Small-Cap Stocks: A World of Possibilities

CASH FLOW CHAMPIONS | Date: February 11, 2025

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Exploring the Small-Cap **Advantage**

More Innovation

They are often developing new products and services, and these can lead to substantial business growth.

More Agility

They tend to be more agile than larger businesses meaning that they can adapt to market trends and technological shifts faster.

Expansion Potential

They are often in the process of expanding into new geographic markets and this can lead to strong revenue growth.

Entrepreneurial Drive

They are often founded and led by passionate entrepreneurs who are driven to succeed.

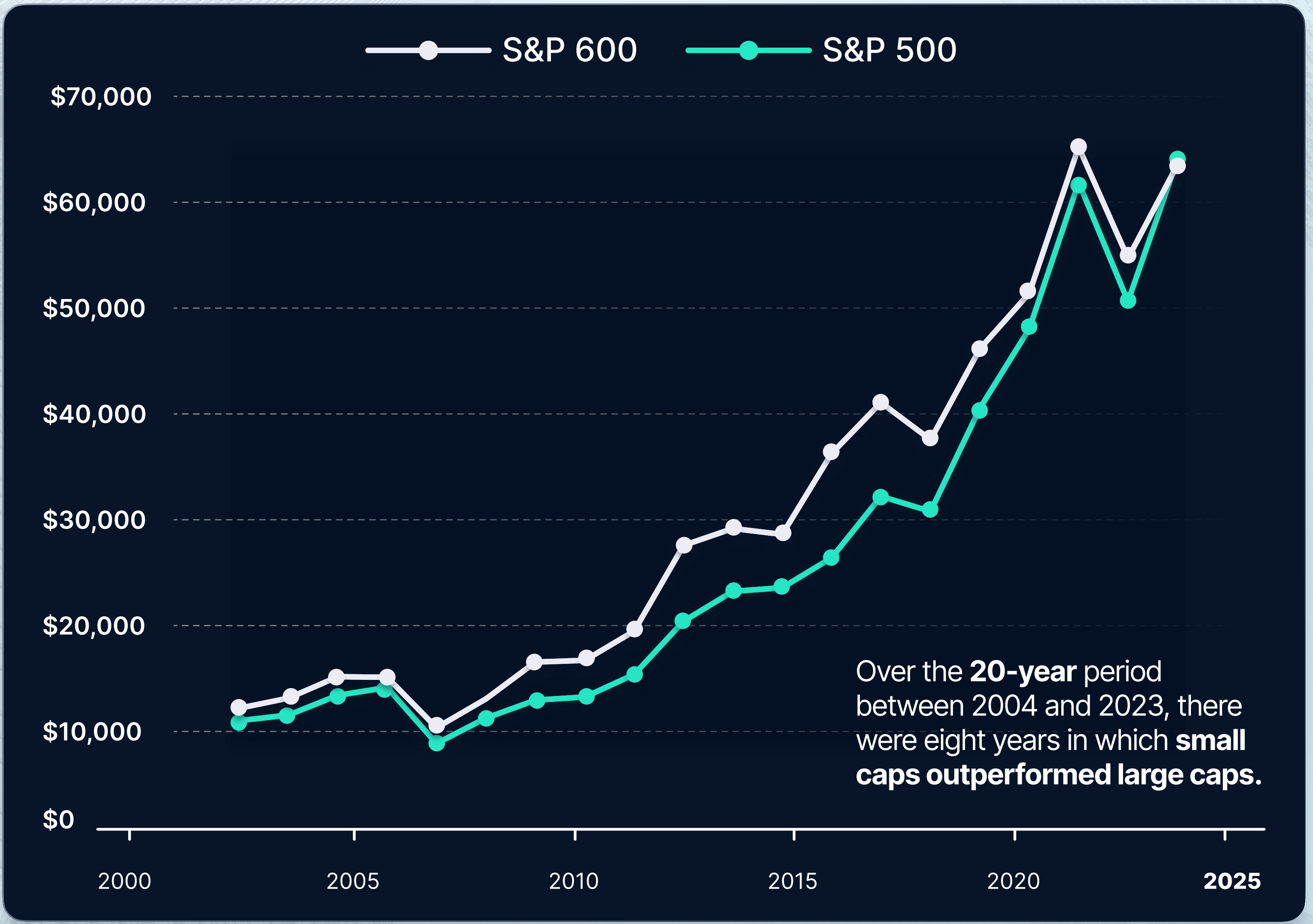
Acquisition Potential

They can be attractive acquisition targets for larger companies seeking growth.

Smaller companies can play a valuable role within an investment portfolio. These companies often have more room for growth compared to larger, more established businesses. And historically, they have generated attractive long-term returns. Investing in smaller companies can also help to diversify a portfolio. By including small-cap stocks in a portfolio, investors can potentially reduce their overall risk levels.

Growth of **$10,000**

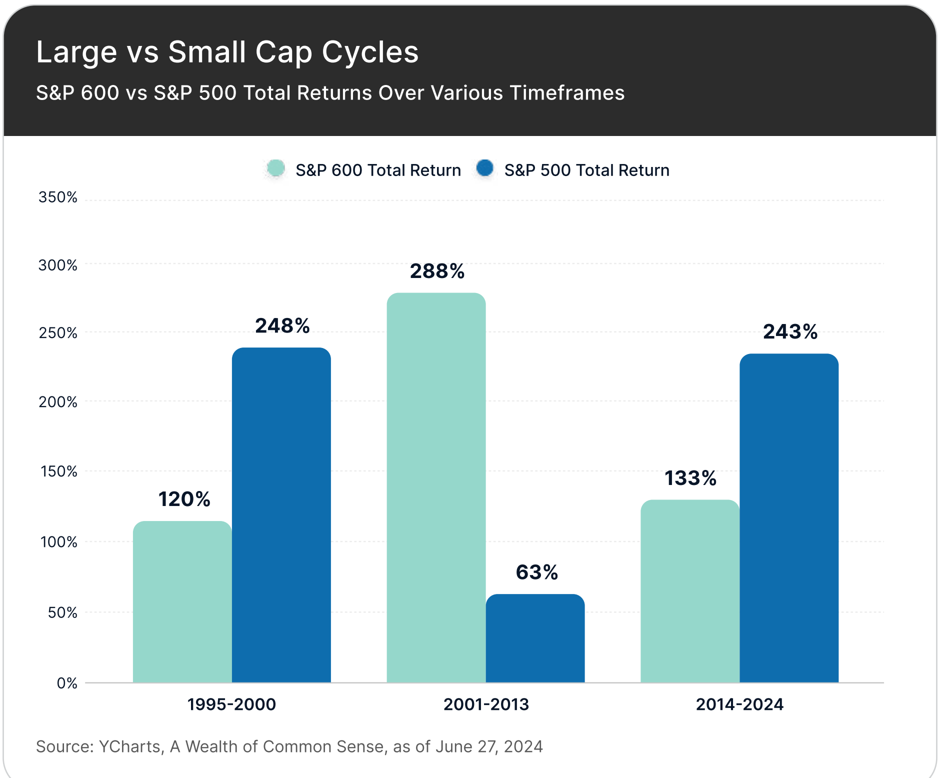
in US Small Caps vs Large Caps



Source: S&P Dow Jones Indices, as of December 31, 2024

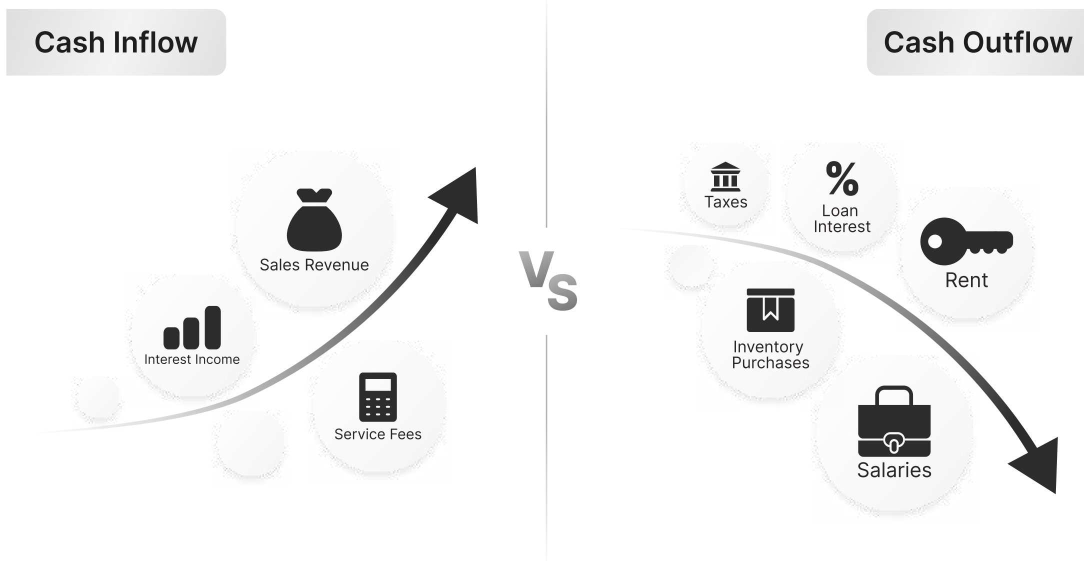
How Smaller Companies Can Help to Diversify an Investment Portfolio

Small-cap stocks often have a relatively low correlation to large-cap stocks. One reason for this is that smaller companies tend to be more economically sensitive than larger businesses. Given that small caps and large caps don't move in sync, small caps can offer diversification benefits, potentially helping investors build more balanced portfolios. With exposure to small-cap stocks, investors may be able to enhance their returns during certain phases of the economic cycle.



Why Cash Flow is Important When Investing in Smaller Companies

Cash flow is the money that flows in and out of a business over a specific period. And it's an important metric when investing in smaller companies. If a company has significant positive cash flow, it is likely to have the ability to pay off its debts, invest for long-term growth, and weather economic downturns. By contrast, if a company has negative cash flow, it may struggle to meet its financial obligations and end up getting into financial trouble.



The Benefits of Positive Cash Flow

Growth Opportunities

When a company has strong cash flow, it can use this money for R&D, market expansion, or the acquisition of other businesses to drive future growth.

Liquidity & Solvency

Positive cash flow ensures a company can meet its debt obligations and avoid financial distress.

Resilience

Companies with consistent positive cash flows tend to be less vulnerable during economic downturns as they can continue to fund their operations without having to borrow money.

Dividend Payments & Share Buybacks

Healthy cash flow allows companies to return capital to shareholders through dividends and share buybacks.

True Financial Performance

Cash flow is seen as an important metric by financial analysts as it can't be manipulated like earnings per share can be.

How is Cash Flow Calculated?

Cash flow is typically calculated using a cash flow statement, which is a statement designed to show how a company's activities have affected its cash and cash equivalents. On a cash flow statement, there are three main categories of cash flow activities:

- **Operating Activities** – These relate to the core operations of the business (e.g. cash inflows from sales or cash outflows from wages).
- **Investing Activities** – These relate to the purchase and sale of long-term assets, such as property, plant, and equipment.
- **Financing Activities** – Inflows here could be from the issuance of stocks or bonds, while outflows could be from repaying loans or paying dividends.

Net cash flow for the period is calculated by adding up all the cash inflows from operating, investing, and financing activities, and then subtracting all the cash outflows from these same activities.

The Themes US Small Cap Cash Flow Champions ETF

Those seeking exposure to smaller US companies with strong cash flows may wish to check out the Themes US Small Cap Cash Flow Champions ETF (SMCF).This aims to track the Solactive US Small Cap Cash Flow Champions Index (SOLSUCCT). In terms of how this index is created, a universe of US small-cap stocks is screened to identify companies that have remained cash flow positive for at least four years. These cash flow positive companies are then ranked according to their estimated cash flow for the next year. Finally, the top 75 companies are selected for the index.