

# Go with the flow

Unlock the potential of free cash flow (FCF): Identify high-quality companies at attractive valuations

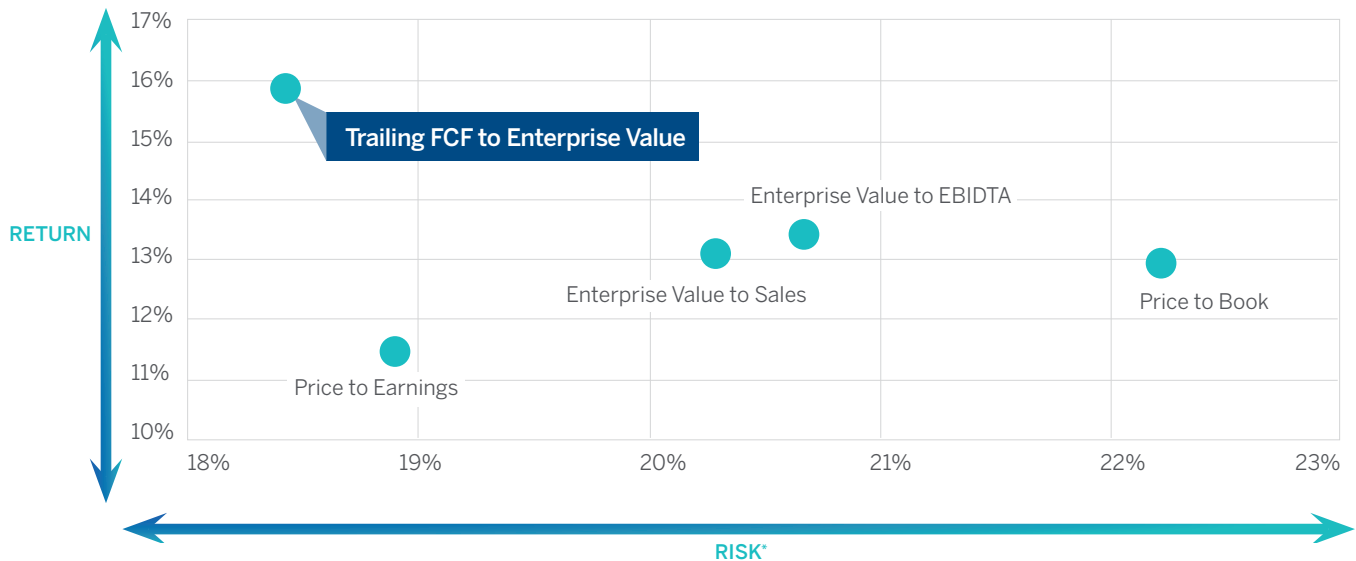
Are value indexes measuring the **wrong thing?**

- Price to Book?
- Price to Sales?
- Price to Earnings?
- FCF to Enterprise Value?



The value of a company is the present value of its **FUTURE** free cash flow

FCF yield is a key fundamental metric that measures a company's ability to generate cash, indicating financial health. **We believe it's a better measure of value and quality.**



However, traditional measures of FCF may be falling short in capturing the true value of a company. **There may be a better way to measure FCF.**

**Past performance does not guarantee future results.** Source: FactSet; Analysis period 12/31/1991-6/30/2023. Universe utilized for analysis is the S&P 500 Index with equal weighted constituents (excluding Financials and Real Estate).

\***Standard Deviation** measures an investment's historical volatility or risk. It shows how an investment's annual rate of return is spread out on either side of the mean rate of return. A low SD means performance has not deviated much from the mean. A high SD means returns varied widely.

# An improved approach for evaluating free cash flow

The industry norm has relied on trailing measures of FCF. The Victory U.S. Large Cap Free Cash Flow Index has enhanced the approach to assessing FCF by incorporating a forward-looking measure. We believe this combination can provide a better estimate of a company's expected future FCF. The VictoryShares Free Cash Flow ETF seeks the investment returns, before fees and expenses of that index.

**EQUATION**

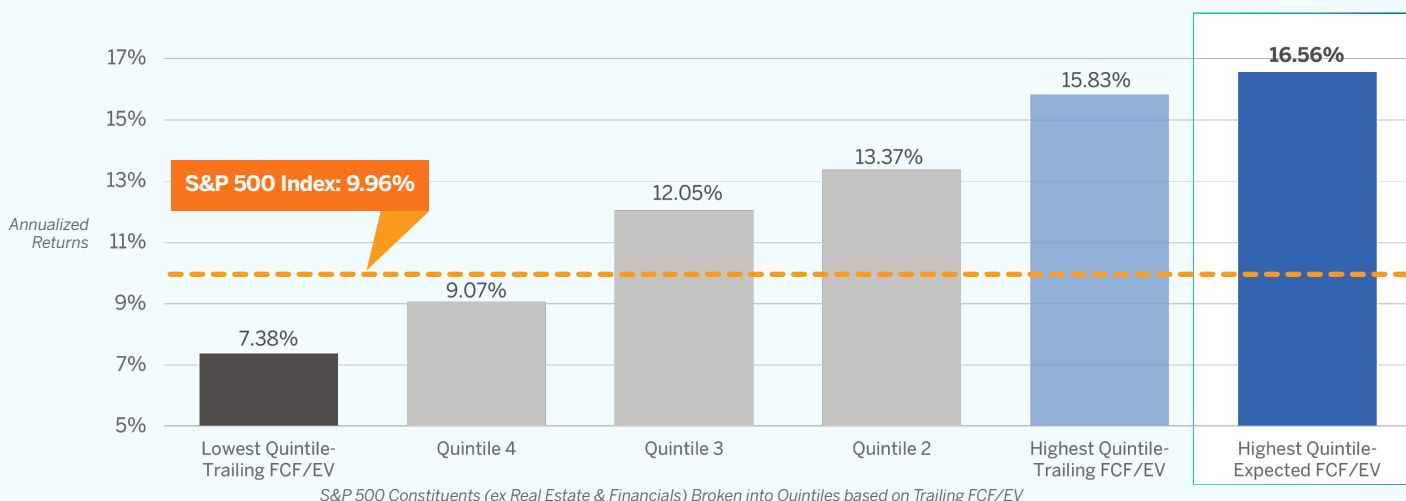
$$\text{Trailing FCF} + \text{Forward FCF} = \text{Expected FCF}$$

*Actual Results* (Trailing 12-month FCF) + *Estimates* (Forward 12-month FCF based on analyst estimates) = *An optimal measure* (The average of trailing 12-month FCF and next 12-month forward FCF)

The highest free cash flow yielders have **outperformed over time.**



**Expected FCF** has enhanced this return profile.



Past performance does not guarantee future results. Source: FactSet; Analysis period 12/31/1991-6/30/2023.

## Our measure of FCF Yield

**EQUATION**

$$\text{Free Cash Flow Yield} = \frac{\text{Expected FCF}}{\text{Enterprise Value}}$$

**Expected FCF** is the average of trailing 12 month FCF and next 12-month forward FCF. Universe utilized for analysis is the S&P 500 Index with equal weighted constituents (excluding Financials and Real Estate). **Enterprise value** (EV) measures a company's total value, often used as a more comprehensive alternative to equity market capitalization. Enterprise value includes in its calculation the market capitalization of a company but also short-term and long-term debt and any cash on the company's balance sheet.

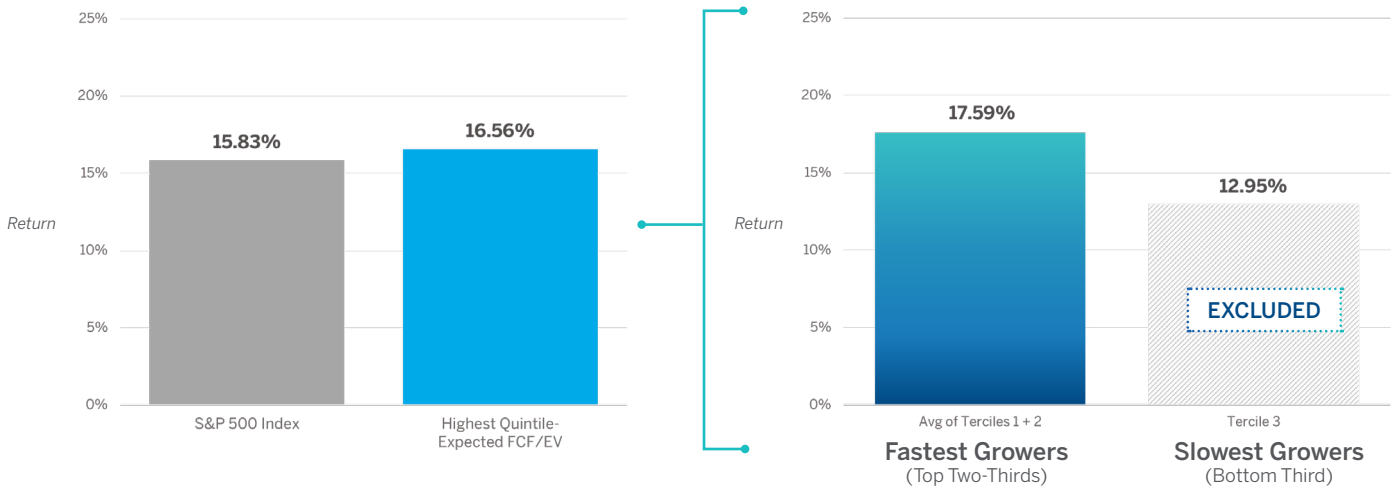
# Overlooking the importance of growth may leave returns on the table



Most analysts feel they must choose between two approaches customarily thought to be in opposition: 'value' and 'growth.' Growth is always a component in the calculation of value..."

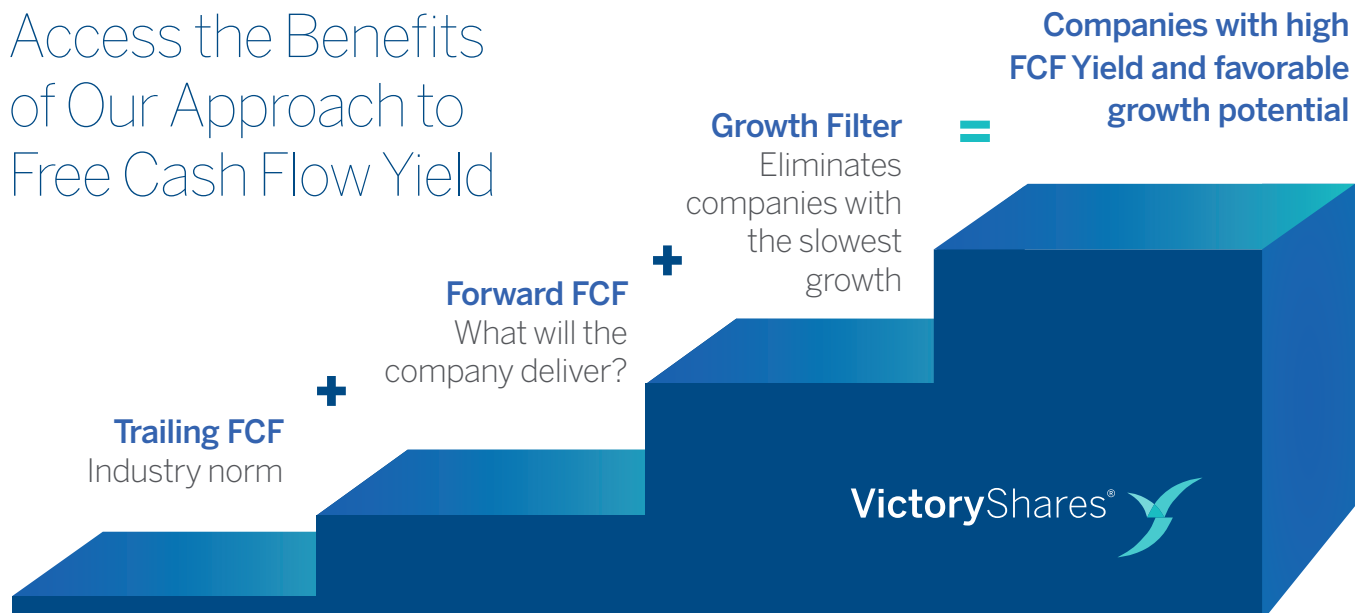
— Warren Buffett, Berkshire Hathaway Annual Letter, 1993

Incorporating expected free cash flow can enhance the effectiveness of traditional free cash flow assessments. Returns can then be bolstered by **eliminating companies with the weakest growth prospects.**



**Past performance does not guarantee future results.** Source: FactSet; Analysis period 12/31/1991-6/30/2023. Expected Free Cash Flow is defined as a combination of trailing and forward free cash flow yield. Universe utilized for analysis is the S&P 500 Index with equal weighted constituents (excluding Financials and Real Estate).

## Access the Benefits of Our Approach to Free Cash Flow Yield



**Expected FCF** is the average of trailing 12 month FCF and next 12-month forward FCF. The Victory U.S. Large Cap Free Cash Flow Index forward-looking free cash flow estimates, based on the index's methodology, are not guaranteed and may not come to fruition.

For illustration only.

# Discover Your Investment Edge

## An innovative FCF approach & growth filter can help you invest with confidence

Most view FCF from an isolated, historic perspective. We've developed an innovative approach that also builds in a forward-looking view on FCF with an added growth screen.



Why  
VFLO?

- > Exposure to high quality companies, trading at a discount with favorable growth prospects
- > Considers a company's expected FCF, not just trailing
- > Focuses on companies with high FCF yield and the highest expected growth rates

To learn more about the VictoryShares Free Cash Flow ETF, please consult with your financial advisor or visit [victoryshares.com](https://www.victoryshares.com)

**Carefully consider a fund's investment objectives, risks, charges and expenses before investing. To obtain a prospectus or summary prospectus containing this and other important information, visit [www.vcm.com/prospectus](https://www.vcm.com/prospectus). Read it carefully before investing.**

**All investing involves risk, including the potential loss of principal.** The Fund has the same risks as the underlying securities traded on the exchange throughout the day. Redemptions are limited, and commissions are often charged on each trade. ETFs may trade at a premium or discount to their net asset value. The Fund invests in securities included in, or representative of securities included in, the Index, regardless of their investment merits. The performance of the Fund may diverge from that of the Index. Investments concentrated in an industry or group of industries may face more risks and exhibit higher volatility than investments that are more broadly diversified over industries or sectors. Derivatives may not work as intended and may result in losses. Large shareholders, including other funds advised by the Adviser, may own a substantial amount of the Fund's shares. The actions of large shareholders, including large inflows or outflows, may adversely affect other shareholders, including potentially increasing capital gains. Investments in mid-cap companies typically exhibit

higher volatility. The value of your investment is also subject to geopolitical risks such as wars, terrorism, environmental disasters, and public health crises; the risk of technology malfunctions or disruptions; and the responses to such events by governments and/or individual companies.

**New Fund Risk.** The Fund is a recently organized management investment company with no operating history. As a result, prospective investors do not have a track record or history on which to base their investment decisions.

**Average Price/Book (P/B) Ratio** compares a stock's market value to the value of total assets less total liabilities (book value). Distributed by Foreside Fund Services, LLC (Foreside). Foreside is not affiliated with Victory Capital Management Inc., the Fund's advisor.

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