Cash Cows Series:

Free Cash Flow as a Proven Measurement of Quality

PACER ETFs

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A Source for Growing Wealth

1 The goal of most investors is to achieve **financial security**. High free cash flow is an indicator of a company's financial strength.

2 **Positive free cash flow** indicates a company is generating more cash than it needs to run the business and can invest in growth opportunities.

3 Companies generating **high free cash flow yields** have the ability to grow dividends over time and produce better earnings.

4 Using strategies that are **constantly re-evaluating and rebalancing** is the key to owning quality companies generating high free cash flow.

Source: FactSet. Russell 1000 ex Financials is composed of approximately 850 stocks in the Russell 1000 Index excluding financials based on data available. Each quintile is composed of approximately 170 stocks (20%), equal weighted.

Understanding the Terms

Free Cash Flow

Free cash flow is the cash remaining after a company has paid:

Free cash flow can be used to:

Free Cash Flow Yield

Free cash flow yield (FCFY) is free cash flow divided by enterprise value (market cap + debt - cash):

$$\textbf{Free cash flow yield} = \frac{\text{Free Cash Flow}}{\text{Enterprise Value } \textit{(Market Cap + Debt - Cash)}}$$

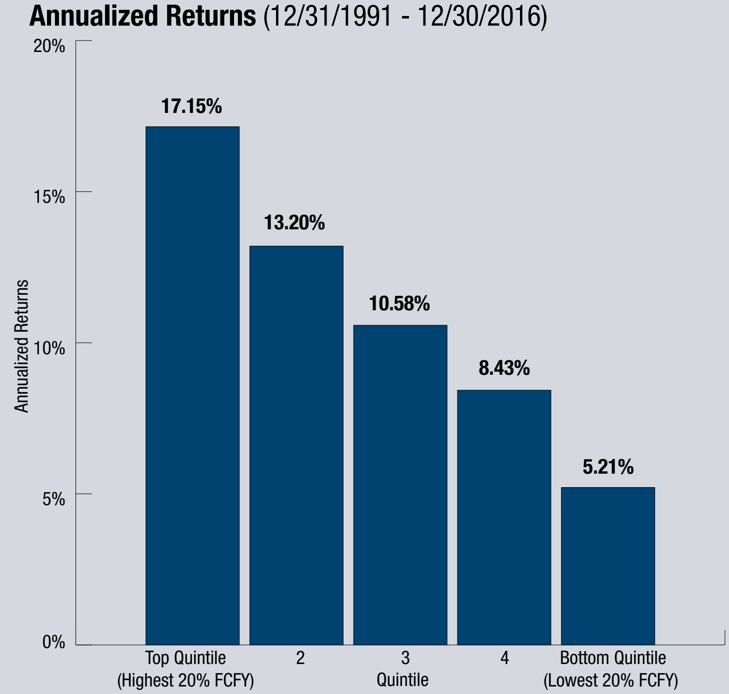
Free cash flow yield can determine an investor's payback period: Higher free cash flow yield = shorter payback period

FCFY	1%	2%	5%	10%
Years to pay back all debt and equity holders	100 Years	50 Years	20 Years	10 Years

Russell 1000 by Free Cash Flow Yield

In the chart below, companies with the highest FCFY (Top Quintile) outperform companies with the lowest FCFY (Bottom Quintile) over time.

Annualized Returns (12/31/1991 - 12/30/2016)



Free Cash Flow Yield Is an Important Valuation Metric

In the chart below, free cash flow yield has the highest return with the fewest periods of negative trailing twelve month returns.

Valuation Metrics (12 Month Rolling) 12/31/1988 - 12/30/2016

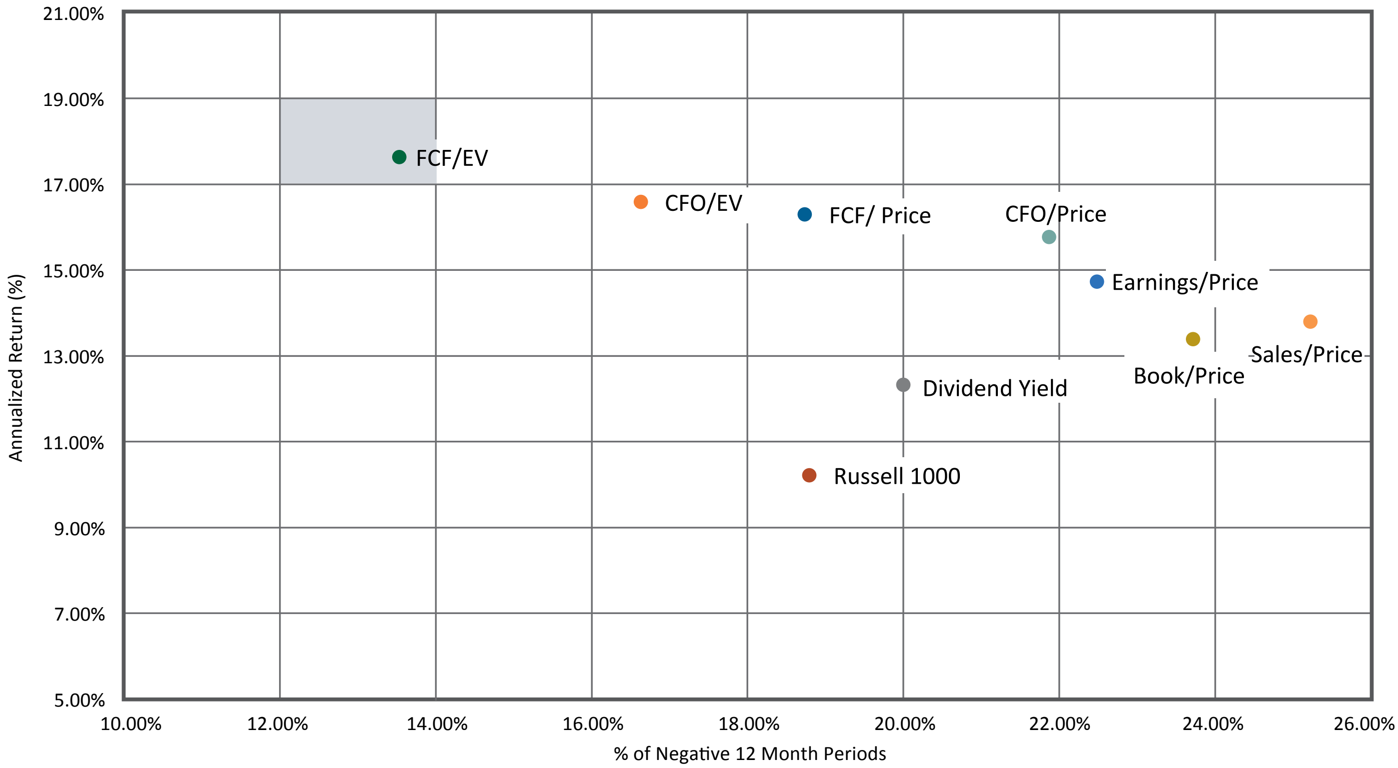


Chart Key:
FCF/EV: Free Cash Flow/Enterprise Value
FCF/Price: Free Cash Flow/Price
CFO/EV: Cash From Operations/Enterprise Value
CFO/Price: Cash From Operations/Price
Book/Price: Book Value/Price

Source: FactSet. Data calculated based on the top 100 companies in the Russell 1000 Index for each valuation metric.

Stocks With Lower Price to Earnings Ratios Tend to Outperform Over Time

P/E ratios are used to measure the value of a company based on its current stock price relative to its per share earnings. Companies with a high free cash flow yield tend to have lower price to earnings ratios.

The bar chart shows that over time, lower P/E ratios may produce better returns and higher P/E ratios may produce lower returns.

High P/E ratio

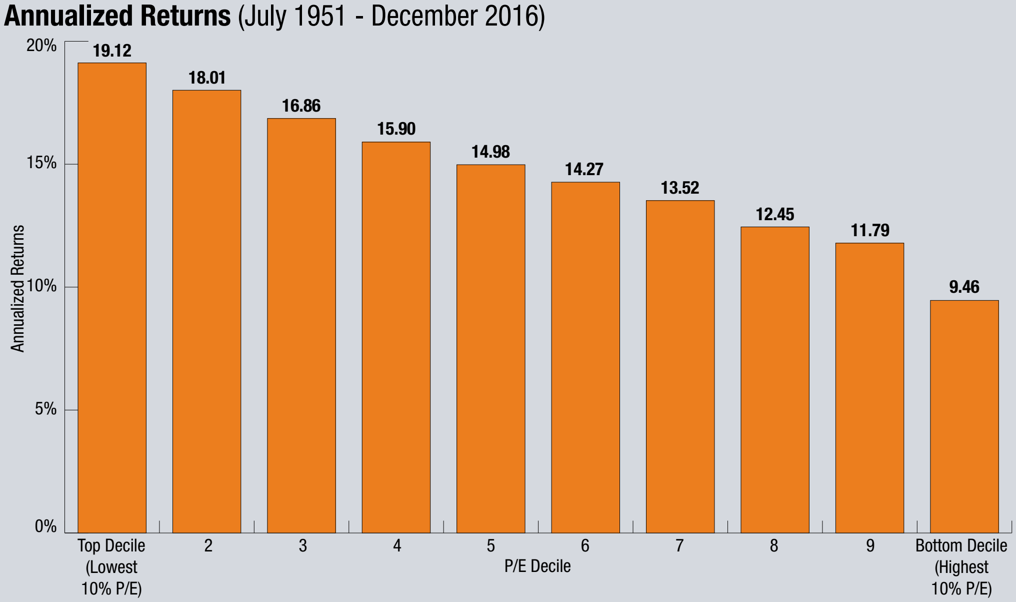
- A company may be overvalued
- An investor may pay more for future earnings of the company
- Chances for higher returns may be reduced

Low P/E ratio

- A company may be undervalued
- An investor may pay less for future earnings of the company
- Chances for higher returns may be greater

Source: Kenneth R. French Research. Research calculations include all NYSE, AMEX, and NASDAQ stocks for which the necessary data is available.

Annualized Returns (July 1951 - December 2016)



The strategies discussed are for educational purposes and are not a recommendation, offer or solicitation to buy or sell any securities or to adopt any investment strategy. There is no guarantee that any strategy will be effective.

PACER GLOBAL CASH COWS DIVIDEND ETF
GCOW

Pacer Global Cash Cows Dividend ETF

Uses a free cash flow yield screen and a dividend yield screen to invest in 100 companies from the FTSE Developed Large-Cap Index. It aims to provide a continuous stream of income and capital appreciation over time by screening for companies with a high free cash flow yield and a high dividend yield.

PACER US CASH COWS 100 ETF
COWZ

Pacer US Cash Cows 100 ETF

Is a strategy driven exchange traded fund that aims to provide capital appreciation over time by screening the Russell 1000 for the top 100 companies based on free cash flow yield.

Speak with your financial advisor today to learn more about how to incorporate the Pacer Cash Cows Series into your portfolio.
For more information, visit www.paceretfs.com.

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