Price to Cash Flow

Price to Cash Flow

- This metric compares the company's market value to its operating cash flow
- The same information can be gleaned from comparing the share price to the operating cash flow per share

Price to Cash Flow

- The company's value is therefore being judged on the basis of cash flow rather than earnings
- This makes the valuation more readily comparable to the DCF approach which relies on cash flow rather than earnings.

Price to Cash Flow

- You need to be aware of the type of company you are valuing and its financial characteristics
- If the company has significant capital expenditure requirements, the use of this metric will miss these completely

Price to Cash Flow

- Price to Cash Flow can be a better metric than Price Earnings which can be more easily manipulated
- The critical factor here is to consider which Cash Flow metric you may wish to choose, which is why we are going to work through them in the next lecture.

Price to Cash Flow