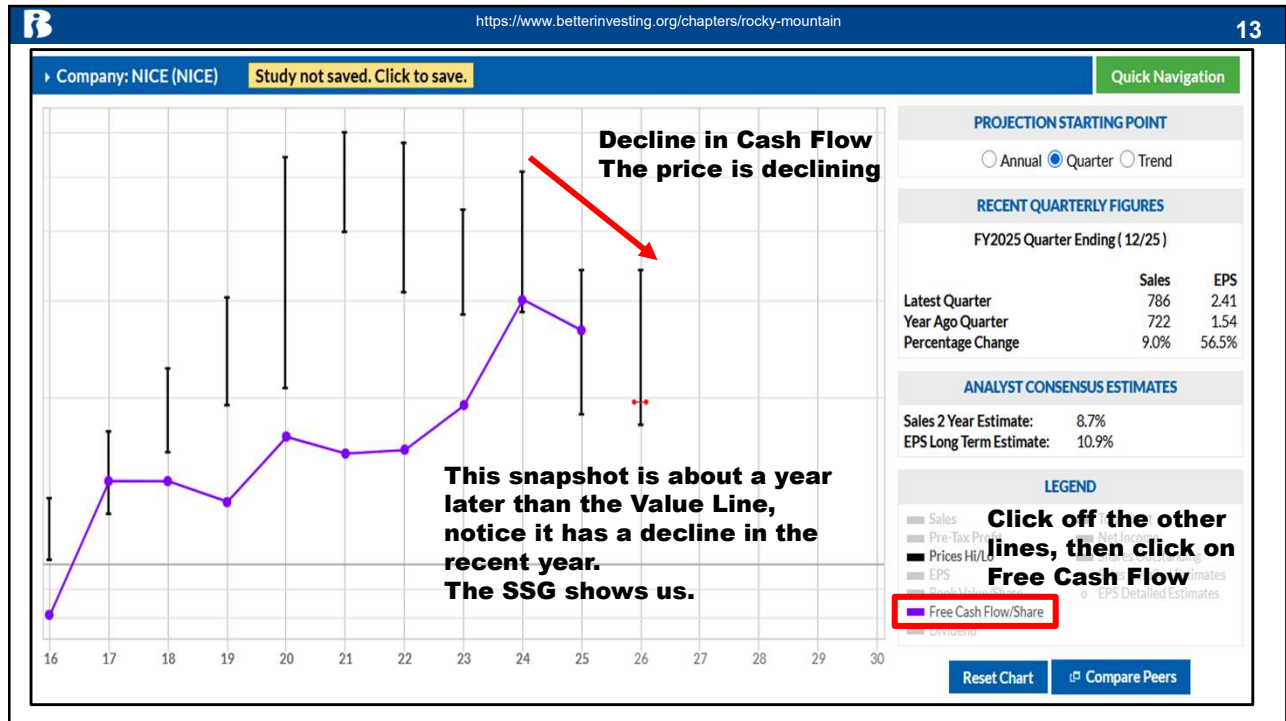
Year	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025E	10-Year Avg	5-year Avg
NICE	0.3%	10.2%	9.9%	11.7%	7.4%	10.1%	9.6%	11.2%	23.4%	11.1%	19.6%	13.1%

% TOT. RETURN 5/23/25

	THIS STOCK	VL ARITH. INDEX
1 yr.	-15.9	6.0
3 yr.	-17.0	19.2
5 yr.	-12.3	95.9

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What we should know about Cash Flow

- **Cash flow reveals financial reality**
 - Cash flow shows actual money moving in and out of a business
 - Makes it harder to disguise financial problems
 - Gives a clearer picture of a company's true health
- **Profitability doesn't guarantee survival**
 - A company can show profits on paper while running out of cash to pay bills, employees, or creditors
 - **Why requirement of Cash Flow statement was mandated**


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 **What we should know about Cash Flow**

- **Free cash flow matters most for investors**
 - It's cash after paying for operations and capital expenditures
 - Money available for dividends, share buybacks, debt reduction, or growth investments
 - Creates shareholder value
- **Cash flow affects valuation**
 - Professional investors value companies based on discounted future cash flows
 - [Morningstar's Fair Value is based on discounted cash flow](#)
 - Understanding helps investors recognize when a stock might be over or undervalued

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 **What we should know about Cash Flow**

- **It signals business quality**
 - Companies that consistently convert earnings into cash tend to have better business models
 - Red flags - shrinking cash flow, might indicate aggressive revenue recognition or problems collecting from customers
- **Debt servicing requires cash, not earnings**
 - Evaluating whether a company can handle its debt load; look at cash generation relative to interest payments

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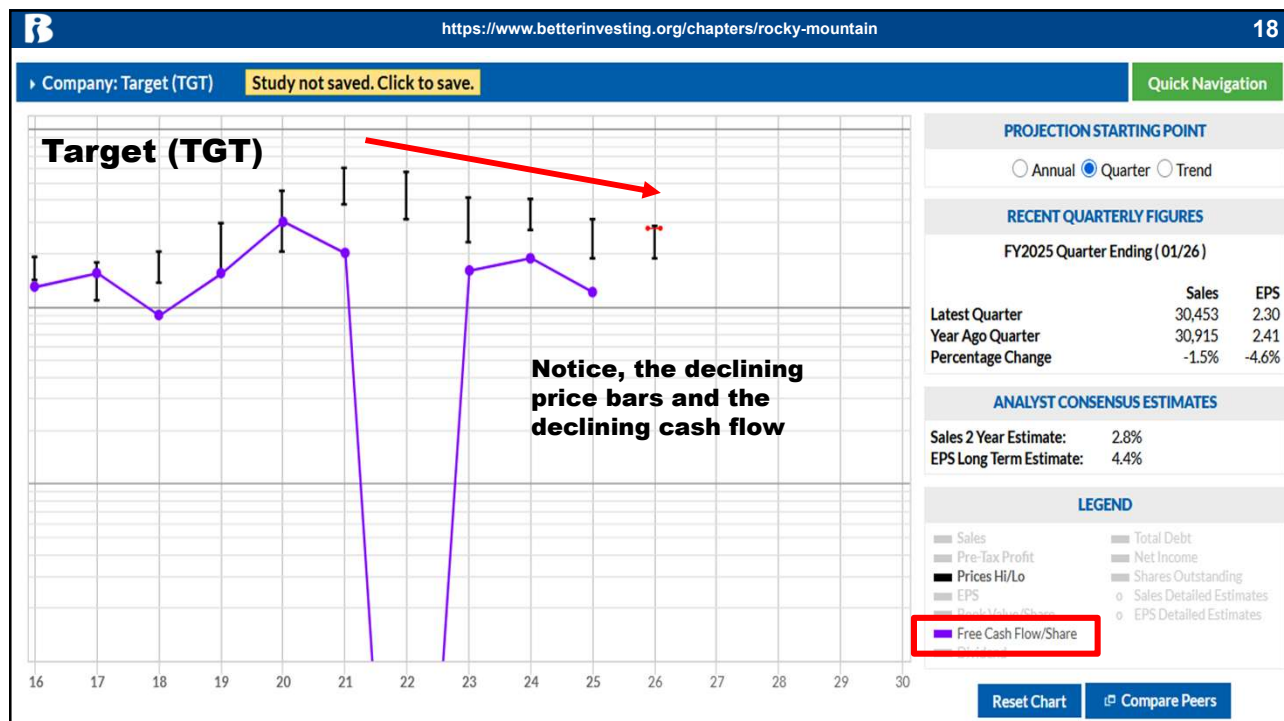
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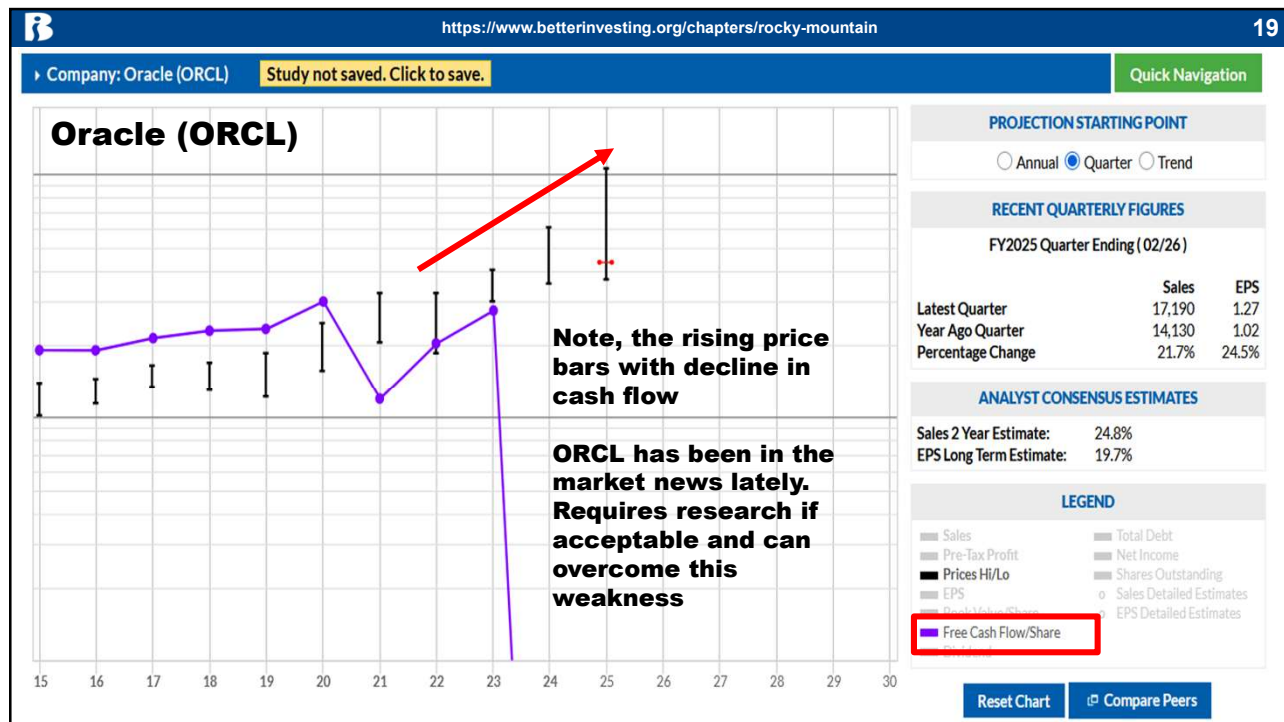
Common Causes of Declining Cash Flow

- Disruption from new competitors or technology
- Over-expansion funded by debt
- Commodity price swings (energy, agriculture)
- Rising costs outpacing revenue growth
- Loss of pricing power or market share
- Excessive shareholder returns (buybacks/dividends) relative to earnings

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Key Takeaway

- Check that a company's profits are translating into actual cash
 - Cash is what ultimately pays dividends and funds growth
- It's best if cash flow continues to grow

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Cash Flow Smaller and Faster Growing Companies

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Smaller and Faster Growing Companies

- **Small companies may use cash flow instead of debt to grow company**
- **Using cash, it maintains ownership and control**
 - Forces discipline, only grow as fast as generates cash
 - Financial independence
 - Business remains flexible not needing lender approval
 - Building a solid foundation
- Downside is speed


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 **Smaller Companies – Cash Flow or Debt?**

- **Trade offs:**
 - If you have a genuine competitive advantage or market opportunity with a limited window
 - Self-funding may mean an opportunity passes by and potentially leaving money on the table
 - If debt can generate a 25% return on invested capital, growing at the rate profits allow
 - Might mean opportunity to multiply wealth faster


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 **Smaller Companies – Cash Flow or Debt?**

- **When debt makes sense:**
 - The key question isn't really "cash flow or debt" in absolute terms—it's about the specific circumstances:
 - How predictable is revenue
 - Is this growth opportunity genuine or speculative?
 - There may be cases where the risk-adjusted return clearly favors borrowing


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 **Smaller Companies – Cash Flow or Debt?**

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- **When debt makes sense:**
 - May miss predictable returns that debt make it foolish to avoid:
 - Buying equipment that increases capacity
 - Immediate customer demand
 - Acquiring a competitor at a reasonable multiple

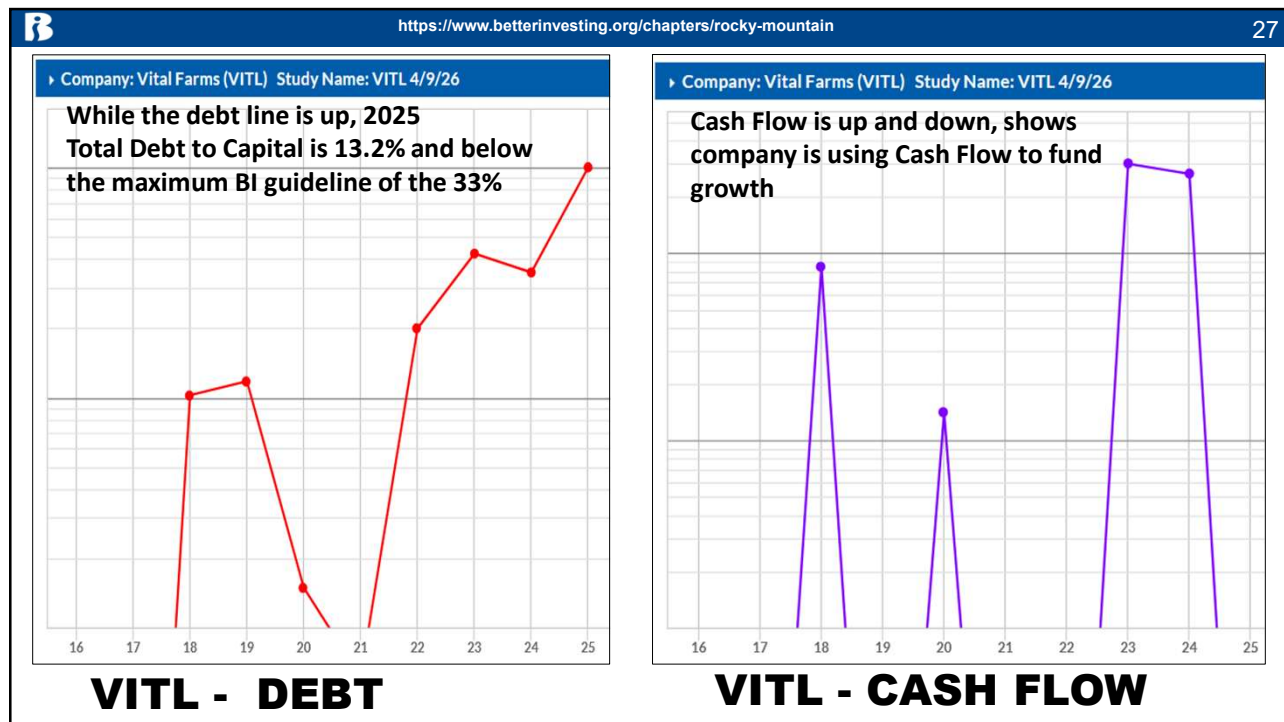
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- **When debt makes sense:**
 - Review cases where the risk-adjusted return clearly favors borrowing
 - Many successful small companies end up using a hybrid approach
 - Primarily self-funded, but willing to take strategic debt for specific, high-confidence investments
 - What matters most is that the decision aligns with both the business's economic reality and values about ownership and risk

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Summary

- Learned what cash flow is
- Discovered why it is important to investing
- Realized it can be used to evaluate studies to make reasonable judgments
- Understand small companies may make different choices to grow: cash flow or debt

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Manifest Investing Public Dashboards

- Public Dashboard by Mark Robertson
- **Cash Flow Aristocrats**
 - Companies with 10 consecutive trailing years of increasing year-over-year "cash flow" and a cash flow growth forecast >8%
 - <https://www.manifestinvesting.com/dashboards/public/cash-flow-aristocrats?ref=OD4N2R3P>

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QUESTIONS ?

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