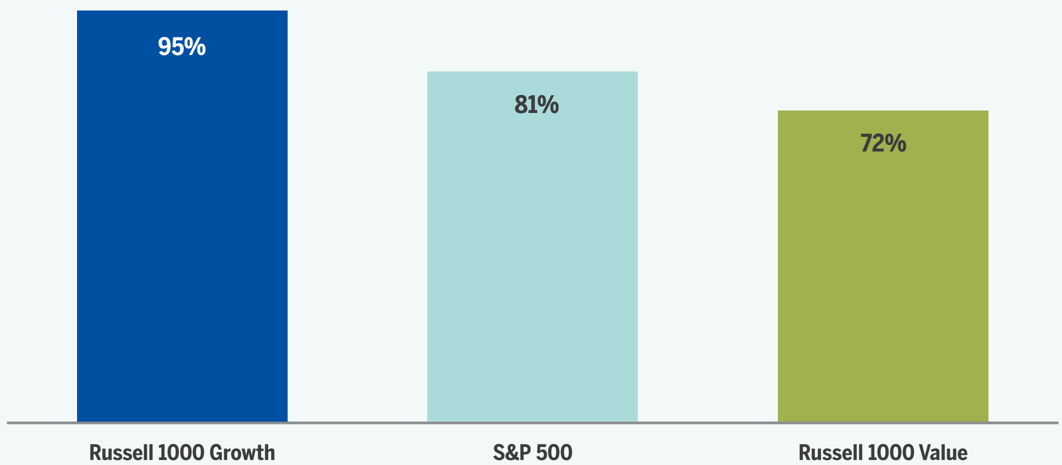
ALGER

Alger On the Money

Manufacturing Cash

Stock investors typically monitor earnings closely, yet investors cannot "spend" earnings to buy food or pay rent. That is done with cash. Investors should consider an additional measure: free cash flow conversion. Free cash flow conversion measures the ratio of a company's cash flow to net income, thus making it a more effective measure of cash generation for corporations.

Free Cash Flow Conversion



Source: FactSet and Alger utilizing last 12-month data as of 3Q18.
Note: Free cash flow conversion is free cash flow (operating cash flow less capital expenditures) divided by net income.

- Most companies generally produce less free cash flow than net income because they reinvest their cash in order to grow. The actual cash per share available to investors in any given year is usually less than the published earnings per share.
- However, some companies generate more cash than others, meaning they have stronger free cash flow conversion. As shown in the chart, Growth companies have had stronger free cash flow conversion than Value companies.
- Historically, the Technology, Health Care, and Consumer Discretionary sectors have ranked highest in free cash flow conversion while Utilities and Real Estate have ranked lowest.
- Although the media generally reports on earnings, astute investors know that free cash flow conversion can be an important metric to analyze as well and a vital component in generating shareholder returns.

Inspired by Change, Driven by Growth.

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