



Free Cash Flow: Seeing Through the Accounting Fog Machine to Find Great Stocks

By George C. Christy

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This book shows how to use Free Cash Flow to increase investor return. The author explains the differences between Free Cash Flow and GAAP earnings and lays out the disadvantages of GAAP EPS and the advantages of Free Cash Flow. After taking the reader step-by-step through the author's Free Cash Flow version of the GAAP income statement, the book illustrates with simple formulas how each of the four deployments of Free Cash Flow can enhance or diminish shareholder return. The book applies the conceptual building blocks of Free Cash Flow and investor return to an actual company: McDonald's. The reader is taken line-by-line through the author's investor return spreadsheet model: (1) three years of McDonald's historical financial statements are modeled; (2) a one-year projection of McDonald's Free Cash Flow and investor return is modeled. Five companies are compared to McDonald's and each other using both Free Cash Flow and GAAP metrics.

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Editorial Review

Review

"I really enjoy making FCF models/statements, and I owe it all to the book Free Cash Flow: Seeing Through the Accounting Fog Machine to Find Great Stocks by George C. Christy. This book changed the way that I evaluate equities and how I predict if the company is a sustainable investment (at least on a FCF basis). I suggest that anyone who wants to learn more about FCF should read this book." Nicholas Bodnar on Seeking Alpha.com

"This is probably my favourite practical investment analysis book. I believe that to find good investments you have to study a company's cash flow rather than its income statement. This book is packed full of practical examples of how you go about doing that. The free cash flow worksheet in Chapter 6 is very good. This is not a book for beginners or for people who are not comfortable with numbers. If you are the kind of investor that has the time and patience to do a bit of legwork then buying this book will be money well spent." Phil Oakley, ShareScope.co.uk

"Free Cash Flow: Seeing Through the Accounting Fog Machine to Find Great Stocks helps keep the investor focused on what truly matters to value creation--Free Cash Flow." --Charles W. Mulford, Invesco Chair and Professor of Accounting, College of Management, Georgia Institute of Technology, cofounder of Cash Flow Analytics, LLC

"GAAP earnings are more theology than science. They are a series of assumptions that lead us to what we 'believe' earnings to be. As George Christy thoroughly explains, Free Cash Flow definitively reflects the true value of a company. After more than a decade of roving market bubbles, it is refreshing to read this work of fundamental analysis pointing to successful investing. I read it as a refresher course to my CFA certification." --Boniface A. Zaino, CFA, Managing Director, Royce& Associates, LLC

"George Christy has it right--to value a business you must follow the cash. What else counts?" --Bruce Berkowitz, President, Fairholme Funds, Inc.

"This book provides the reader with the concepts, the context, and the tools necessary to invest successfully in a global market that has become increasingly challenging for all investors, both institutional and individual. I applaud the author's efforts and recommend this book to all investors seeking shareholder value creation." --From the Preface by William W. Priest, Chief Executive Officer, Epoch Investment Partners, coauthor of Free Cash Flow and Shareholder Yield: New Priorities for the Global Investor

"Back testing - based on up to 25 stocks from September, 2004 to June, 2012, using the Morningstar CPMS database, showed Mr. Christy's criteria significantly outperformed the S&P/TSX composite index (14.1 percent for the portfolio versus 7.5 per cent for the S&P/TSX)." -*Toronto Globe and Mail*; Robert McWhirter, President, Selective Asset Management, Inc.

"Christy's career has given him an insider's perspective of how CEOs and CFOs manage public disclosures and relations with the street. This book is an insider's perspective on cash-flow investing, which is very different from that of the typical money manager." *Asheville Citizen-Times*; David Coffee, Professor of Accounting, College of Business, Western Carolina University

From the Inside Flap

For years, GAAP earnings per share was the financial metric of choice for virtually all professional equity investors. However, increasing problems with this approach, combined with a growing appreciation of investment economics, have caused many investors to turn to Free Cash Flow as their primary financial metric.

Even with the growing popularity of Free Cash Flow, the lack of detailed information in this field has made it difficult for many investors to integrate Free Cash Flow into their daily investment discipline. That's why George Christy—a financial executive and corporate banker with over thirty years of experience—has created *Free Cash Flow: Seeing Through the Accounting Fog Machine to Find Great Stocks*.

Filled with in-depth insights and practical advice, this reliable resource shows you how analyzing a company's financial performance can put you in a better position to pick winning stocks and improve the overall returns of your portfolio. Throughout the book, Christy explains the differences between Free Cash Flow and GAAP earnings, and describes the advantages of Free Cash Flow. He also takes you step by step through the Free Cash Flow Statement®—which focuses on the primary drivers of investor return: revenues, cash operating margin, and use of capital—and illustrates how each of the four deployments of Free Cash Flow can enhance or diminish shareholder return.

In order to put the ideas outlined in perspective, Christy applies the conceptual building blocks of Free Cash Flow and investor return to an actual company—McDonald's—and goes line by line through the downloadable Free Cash Flow Worksheet® that integrates the primary components of share value into an investor return model. Five other restaurant companies are compared to McDonald's, and each other, using both Free Cash Flow and GAAP metrics.

Rounding out this detailed discussion of Free Cash Flow, Christy shows you how to assess a CEO's commitment to investor return by analyzing three key sources, and explains how to use the Free Cash Flow Worksheet in your stock search, from finding candidates with screeners to making buy, hold, or sell decisions.

Cash is the essence of shareholder value, and with *Free Cash Flow* as your guide, you'll quickly learn how to use this important metric to find, and profit from, great stocks.

The Free Cash Flow Statement® and the Free Cash Flow Worksheet® were specifically developed by the author for this book. Be sure to see the detailed Table of Contents on page IX. *Free Cash Flow* goes where no other investment book has gone before.

About the Author

George C. Christy, CFA, has more than thirty years' experience in the financial markets. He has served as corporate banker for Fortune 500 and middle market companies, as well as treasurer of a publicly owned telecommunications equipment manufacturer. Christy has a BA from Princeton University and an MBA from the University of Chicago, and holds the Chartered Financial Analyst (CFA) designation. He is a member of the CFA Institute and the CFA Society of Los Angeles.

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