Table A1: Alternative definitions of earnings, cash flows, and accruals: Cash flow predictability over time

Table A1, Panel A provides alternate definitions of earnings, cash flows, and accruals computed using the following Compustat variables: Income before extraordinary items (IB); Income before extraordinary items – Cash Flow Statement (IBC); Net Income (NI); Pretax Income (PI); Operating Activities – Net Cash Flow (OANCF); Interest Paid – Net (INTPN); Depreciation and Amortization – Cash Flow Statement (DPC); Depreciation and Amortization (DP); Extraordinary items and discontinued operations – Cash Flow Statement (XIDOC); Income Taxes Paid (TXPD).

Table A1 Panels B through I present results of regressions, estimated annually, of current operating cash flows on lagged earnings, accruals, and cash flows for the period 1989-2015, using variables as defined in Definition #1 through #8 of Table A1 Panel A, respectively.

β^{EARN} and Adj. R^2_{EARN} are the coefficient estimate and explanatory power, respectively, of the following regression model estimated by year:

$$CF_{i,t} = \beta_0 + \beta^{EARN} EARN_{i,t-1} + \varepsilon_{i,t}$$

β^{CF} and Adj. R^2_{CF} are the coefficient estimate and explanatory power, respectively, of the following regression model estimated by year:

$$CF_{i,t} = \beta_0 + \beta^{CF} CF_{i,t-1} + \varepsilon_{i,t}$$

β^{ACC} and Adj. R^2_{ACC} are the coefficient estimate and explanatory power, respectively, of the following regression model estimated by year:

$$CF_{i,t} = \beta_0 + \beta^{ACC} ACC_{i,t-1} + \varepsilon_{i,t}$$

Trend is the coefficient estimate obtained by regressing yearly estimates ((β/Adj. R^2)) obtained from each specification above on the time variable. *, **, and *** indicate significance at the 0.10, 0.05, and 0.01 levels (two-tailed p-values), respectively.

Panel A: Summary of Alternate Definitions of Earnings, Cash Flows, and Accruals

Definition	Earnings	Cash Flows	Accruals	Are Cash Flows better predictors than Earnings?
1	IB	OANCF	IB-OANCF	Yes
2	IB	OANCF+INTPN	IB-(OANCF+INTPN)	Yes
3	IBC	OANCF-DPC	IBC-(OANCF-DPC)	Yes
4	IBC	OANCF-XIDOC	IBC-(OANCF-XIDOC)	Yes
5	IBC	OANCF	IBC-OANCF	Yes
6	NI	OANCF-DP	NI-(OANCF-DP)	Yes
7	NI	OANCF	NI-OANCF	Yes
8	PI	OANCF-XIDOC-TXPD	PI-(OANCF-XIDOC-TXPD)	Yes

Panel B: Cash flow predictability over time: Definition #1

$CF_{i,t}$ =	$\beta_0 + \beta^{EARN} EARN_{i,t-1} + \varepsilon_{i,t}$		$\beta_0 + \beta^{CF} CF_{i,t-1} + \varepsilon_{i,t}$		$\beta_0 + \beta^{ACC} ACC_{i,t-1} + \varepsilon_{i,t}$	
Year	β^{EARN}	Adj. R^2_{EARN}	β^{CF}	Adj. R^2_{CF}	β^{ACC}	Adj. R^2_{ACC}
	(1)	(2)	(3)	(4)	(5)	(6)
1989	0.58	0.15	0.55	0.28	-0.31	0.07
1990	0.45	0.13	0.51	0.24	-0.22	0.04
1991	0.41	0.13	0.52	0.24	-0.18	0.03
1992	0.38	0.12	0.56	0.28	-0.21	0.04
1993	0.39	0.12	0.57	0.29	-0.21	0.04
1994	0.41	0.15	0.62	0.32	-0.16	0.02
1995	0.40	0.13	0.55	0.30	-0.23	0.05
1996	0.46	0.16	0.58	0.26	-0.13	0.01
1997	0.50	0.23	0.61	0.33	-0.10	0.01
1998	0.41	0.18	0.62	0.34	-0.13	0.01
1999	0.44	0.23	0.60	0.32	-0.03	0.00
2000	0.56	0.24	0.69	0.29	0.04	0.00
2001	0.39	0.22	0.58	0.30	0.05	0.00
2002	0.33	0.23	0.62	0.37	0.07	0.01
2003	0.45	0.29	0.68	0.39	0.06	0.00
2004	0.60	0.34	0.75	0.49	-0.17	0.01
2005	0.57	0.33	0.69	0.43	-0.10	0.01
2006	0.60	0.34	0.75	0.46	-0.08	0.00
2007	0.54	0.33	0.66	0.41	-0.03	0.00
2008	0.55	0.30	0.65	0.39	-0.10	0.01
2009	0.32	0.19	0.59	0.34	0.03	0.00
2010	0.44	0.24	0.64	0.37	-0.06	0.00
2011	0.54	0.28	0.71	0.39	-0.08	0.00
2012	0.64	0.36	0.79	0.51	-0.14	0.01
2013	0.54	0.31	0.78	0.48	-0.06	0.00
2014	0.63	0.42	0.80	0.54	-0.05	0.00
2015	0.54	0.37	0.73	0.51	0.00	0.00
Average		0.24		0.37		0.01
Trend		0.010***		0.010***		-0.002***
(t-value)		[8.49]		[8.11]		[-5.61]

Panel C: Cash flow predictability over time: Definition #2

$CF_{i,t}$ =	$\beta_0 + \beta^{EARN} EARN_{i,t-1} + \varepsilon_{i,t}$		$\beta_0 + \beta^{CF} CF_{i,t-1} + \varepsilon_{i,t}$		$\beta_0 + \beta^{ACC} ACC_{i,t-1} + \varepsilon_{i,t}$	
Year	β^{EARN}	Adj. R^2_{EARN}	β^{CF}	Adj. R^2_{CF}	β^{ACC}	Adj. R^2_{ACC}
	(1)	(2)	(3)	(4)	(5)	(6)
1989	0.48	0.10	0.53	0.29	-0.34	0.10
1990	0.31	0.07	0.46	0.19	-0.22	0.04
1991	0.30	0.07	0.47	0.19	-0.18	0.03
1992	0.26	0.06	0.53	0.25	-0.24	0.06
1993	0.29	0.07	0.55	0.26	-0.25	0.06
1994	0.33	0.10	0.59	0.31	-0.20	0.04
1995	0.32	0.09	0.52	0.27	-0.25	0.06
1996	0.39	0.11	0.55	0.23	-0.16	0.02
1997	0.45	0.18	0.58	0.31	-0.15	0.02
1998	0.37	0.14	0.59	0.31	-0.16	0.02
1999	0.40	0.19	0.59	0.31	-0.06	0.00
2000	0.48	0.24	0.63	0.34	-0.08	0.00
2001	0.37	0.20	0.57	0.31	-0.02	0.00
2002	0.31	0.20	0.61	0.37	0.02	0.00
2003	0.42	0.25	0.66	0.38	0.00	0.00
2004	0.57	0.29	0.76	0.47	-0.22	0.03
2005	0.54	0.29	0.67	0.42	-0.12	0.01
2006	0.55	0.30	0.73	0.45	-0.13	0.01
2007	0.50	0.29	0.65	0.41	-0.06	0.00
2008	0.49	0.25	0.62	0.37	-0.13	0.01
2009	0.27	0.15	0.57	0.32	-0.01	0.00
2010	0.37	0.17	0.62	0.33	-0.10	0.01
2011	0.50	0.23	0.71	0.35	-0.11	0.01
2012	0.61	0.32	0.79	0.49	-0.15	0.01
2013	0.50	0.26	0.78	0.44	-0.11	0.01
2014	0.58	0.36	0.78	0.52	-0.07	0.00
2015	0.54	0.36	0.75	0.54	-0.04	0.00
Average		0.20		0.35		0.02
Trend		0.010***		0.010***		-0.002***
(t-value)		[7.97]		[7.64]		[-5.37]

Panel D: Cash flow predictability over time: Definition #3

$CF_{i,t}$ =	$\beta_0 + \beta^{EARN} EARN_{i,t-1} + \varepsilon_{i,t}$		$\beta_0 + \beta^{CF} CF_{i,t-1} + \varepsilon_{i,t}$		$\beta_0 + \beta^{ACC} ACC_{i,t-1} + \varepsilon_{i,t}$	
Year	β^{EARN}	Adj. R^2_{EARN}	β^{CF}	Adj. R^2_{CF}	β^{ACC}	Adj. R^2_{ACC}
	(1)	(2)	(3)	(4)	(5)	(6)
1989	0.60	0.18	0.52	0.25	-0.23	0.04
1990	0.48	0.16	0.47	0.20	-0.12	0.01
1991	0.45	0.15	0.49	0.19	-0.09	0.00
1992	0.43	0.16	0.52	0.23	-0.10	0.01
1993	0.43	0.15	0.54	0.24	-0.12	0.01
1994	0.47	0.20	0.59	0.28	-0.04	0.00
1995	0.45	0.18	0.53	0.26	-0.13	0.01
1996	0.53	0.19	0.57	0.23	-0.05	0.00
1997	0.56	0.28	0.62	0.32	-0.02	0.00
1998	0.48	0.23	0.62	0.32	-0.05	0.00
1999	0.51	0.28	0.61	0.33	0.03	0.00
2000	0.62	0.26	0.71	0.29	0.11	0.00
2001	0.48	0.29	0.60	0.32	0.14	0.01
2002	0.40	0.28	0.58	0.33	0.19	0.03
2003	0.49	0.35	0.64	0.38	0.17	0.02
2004	0.65	0.40	0.73	0.46	-0.05	0.00
2005	0.62	0.37	0.70	0.41	0.03	0.00
2006	0.63	0.39	0.74	0.45	0.03	0.00
2007	0.57	0.36	0.64	0.39	0.09	0.00
2008	0.58	0.35	0.64	0.37	0.02	0.00
2009	0.35	0.23	0.59	0.32	0.10	0.01
2010	0.47	0.29	0.62	0.35	0.04	0.00
2011	0.57	0.33	0.69	0.36	0.06	0.00
2012	0.65	0.40	0.78	0.48	0.01	0.00
2013	0.57	0.35	0.78	0.46	0.05	0.00
2014	0.66	0.46	0.79	0.53	0.07	0.00
2015	0.56	0.39	0.73	0.49	0.09	0.00
Average		0.28		0.34		0.01
Trend		0.010***		0.010***		-0.000**
(t-value)		[8.14]		[9.22]		[-2.05]

Panel E: Cash flow predictability over time: Definition #4

$CF_{i,t}$ =	$\beta_0 + \beta^{EARN} EARN_{i,t-1} + \varepsilon_{i,t}$		$\beta_0 + \beta^{CF} CF_{i,t-1} + \varepsilon_{i,t}$		$\beta_0 + \beta^{ACC} ACC_{i,t-1} + \varepsilon_{i,t}$	
Year	β^{EARN}	Adj. R^2_{EARN}	β^{CF}	Adj. R^2_{CF}	β^{ACC}	Adj. R^2_{ACC}
	(1)	(2)	(3)	(4)	(5)	(6)
1989	0.54	0.14	0.53	0.28	-0.30	0.07
1990	0.45	0.14	0.51	0.24	-0.21	0.03
1991	0.42	0.13	0.52	0.23	-0.17	0.02
1992	0.37	0.11	0.54	0.26	-0.20	0.04
1993	0.39	0.12	0.56	0.28	-0.21	0.04
1994	0.41	0.15	0.61	0.32	-0.16	0.02
1995	0.39	0.13	0.54	0.29	-0.22	0.04
1996	0.46	0.16	0.57	0.25	-0.12	0.01
1997	0.49	0.23	0.61	0.33	-0.09	0.01
1998	0.41	0.18	0.62	0.35	-0.13	0.01
1999	0.44	0.23	0.60	0.33	-0.03	0.00
2000	0.56	0.23	0.69	0.29	0.04	0.00
2001	0.38	0.22	0.58	0.31	0.05	0.00
2002	0.33	0.22	0.63	0.37	0.07	0.01
2003	0.45	0.31	0.67	0.41	0.07	0.00
2004	0.60	0.34	0.75	0.48	-0.17	0.01
2005	0.56	0.32	0.69	0.43	-0.10	0.01
2006	0.60	0.34	0.75	0.47	-0.10	0.00
2007	0.54	0.32	0.65	0.41	-0.03	0.00
2008	0.53	0.29	0.64	0.38	-0.10	0.01
2009	0.31	0.19	0.58	0.33	0.03	0.00
2010	0.44	0.24	0.64	0.37	-0.05	0.00
2011	0.54	0.28	0.71	0.38	-0.06	0.00
2012	0.63	0.36	0.79	0.50	-0.13	0.01
2013	0.54	0.31	0.79	0.47	-0.05	0.00
2014	0.62	0.42	0.79	0.53	-0.03	0.00
2015	0.53	0.37	0.73	0.53	0.01	0.00
Average		0.24		0.36		0.01
Trend		0.010***		0.010***		-0.002***
(t-value)		[8.40]		[8.21]		[-5.55]

Panel F: Cash flow predictability over time: Definition #5

$CF_{i,t}$ =	$\beta_0 + \beta^{EARN} EARN_{i,t-1} + \varepsilon_{i,t}$		$\beta_0 + \beta^{CF} CF_{i,t-1} + \varepsilon_{i,t}$		$\beta_0 + \beta^{ACC} ACC_{i,t-1} + \varepsilon_{i,t}$	
Year	β^{EARN}	Adj. R^2_{EARN}	β^{CF}	Adj. R^2_{CF}	β^{ACC}	Adj. R^2_{ACC}
	(1)	(2)	(3)	(4)	(5)	(6)
1989	0.55	0.14	0.52	0.27	-0.29	0.07
1990	0.45	0.13	0.51	0.24	-0.22	0.04
1991	0.41	0.13	0.52	0.24	-0.18	0.03
1992	0.38	0.12	0.56	0.28	-0.21	0.04
1993	0.39	0.12	0.57	0.29	-0.21	0.04
1994	0.42	0.15	0.62	0.32	-0.16	0.02
1995	0.40	0.13	0.55	0.30	-0.23	0.05
1996	0.46	0.16	0.58	0.26	-0.13	0.01
1997	0.50	0.23	0.61	0.33	-0.10	0.01
1998	0.41	0.18	0.62	0.34	-0.13	0.01
1999	0.44	0.23	0.60	0.32	-0.03	0.00
2000	0.56	0.24	0.69	0.29	0.04	0.00
2001	0.39	0.22	0.58	0.30	0.05	0.00
2002	0.33	0.22	0.62	0.36	0.07	0.01
2003	0.45	0.29	0.68	0.39	0.06	0.00
2004	0.61	0.34	0.75	0.49	-0.17	0.01
2005	0.57	0.33	0.69	0.43	-0.10	0.01
2006	0.60	0.34	0.75	0.46	-0.09	0.00
2007	0.54	0.33	0.66	0.41	-0.02	0.00
2008	0.54	0.30	0.65	0.38	-0.09	0.00
2009	0.32	0.19	0.59	0.34	0.03	0.00
2010	0.44	0.24	0.64	0.37	-0.05	0.00
2011	0.54	0.28	0.71	0.38	-0.07	0.00
2012	0.63	0.36	0.79	0.51	-0.13	0.01
2013	0.54	0.31	0.78	0.47	-0.05	0.00
2014	0.62	0.42	0.80	0.54	-0.03	0.00
2015	0.54	0.37	0.73	0.51	0.01	0.00
Average		0.24		0.36		0.01
Trend (t-value)		0.010*** [8.61]		0.010*** [8.18]		-0.002*** [-5.89]

Panel G: Cash flow predictability over time: Definition #6

$CF_{i,t}$ =	$\beta_0 + \beta^{EARN} EARN_{i,t-1} + \varepsilon_{i,t}$		$\beta_0 + \beta^{CF} CF_{i,t-1} + \varepsilon_{i,t}$		$\beta_0 + \beta^{ACC} ACC_{i,t-1} + \varepsilon_{i,t}$	
Year	β^{EARN}	Adj. R^2_{EARN}	β^{CF}	Adj. R^2_{CF}	β^{ACC}	Adj. R^2_{ACC}
	(1)	(2)	(3)	(4)	(5)	(6)
1989	0.43	0.13	0.52	0.25	-0.18	0.03
1990	0.44	0.16	0.46	0.20	-0.09	0.01
1991	0.40	0.14	0.48	0.18	-0.06	0.00
1992	0.38	0.14	0.52	0.23	-0.08	0.01
1993	0.36	0.13	0.53	0.23	-0.10	0.01
1994	0.41	0.17	0.58	0.28	-0.04	0.00
1995	0.39	0.15	0.53	0.26	-0.13	0.01
1996	0.48	0.18	0.56	0.23	-0.03	0.00
1997	0.52	0.26	0.62	0.32	-0.02	0.00
1998	0.43	0.20	0.61	0.32	-0.05	0.00
1999	0.48	0.26	0.60	0.31	0.05	0.00
2000	0.58	0.25	0.69	0.27	0.13	0.01
2001	0.45	0.28	0.59	0.31	0.16	0.02
2002	0.37	0.28	0.58	0.34	0.17	0.03
2003	0.43	0.32	0.65	0.38	0.15	0.02
2004	0.60	0.38	0.73	0.46	-0.01	0.00
2005	0.59	0.37	0.68	0.41	0.03	0.00
2006	0.60	0.37	0.73	0.43	0.05	0.00
2007	0.53	0.34	0.65	0.39	0.07	0.00
2008	0.55	0.33	0.64	0.36	0.02	0.00
2009	0.33	0.22	0.58	0.31	0.10	0.01
2010	0.45	0.27	0.62	0.34	0.03	0.00
2011	0.55	0.31	0.69	0.35	0.05	0.00
2012	0.64	0.38	0.78	0.48	0.00	0.00
2013	0.55	0.34	0.78	0.46	0.04	0.00
2014	0.64	0.45	0.79	0.52	0.07	0.00
2015	0.54	0.38	0.73	0.50	0.08	0.00
Average		0.27		0.34		0.01
Trend		0.010***		0.010***		-0.000
(t-value)		[8.67]		[8.80]		[-1.58]

Panel H: Cash flow predictability over time: Definition #7

$CF_{i,t}$ =	$\beta_0 + \beta^{EARN} EARN_{i,t-1} + \varepsilon_{i,t}$		$\beta_0 + \beta^{CF} CF_{i,t-1} + \varepsilon_{i,t}$		$\beta_0 + \beta^{ACC} ACC_{i,t-1} + \varepsilon_{i,t}$	
Year	β^{EARN}	Adj. R^2_{EARN}	β^{CF}	Adj. R^2_{CF}	β^{ACC}	Adj. R^2_{ACC}
	(1)	(2)	(3)	(4)	(5)	(6)
1989	0.43	0.12	0.55	0.28	-0.27	0.06
1990	0.41	0.12	0.51	0.24	-0.21	0.04
1991	0.37	0.11	0.52	0.24	-0.18	0.03
1992	0.34	0.11	0.56	0.28	-0.20	0.04
1993	0.34	0.10	0.57	0.29	-0.19	0.03
1994	0.37	0.14	0.62	0.32	-0.15	0.02
1995	0.35	0.11	0.55	0.30	-0.22	0.05
1996	0.44	0.15	0.58	0.26	-0.11	0.01
1997	0.48	0.22	0.61	0.33	-0.09	0.01
1998	0.39	0.17	0.62	0.34	-0.13	0.01
1999	0.43	0.22	0.60	0.32	-0.03	0.00
2000	0.54	0.23	0.69	0.29	0.04	0.00
2001	0.37	0.21	0.58	0.30	0.06	0.00
2002	0.32	0.22	0.62	0.37	0.07	0.01
2003	0.40	0.27	0.68	0.39	0.07	0.00
2004	0.57	0.33	0.75	0.49	-0.14	0.01
2005	0.56	0.32	0.69	0.43	-0.10	0.01
2006	0.58	0.33	0.75	0.46	-0.09	0.00
2007	0.51	0.31	0.66	0.41	-0.04	0.00
2008	0.53	0.29	0.65	0.39	-0.11	0.01
2009	0.31	0.18	0.59	0.34	0.03	0.00
2010	0.42	0.23	0.64	0.37	-0.07	0.00
2011	0.52	0.27	0.71	0.39	-0.08	0.00
2012	0.61	0.34	0.79	0.51	-0.14	0.01
2013	0.53	0.30	0.78	0.48	-0.07	0.00
2014	0.61	0.40	0.80	0.54	-0.05	0.00
2015	0.52	0.36	0.73	0.51	-0.02	0.00
Average		0.23		0.37		0.01
Trend		0.010***		0.010***		-0.002***
(t-value)		[8.74]		[8.11]		[-5.73]

Panel I: Cash flow predictability over time: Definition #8

$CF_{i,t}$ =	$\beta_0 + \beta^{EARN} EARN_{i,t-1} + \varepsilon_{i,t}$		$\beta_0 + \beta^{CF} CF_{i,t-1} + \varepsilon_{i,t}$		$\beta_0 + \beta^{ACC} ACC_{i,t-1} + \varepsilon_{i,t}$	
Year	β^{EARN}	Adj. R^2_{EARN}	β^{CF}	Adj. R^2_{CF}	β^{ACC}	Adj. R^2_{ACC}
	(1)	(2)	(3)	(4)	(5)	(6)
1989	0.21	0.05	0.47	0.21	-0.16	0.04
1990	0.12	0.02	0.38	0.13	-0.11	0.02
1991	0.15	0.03	0.38	0.13	-0.07	0.01
1992	0.11	0.02	0.44	0.16	-0.11	0.02
1993	0.12	0.02	0.46	0.19	-0.13	0.03
1994	0.13	0.03	0.50	0.21	-0.12	0.02
1995	0.12	0.02	0.43	0.18	-0.15	0.04
1996	0.17	0.04	0.43	0.14	-0.07	0.01
1997	0.26	0.09	0.49	0.20	-0.04	0.00
1998	0.19	0.06	0.49	0.22	-0.08	0.01
1999	0.21	0.07	0.47	0.20	-0.04	0.00
2000	0.31	0.11	0.56	0.20	-0.01	0.00
2001	0.23	0.10	0.43	0.17	0.02	0.00
2002	0.22	0.12	0.50	0.23	0.04	0.00
2003	0.29	0.18	0.54	0.26	0.08	0.01
2004	0.36	0.19	0.64	0.35	-0.03	0.00
2005	0.38	0.20	0.57	0.29	-0.01	0.00
2006	0.35	0.19	0.63	0.33	0.01	0.00
2007	0.32	0.17	0.53	0.26	0.03	0.00
2008	0.27	0.12	0.51	0.25	-0.05	0.00
2009	0.17	0.09	0.44	0.20	0.04	0.00
2010	0.22	0.10	0.51	0.22	0.00	0.00
2011	0.34	0.17	0.61	0.28	0.03	0.00
2012	0.37	0.20	0.64	0.35	-0.02	0.00
2013	0.38	0.22	0.71	0.37	0.05	0.00
2014	0.42	0.27	0.70	0.39	0.08	0.01
2015	0.36	0.25	0.66	0.39	0.07	0.01
Average		0.12		0.24		0.01
Trend		0.009***		0.008***		-0.001***
(t-value)		[9.06]		[6.84]		[-4.45]

Table A2: Alternative definitions of earnings: Cash flow predictability over time

Year	Adj. R^2_{CF}	Adj. R^2_{EAR1}	Adj. R^2_{EAR2}	Adj. R^2_{EAR3}
	(1)	(2)	(3)	(4)
1989	0.27	0.16	0.16	0.22
1990	0.24	0.17	0.16	0.25
1991	0.23	0.17	0.16	0.23
1992	0.26	0.15	0.14	0.22
1993	0.28	0.15	0.15	0.23
1994	0.32	0.17	0.17	0.23
1995	0.28	0.16	0.16	0.22
1996	0.25	0.18	0.19	0.24
1997	0.33	0.25	0.26	0.29
1998	0.35	0.23	0.23	0.28
1999	0.33	0.26	0.26	0.30
2000	0.29	0.25	0.26	0.29
2001	0.31	0.28	0.31	0.36
2002	0.37	0.32	0.33	0.41
2003	0.40	0.37	0.38	0.45
2004	0.48	0.40	0.40	0.47
2005	0.43	0.37	0.37	0.43
2006	0.46	0.38	0.40	0.45
2007	0.41	0.37	0.37	0.41
2008	0.38	0.35	0.37	0.43
2009	0.33	0.30	0.32	0.37
2010	0.37	0.31	0.33	0.40
2011	0.38	0.33	0.34	0.41
2012	0.50	0.42	0.43	0.49
2013	0.47	0.37	0.38	0.43
2014	0.53	0.46	0.47	0.52
2015	0.51	0.42	0.43	0.47
Average	0.36	0.29	0.29	0.35
Trend	0.00952***	0.0114***	0.0120***	0.0114***
(t-value)	[8.227]	[11.15]	[11.91]	[10.58]

Table A2 presents results of regressions, estimated annually, of current operating cash flows on lagged earnings, accruals, and cash flows for the period 1989-2015. CF is defined as net cash flow from operating activities less cash flow from extraordinary items and discontinued operations [Compustat: *OANCF – XIDOC*]. EAR1 is defined as pretax income less special items [Compustat: PI – SPI]. EAR2 is defined as operating income after depreciation [Compustat: OIADP]. EAR3 is defined as operating income before depreciation [Compustat: OIBDP].

Adj. R^2_{EAR1} is the explanatory power of the following regression model estimated by year:

$$CF_{i,t} = \beta_0 + \beta^{EAR1} EAR1_{i,t-1} + \varepsilon_{i,t}$$

Adj. R^2_{EAR2} is the explanatory power of the following regression model estimated by year:

$$CF_{i,t} = \beta_0 + \beta^{EAR2} EAR2_{i,t-1} + \varepsilon_{i,t}$$

Adj. R^2_{EAR3} is the explanatory power of the following regression model estimated by year:

$$CF_{i,t} = \beta_0 + \beta^{EAR3} EAR3_{i,t-1} + \varepsilon_{i,t}$$

β^{CF} and Adj. R^2_{CF} are the coefficient estimate and explanatory power, respectively, of the following regression model estimated by year:

$$CF_{i,t} = \beta_0 + \beta^{CF} CF_{i,t-1} + \varepsilon_{i,t}$$

Trend is the coefficient estimate obtained by regressing yearly estimates ((β/Adj. R^2)) obtained from each specification above on the time variable. *, **, and *** indicate significance at the 0.10, 0.05, and 0.01 levels (two-tailed p-values), respectively.

Table A3: Alternative definitions of cash flows: Cash flow predictability over time

$FCF_{i,t}$ =	$\beta_0 + \beta^{EARN} EARN_{i,t-1} + \varepsilon_{i,t}$		$\beta_0 + \beta^{FCF} FCF_{i,t-1} + \varepsilon_{i,t}$		$\beta_0 + \beta^{ACC} ACC_{i,t-1} + \varepsilon_{i,t}$	
Year	β^{EARN}	Adj. R^2_{EARN}	β^{FCF}	Adj. R^2_{FCF}	β^{ACC}	Adj. R^2_{ACC}
	(1)	(2)	(3)	(4)	(5)	(6)
1989	0.06	0.00	0.35	0.04	-0.25	0.01
1990	0.06	0.00	0.37	0.01	-0.21	0.00
1991	0.19	0.00	0.36	0.01	-0.10	0.00
1992	0.21	0.00	0.33	0.00	-0.05	0.00
1993	0.17	0.00	0.30	0.01	-0.24	0.00
1994	0.24	0.01	0.47	0.08	-0.06	0.00
1995	0.28	0.00	0.16	0.00	0.11	0.00
1996	0.12	0.00	1.52	0.00	-0.09	0.00
1997	0.36	0.07	0.44	0.15	0.00	0.00
1998	0.28	0.00	0.42	0.00	-0.09	0.00
1999	0.38	0.06	0.45	0.09	0.09	0.00
2000	0.57	0.00	0.45	0.00	0.26	0.00
2001	0.37	0.00	0.35	0.00	0.16	0.00
2002	0.27	0.00	0.55	0.01	0.05	0.00
2003	0.34	0.05	0.39	0.08	0.03	0.00
2004	0.45	0.08	0.54	0.13	-0.03	0.00
2005	0.41	0.00	0.59	0.00	0.11	0.00
2006	0.35	0.00	0.54	0.01	-0.06	0.00
2007	0.51	0.07	0.60	0.11	0.24	0.01
2008	0.40	0.09	0.53	0.23	-0.02	0.00
2009	0.18	0.01	0.41	0.03	0.03	0.00
2010	0.35	0.05	0.51	0.09	0.05	0.00
2011	0.47	0.11	0.62	0.20	0.07	0.00
2012	0.56	0.17	0.69	0.30	0.06	0.00
2013	-0.27	0.00	0.74	0.00	-1.46	0.00
2014	0.61	0.07	0.62	0.09	0.22	0.00
2015	0.52	0.21	0.61	0.33	0.11	0.00
Average		0.04		0.07		0.00
Trend		0.004***		0.007***		0.000
(t-value)		[3.97]		[3.35]		[0.06]

Table A3 presents results of regressions, estimated annually, of current period free cash flows on lagged earnings, accruals, and free cash flows for the period 1989-2015.

EARN is defined as income before extraordinary items and discontinued operations [Compustat: *IB*]

CF is defined as net cash flow from operating activities less cash flow from extraordinary items and discontinued operations [Compustat: *OANCF – XIDOC*].

FCF is defined as cash flows from operations-increase in required cash +cash interest paid – tax shield –cash flow from investing [Compustat: *OANCF – XIDOC + INTPN – ((PI-NI)/PI)*XINT – CAPX]*.

ACC is defined as the difference between EARN and CF *[EARN – CF]*.

β^{EARN} and Adj. R^2_{EARN} are the coefficient estimate and explanatory power, respectively, of the following regression model estimated by year:

$$FCF_{i,t} = \beta_0 + \beta^{EARN} EARN_{i,t-1} + \varepsilon_{i,t}$$

β^{FCF} and Adj. R^2_{FCF} are the coefficient estimate and explanatory power, respectively, of the following regression model estimated by year:

$$FCF_{i,t} = \beta_0 + \beta^{FCF} FCF_{i,t-1} + \varepsilon_{i,t}$$

β^{ACC} and Adj. R^2_{ACC} are the coefficient estimate and explanatory power, respectively, of the following regression model estimated by year:

$$FCF_{i,t} = \beta_0 + \beta^{ACC} ACC_{i,t-1} + \varepsilon_{i,t}$$

Trend is the coefficient estimate obtained by regressing yearly estimates ((β/Adj. R^2)) obtained from each specification above on the time variable. *, **, and *** indicate significance at the 0.10, 0.05, and 0.01 levels (two-tailed p-values), respectively.

Table A4: Alternative research design: Time-series regression analysis

β^{EARN}	Adj. R^2_{EARN}	β^{CF}	Adj. R^2_{CF}	β^{ACC}	Adj. R^2_{ACC}
(1)	(2)	(3)	(4)	(5)	(6)
Firms with atleast 12 observations					
0.27	0.13	0.30	0.14	-0.02	0.04
Firms with atleast 16 observations					
0.30	0.14	0.32	0.15	-0.03	0.04
Firms with atleast 20 observations					
0.32	0.14	0.33	0.16	-0.05	0.04
Firms with atleast 24 observations					
0.35	0.14	0.32	0.16	-0.05	0.04
Constant sample (Firms with 27 observations)					
0.37	0.14	0.32	0.16	-0.06	0.04

Table A4 presents mean value of estimates obtained from firm-specific time-series regressions, of current period cash flows on lagged earnings, accruals, and cash flows for the period 1989-2015.

EARN is computed as income before extraordinary items and discontinued operations [Compustat: *IB*]. CF is computed as net cash flow from operating activities less cash flow from extraordinary items and discontinued operations [Compustat: *OANCF – XIDOC*]. ACC is the total operating accruals, estimated as income before extraordinary items and discontinued operations minus net cash flow from operating activities less cash flow from extraordinary items and discontinued operations [*EARN – CF*].

β^{EARN} and Adj. R^2_{EARN} are the mean values of the coefficient estimate and explanatory power, respectively, of the following regression model estimated separately for each firm i in the sample:

$$CF_{i,t} = \beta_0 + \beta^{EARN} EARN_{i,t-1} + \varepsilon_{i,t}$$

β^{CF} and Adj. R^2_{CF} are the mean values of the coefficient estimate and explanatory power, respectively, of the following regression model estimated separately for each firm i in the sample:

$$CF_{i,t} = \beta_0 + \beta^{CF} CF_{i,t-1} + \varepsilon_{i,t}$$

β^{ACC} and Adj. R^2_{ACC} are the mean values of the coefficient estimate and explanatory power, respectively, of the following regression model estimated separately for each firm i in the sample:

$$CF_{i,t} = \beta_0 + \beta^{ACC} ACC_{i,t-1} + \varepsilon_{i,t}$$

Trend is the coefficient estimate obtained by regressing yearly estimates ((β/Adj. R^2)) obtained from each specification above on the time variable. *, **, and *** indicate significance at the 0.10, 0.05, and 0.01 levels (two-tailed p-values), respectively.

Table A5: Alternative sample selection: Cash flow predictability over time

Panel A: Cash flow predictability over time: S&P 500 firms

$CF_{i,t}$ =	$\beta_0 + \beta^{EARN} EARN_{i,t-1} + \varepsilon_{i,t}$		$\beta_0 + \beta^{CF} CF_{i,t-1} + \varepsilon_{i,t}$		$\beta_0 + \beta^{ACC} ACC_{i,t-1} + \varepsilon_{i,t}$	
Year	β^{EARN}	Adj. R^2_{EARN}	β^{CF}	Adj. R^2_{CF}	β^{ACC}	Adj. R^2_{ACC}
	(1)	(2)	(3)	(4)	(5)	(6)
1989	0.49	0.15	0.65	0.40	-0.34	0.09
1990	0.66	0.36	0.75	0.50	-0.21	0.02
1991	0.68	0.40	0.63	0.42	-0.14	0.01
1992	0.54	0.30	0.76	0.51	-0.18	0.02
1993	0.65	0.40	0.70	0.48	-0.07	0.00
1994	0.58	0.30	0.79	0.53	-0.21	0.03
1995	0.65	0.29	0.67	0.44	-0.42	0.09
1996	0.66	0.28	0.66	0.32	-0.07	0.00
1997	0.75	0.35	0.76	0.53	-0.39	0.08
1998	0.54	0.22	0.77	0.52	-0.40	0.09
1999	0.55	0.25	0.68	0.47	-0.30	0.06
2000	0.68	0.29	0.72	0.40	-0.30	0.04
2001	0.63	0.30	0.61	0.35	-0.18	0.02
2002	0.31	0.24	0.69	0.53	0.01	0.00
2003	0.37	0.29	0.73	0.45	0.11	0.02
2004	0.58	0.32	0.78	0.56	-0.32	0.05
2005	0.75	0.41	0.86	0.68	-0.53	0.12
2006	0.81	0.50	0.82	0.62	-0.36	0.05
2007	0.80	0.47	0.87	0.63	-0.30	0.03
2008	0.58	0.33	0.80	0.59	-0.31	0.05
2009	0.30	0.23	0.61	0.49	-0.03	0.00
2010	0.49	0.25	0.77	0.58	-0.36	0.08
2011	0.77	0.45	0.84	0.68	-0.53	0.11
2012	0.74	0.45	0.83	0.67	-0.48	0.10
2013	0.62	0.40	0.82	0.73	-0.35	0.07
2014	0.81	0.48	0.91	0.69	-0.41	0.07
2015	0.78	0.41	0.81	0.55	-0.30	0.04
Average		0.34		0.53		0.05
Trend		0.005**		0.009***		0.001
(t-value)		[2.60]		[4.68]		[1.52]

Panel B: Cash flow predictability over time: NON S&P 500 firms

$CF_{i,t}$ =	$\beta_0 + \beta^{EARN} EARN_{i,t-1} + \varepsilon_{i,t}$		$\beta_0 + \beta^{CF} CF_{i,t-1} + \varepsilon_{i,t}$		$\beta_0 + \beta^{ACC} ACC_{i,t-1} + \varepsilon_{i,t}$	
Year	β^{EARN}	Adj. R^2_{EARN}	β^{CF}	Adj. R^2_{CF}	β^{ACC}	Adj. R^2_{ACC}
	(1)	(2)	(3)	(4)	(5)	(6)
1989	0.51	0.13	0.56	0.27	-0.29	0.06
1990	0.42	0.11	0.48	0.21	-0.20	0.03
1991	0.38	0.11	0.49	0.21	-0.17	0.03
1992	0.32	0.08	0.50	0.22	-0.20	0.04
1993	0.35	0.10	0.53	0.25	-0.20	0.04
1994	0.39	0.14	0.59	0.30	-0.15	0.02
1995	0.36	0.12	0.52	0.26	-0.20	0.04
1996	0.44	0.15	0.54	0.23	-0.11	0.01
1997	0.47	0.22	0.59	0.31	-0.07	0.00
1998	0.40	0.18	0.60	0.33	-0.11	0.01
1999	0.43	0.22	0.59	0.31	-0.01	0.00
2000	0.54	0.22	0.69	0.28	0.05	0.00
2001	0.37	0.21	0.57	0.30	0.07	0.00
2002	0.33	0.22	0.62	0.36	0.08	0.01
2003	0.46	0.31	0.67	0.40	0.07	0.00
2004	0.58	0.33	0.74	0.47	-0.15	0.01
2005	0.54	0.31	0.68	0.41	-0.07	0.00
2006	0.58	0.32	0.74	0.46	-0.10	0.00
2007	0.51	0.31	0.64	0.39	-0.02	0.00
2008	0.52	0.29	0.62	0.36	-0.09	0.00
2009	0.31	0.18	0.57	0.31	0.03	0.00
2010	0.43	0.24	0.62	0.35	-0.05	0.00
2011	0.51	0.26	0.69	0.36	-0.05	0.00
2012	0.62	0.35	0.78	0.49	-0.13	0.01
2013	0.52	0.29	0.77	0.45	-0.06	0.00
2014	0.61	0.41	0.77	0.52	-0.03	0.00
2015	0.53	0.36	0.73	0.50	0.00	0.00
Average		0.23		0.34		0.01
Trend		0.010***		0.010***		-0.002***
(t-value)		[8.50]		[8.10]		[-5.74]

Panel C: Cash flow predictability over time: Largest 1000 firms

$CF_{i,t}$ =	$\beta_0 + \beta^{EARN} EARN_{i,t-1} + \varepsilon_{i,t}$		$\beta_0 + \beta^{CF} CF_{i,t-1} + \varepsilon_{i,t}$		$\beta_0 + \beta^{ACC} ACC_{i,t-1} + \varepsilon_{i,t}$	
Year	β^{EARN}	Adj. R^2_{EARN}	β^{CF}	Adj. R^2_{CF}	β^{ACC}	Adj. R^2_{ACC}
	(1)	(2)	(3)	(4)	(5)	(6)
1990	0.33	0.07	0.40	0.13	-0.13	0.01
1991	0.32	0.07	0.42	0.13	-0.12	0.01
1992	0.29	0.07	0.43	0.16	-0.15	0.02
1993	0.34	0.09	0.49	0.20	-0.14	0.02
1994	0.39	0.14	0.54	0.23	-0.05	0.00
1995	0.30	0.09	0.44	0.16	-0.09	0.01
1996	0.46	0.17	0.51	0.19	-0.02	0.00
1997	0.50	0.24	0.55	0.22	0.10	0.01
1998	0.39	0.18	0.55	0.25	0.03	0.00
1999	0.44	0.22	0.58	0.25	0.16	0.01
2000	0.63	0.21	0.75	0.21	0.31	0.02
2001	0.38	0.20	0.59	0.27	0.12	0.01
2002	0.33	0.21	0.60	0.32	0.10	0.01
2003	0.50	0.35	0.65	0.36	0.16	0.02
2004	0.59	0.33	0.74	0.43	-0.02	0.00
2005	0.54	0.30	0.65	0.34	0.02	0.00
2006	0.58	0.32	0.79	0.43	0.03	0.00
2007	0.53	0.34	0.65	0.36	0.18	0.02
2008	0.56	0.35	0.62	0.34	0.12	0.01
2009	0.34	0.20	0.65	0.34	0.07	0.00
2010	0.43	0.25	0.60	0.33	0.01	0.00
2011	0.56	0.28	0.71	0.31	0.11	0.00
2012	0.71	0.38	0.86	0.48	-0.03	0.00
2013	0.57	0.30	0.80	0.41	0.04	0.00
2014	0.66	0.45	0.79	0.48	0.11	0.00
2015	0.57	0.38	0.75	0.50	0.06	0.00
Average		0.24		0.30		0.01
Trend		0.013***		0.013***		-0.000**
(t-value)		[8.62]		[10.51]		[-2.55]

Panel D: Cash flow predictability over time: Non-largest 1000 firms

$CF_{i,t}$ =	$\beta_0 + \beta^{EARN} EARN_{i,t-1} + \varepsilon_{i,t}$		$\beta_0 + \beta^{CF} CF_{i,t-1} + \varepsilon_{i,t}$		$\beta_0 + \beta^{ACC} ACC_{i,t-1} + \varepsilon_{i,t}$	
Year	β^{EARN}	Adj. R^2_{EARN}	β^{CF}	Adj. R^2_{CF}	β^{ACC}	Adj. R^2_{ACC}
	(1)	(2)	(3)	(4)	(5)	(6)
1990	0.57	0.23	0.61	0.39	-0.29	0.06
1991	0.50	0.21	0.59	0.35	-0.22	0.04
1992	0.42	0.15	0.62	0.35	-0.25	0.05
1993	0.41	0.14	0.60	0.34	-0.26	0.06
1994	0.41	0.14	0.64	0.37	-0.22	0.05
1995	0.44	0.15	0.58	0.36	-0.30	0.08
1996	0.44	0.14	0.58	0.27	-0.18	0.02
1997	0.44	0.18	0.60	0.36	-0.20	0.04
1998	0.38	0.15	0.62	0.38	-0.22	0.04
1999	0.41	0.20	0.59	0.35	-0.15	0.02
2000	0.47	0.25	0.63	0.38	-0.14	0.01
2001	0.37	0.21	0.55	0.32	-0.01	0.00
2002	0.32	0.21	0.65	0.39	0.04	0.00
2003	0.39	0.25	0.67	0.43	-0.01	0.00
2004	0.59	0.31	0.75	0.50	-0.29	0.05
2005	0.55	0.31	0.70	0.48	-0.19	0.02
2006	0.56	0.30	0.68	0.45	-0.20	0.02
2007	0.50	0.25	0.62	0.40	-0.19	0.02
2008	0.47	0.20	0.63	0.39	-0.27	0.05
2009	0.26	0.15	0.50	0.29	-0.02	0.00
2010	0.43	0.21	0.68	0.39	-0.13	0.01
2011	0.48	0.24	0.70	0.47	-0.30	0.06
2012	0.48	0.28	0.67	0.53	-0.25	0.05
2013	0.44	0.24	0.73	0.54	-0.23	0.04
2014	0.50	0.27	0.73	0.55	-0.25	0.05
2015	0.42	0.24	0.65	0.45	-0.14	0.02
Average		0.22		0.40		0.03
Trend		0.004***		0.006***		-0.001
(t-value)		[3.31]		[4.22]		[-1.32]

Panel E: Cash flow predictability over time: Constant sample (1990-2015) firms

$CF_{i,t}$ =	$\beta_0 + \beta^{EARN} EARN_{i,t-1} + \varepsilon_{i,t}$		$\beta_0 + \beta^{CF} CF_{i,t-1} + \varepsilon_{i,t}$		$\beta_0 + \beta^{ACC} ACC_{i,t-1} + \varepsilon_{i,t}$	
Year	β^{EARN}	Adj. R^2_{EARN}	β^{CF}	Adj. R^2_{CF}	β^{ACC}	Adj. R^2_{ACC}
	(1)	(2)	(3)	(4)	(5)	(6)
1990	0.55	0.25	0.53	0.34	-0.23	0.04
1991	0.61	0.26	0.63	0.38	-0.24	0.04
1992	0.60	0.30	0.63	0.41	-0.20	0.03
1993	0.59	0.22	0.74	0.43	-0.40	0.08
1994	0.52	0.18	0.62	0.31	-0.22	0.03
1995	0.62	0.22	0.61	0.38	-0.39	0.11
1996	0.55	0.22	0.61	0.33	-0.22	0.03
1997	0.57	0.24	0.57	0.35	-0.24	0.05
1998	0.63	0.28	0.67	0.44	-0.27	0.06
1999	0.55	0.21	0.59	0.35	-0.30	0.07
2000	0.76	0.30	0.69	0.40	-0.36	0.06
2001	0.51	0.17	0.51	0.26	-0.31	0.06
2002	0.52	0.25	0.54	0.35	-0.19	0.04
2003	0.40	0.23	0.59	0.37	-0.08	0.00
2004	0.66	0.27	0.71	0.44	-0.42	0.09
2005	0.73	0.34	0.59	0.35	-0.23	0.03
2006	0.60	0.26	0.60	0.36	-0.27	0.04
2007	0.66	0.32	0.57	0.31	-0.11	0.01
2008	0.51	0.24	0.63	0.38	-0.19	0.02
2009	0.21	0.10	0.47	0.25	-0.03	0.00
2010	0.34	0.13	0.49	0.26	-0.15	0.02
2011	0.56	0.28	0.72	0.47	-0.23	0.03
2012	0.57	0.34	0.68	0.52	-0.21	0.03
2013	0.53	0.30	0.78	0.52	-0.15	0.02
2014	0.55	0.28	0.69	0.49	-0.29	0.06
2015	0.57	0.33	0.69	0.49	-0.18	0.02
Average		0.25		0.38		0.04
Trend		0.002		0.003*		-0.001**
(t-value)		[1.05]		[1.76]		[-2.10]

Table A5 presents results of regressions, estimated annually, of current operating cash flows on lagged earnings, accruals, and cash flows. EARN is computed as income before extraordinary items and discontinued operations [Compustat: *IB*]. CF is computed as net cash flow from operating activities less cash flow from extraordinary items and discontinued operations [Compustat: *OANCF – XIDOC*]. ACC is the total operating accruals, estimated as income before extraordinary items and discontinued operations minus net cash flow from operating activities less cash flow from extraordinary items and discontinued operations [*EARN – CF*]

Panel A presents the results for firms included in the S&P 500 index spanning the period 1989-2015. Panel B presents the results for firms excluded from the S&P 500 index spanning the period 1989-2015. Panel C presents the results

for the largest 1000 firms based on total assets spanning the period 1990-2015. Panel D presents the results for all firms excluding the largest 1000 firms based on total assets spanning the period 1990-2015. Panel E presents the results based on a constant sample of 748 firms spanning the period 1990-2015.

β^{EARN} and Adj. R^2_{EARN} are the coefficient estimate and explanatory power, respectively, of the following regression model estimated by year:

$$CF_{i,t} = \beta_0 + \beta^{EARN} EARN_{i,t-1} + \varepsilon_{i,t}$$

β^{CF} and Adj. R^2_{CF} are the coefficient estimate and explanatory power, respectively, of the following regression model estimated by year:

$$CF_{i,t} = \beta_0 + \beta^{CF} CF_{i,t-1} + \varepsilon_{i,t}$$

β^{ACC} and Adj. R^2_{ACC} are the coefficient estimate and explanatory power, respectively, of the following regression model estimated by year:

$$CF_{i,t} = \beta_0 + \beta^{ACC} ACC_{i,t-1} + \varepsilon_{i,t}$$

Trend is the coefficient estimate obtained by regressing yearly estimates ((β/Adj. R^2)) obtained from each specification above on the time variable. *, **, and *** indicate significance at the 0.10, 0.05, and 0.01 levels (two-tailed p-values), respectively.

Table A6: Cash flow predictability over time: Semi-annual frequency

$CF_{i,t}$ =	$\beta_0 + \beta^{EARN} EARN_{i,t-1} + \varepsilon_{i,t}$		$\beta_0 + \beta^{CF} CF_{i,t-1} + \varepsilon_{i,t}$	
	Adj. R^2 EARN		Adj. R^2 CF	
	S1	S2	S1	S2
1990	0.20	0.17	0.11	0.04
1991	0.23	0.32	0.10	0.14
1992	0.27	0.14	0.16	0.09
1993	0.19	0.28	0.14	0.16
1994	0.13	0.30	0.17	0.18
1995	0.16	0.25	0.10	0.16
1996	0.30	0.31	0.24	0.24
1997	0.31	0.31	0.24	0.22
1998	0.25	0.39	0.19	0.28
1999	0.25	0.24	0.21	0.23
2000	0.30	0.23	0.30	0.18
2001	0.17	0.34	0.20	0.24
2002	0.25	0.29	0.19	0.22
2003	0.20	0.22	0.17	0.15
2004	0.23	0.29	0.19	0.23
2005	0.16	0.41	0.13	0.32
2006	0.30	0.37	0.24	0.24
2007	0.31	0.25	0.25	0.20
2008	0.24	0.17	0.18	0.13
2009	0.25	0.13	0.25	0.10
2010	0.20	0.41	0.16	0.29
2011	0.30	0.42	0.28	0.31
2012	0.45	0.48	0.44	0.42
2013	0.27	0.27	0.24	0.21
2014	0.25	0.30	0.28	0.27
2015	0.29	0.28	0.22	0.22
Average	0.25	0.29	0.21	0.21
Trend	0.00**	0.00	0.01***	0.01***
t-value	[2.08]	[1.46]	[3.46]	[3.04]

Table A6 reports explanatory power of regressions estimated semi-annually, of current operating cash flows on lagged earnings and cash flows for the period 1989-2015. EARN is computed as income before extraordinary items and discontinued operations [Compustat: *IB*]. CF is computed as net cash flow from operating activities less cash flow from extraordinary items and discontinued operations [Compustat: *OANCF – XIDOC*]. ACC is the total operating accruals, estimated as income before extraordinary items and discontinued operations minus net cash flow from operating activities less cash flow from extraordinary items and discontinued operations [*EARN – CF*].

Adj. R^2_{EARN} is the explanatory power of the following regression model estimated by semi-annually:

$$CF_{i,t} = \beta_0 + \beta^{EARN} EARN_{i,t-1} + \varepsilon_{i,t}$$

Adj. R^2_{CF} is the explanatory power of the following regression model estimated by semi-annually:

$$CF_{i,t} = \beta_0 + \beta^{CF} CF_{i,t-1} + \varepsilon_{i,t}$$

Trend is the coefficient estimate obtained by regressing semi-annual explanatory power (Adj. R^2) obtained from each specification above on the time variable. *Average* is average explanatory power. *, **, and *** indicate significance at the 0.10, 0.05, and 0.01 levels (two-tailed p-values), respectively.

Table A7: Out-of-sample tests

DM/CW Statistic (*100)	**Benchmark Model: Lagged Cash Flow Model**			
Performance of Alt. Model:	(1)	(2)	(3)	(4)
1990	-0.13	-0.22	0.05	0.16
1991	-0.10	-0.21	0.04	0.14
1992	-0.14	-0.21	0.03	0.12
1993	-0.16	-0.24	0.02	0.12
1994	-0.20	-0.36	0.04	0.13
1995	-0.19	-0.29	0.04	0.11
1996	-0.14	-0.37	0.05	0.09
1997	-0.15	-0.52	0.12	0.15
1998	-0.27	-0.53	0.07	0.09
1999	-0.17	-0.56	0.06	0.09
2000	-0.16	-0.72	0.09	0.17
2001	-0.20	-0.48	0.10	0.18
2002	-0.22	-0.48	0.07	0.13
2003	-0.15	-0.50	0.05	0.13
2004	-0.23	-0.68	0.04	0.11
2005	-0.15	-0.60	0.06	0.10
2006	-0.19	-0.70	0.08	0.12
2007	-0.11	-0.56	0.08	0.15
2008	-0.11	-0.46	0.07	0.14
2009	-0.32	-0.37	0.06	0.12
2010	-0.15	-0.39	0.03	0.13
2011	-0.18	-0.53	0.06	0.10
2012	-0.21	-0.70	0.06	0.11
2013	-0.27	-0.73	0.05	0.13
2014	-0.17	-0.74	0.05	0.10
2015	-0.20	-0.65	0.05	0.08
Average	-0.18	-0.49	0.06	0.12
Trend	-0.0024*	-0.0163***	0.0000	-0.0001
(t-value)	[-1.77]	[-5.21]	[0.68]	[-1.24]

Table A7 presents out-of-sample cash flow prediction results comparing annual estimations of alternative models (1)-(4) with the benchmark model.

$CF_{i,t} = \beta_0 + \beta^{CF} CF_{i,t-1} + \varepsilon_{i,t}$ *Benchmark*

$CF_{i,t} = \beta_0 + \beta^{EARN} EARN_{i,t-1} + \varepsilon_{i,t}$ *Alt. Model (1)*

$CF_{i,t} = \beta_0 + \beta^{ACC} ACC_{i,t-1} + \varepsilon_{i,t}$ *Alt. Model (2)*

$CF_{i,t} = \beta_0 + \beta^{ACC} ACC_{i,t-1} + \beta^{CF} CF_{i,t-1} + \varepsilon_{i,t}$ *Alt. Model (3)*

$CF_{i,t} = \beta_0 + \beta^{CHG\_AR} CHG\_AR_{i,t-1} + \beta^{CHG\_INV} CHG\_INV_{i,t-1} + \beta^{CHG\_AP} CHG\_AP_{i,t-1} + \beta^{DEPR} DEPR_{i,t-1} + \beta^{AMORT} AMORT_{i,t-1} + \beta^{OTHER} OTHER_{i,t-1} + \beta^{CF} CF_{i,t-1} + \varepsilon_{i,t}$ *Alt. Model (4)*

Columns (1) & (2) report the Diebold-Mariano (DM) statistic estimated as the difference between Mean Squared Prediction errors (MSPEs) of the benchmark model and the alternative model, for models (1) & (2) respectively. Columns (3) & (4) report the Clark-West (CW) statistic estimated as the difference between MSPEs of the benchmark model and the alternative model, for models (3) & (4) respectively. A positive test statistic implies that the cash flow predictive ability of the alternative model is superior to that of the benchmark prediction model. All positive and negative test statistics reported in Columns (1)-(4) for each sample year are statistically significant at the 1% level. *Trend* is the coefficient estimate obtained by regressing yearly estimates ((β/Adj. R^2)) obtained from each specification above on the time variable. All other variables are described in the Appendix of the paper. *, **, and *** on the *Trend* variable indicate significance at the 0.10, 0.05, and 0.01 levels (two-tailed p-values), respectively.

Table A8: Cash flow predictability over alternative horizons

Panel A: Cash flow predictability using two-year lagged Earnings, Cash Flows, and Accruals

Year	Adj. R^2_{EARN}	Adj. R^2_{CF}	Adj. $R^2_{CF,ACC}$	Inc. R^2: ACC	Inc. R^2: CF
	(1)	(2)	(3)	(4)	(5)
1990	0.14	0.14	0.18	0.03	0.16
1991	0.12	0.19	0.21	0.02	0.18
1992	0.09	0.22	0.22	0.00	0.18
1993	0.06	0.19	0.19	0.00	0.15
1994	0.11	0.22	0.23	0.01	0.20
1995	0.10	0.22	0.23	0.01	0.21
1996	0.12	0.20	0.22	0.02	0.20
1997	0.12	0.23	0.24	0.02	0.23
1998	0.11	0.22	0.23	0.01	0.21
1999	0.12	0.22	0.23	0.01	0.22
2000	0.12	0.20	0.21	0.01	0.20
2001	0.14	0.21	0.23	0.01	0.22
2002	0.10	0.16	0.17	0.00	0.17
2003	0.15	0.27	0.28	0.01	0.28
2004	0.17	0.29	0.30	0.00	0.29
2005	0.22	0.33	0.33	0.01	0.32
2006	0.20	0.33	0.34	0.01	0.32
2007	0.22	0.32	0.33	0.01	0.32
2008	0.19	0.28	0.29	0.01	0.28
2009	0.19	0.25	0.27	0.02	0.26
2010	0.12	0.28	0.28	0.00	0.28
2011	0.19	0.27	0.29	0.02	0.29
2012	0.22	0.32	0.33	0.01	0.32
2013	0.26	0.36	0.38	0.01	0.37
2014	0.27	0.43	0.44	0.01	0.43
2015	0.31	0.39	0.41	0.02	0.41
Average	0.16	0.26	0.27	0.01	0.26
Trend	0.007***	0.008***	0.008***	-0.000	0.009***
(t-value)	[7.38]	[7.59]	[7.47]	[-0.48]	[9.42]

Panel B: Cash flow predictability using three-year lagged Earnings, Accruals, and Cash Flows

Year	Adj. R^2_{EARN}	Adj. R^2_{CF}	Adj. $R^2_{CF,ACC}$	Inc. R^2: ACC	Inc. R^2: CF
	(1)	(2)	(3)	(4)	(5)
1991	0.13	0.16	0.18	0.02	0.15
1992	0.07	0.15	0.15	0.01	0.12
1993	0.06	0.14	0.15	0.00	0.12
1994	0.08	0.16	0.17	0.01	0.15
1995	0.08	0.18	0.19	0.01	0.16
1996	0.08	0.17	0.18	0.01	0.17
1997	0.09	0.20	0.21	0.01	0.17
1998	0.07	0.14	0.15	0.01	0.13
1999	0.08	0.16	0.17	0.01	0.15
2000	0.09	0.18	0.19	0.01	0.17
2001	0.08	0.15	0.16	0.00	0.15
2002	0.10	0.16	0.16	0.01	0.16
2003	0.08	0.16	0.16	0.00	0.15
2004	0.08	0.19	0.19	0.00	0.19
2005	0.12	0.21	0.22	0.00	0.22
2006	0.14	0.24	0.24	0.00	0.22
2007	0.13	0.23	0.23	0.00	0.21
2008	0.16	0.23	0.24	0.01	0.23
2009	0.13	0.16	0.18	0.01	0.17
2010	0.12	0.21	0.21	0.00	0.19
2011	0.12	0.27	0.28	0.01	0.28
2012	0.20	0.30	0.31	0.02	0.31
2013	0.16	0.23	0.24	0.00	0.23
2014	0.21	0.32	0.33	0.01	0.32
2015	0.23	0.35	0.36	0.01	0.36
Average	0.11	0.20	0.21	0.01	0.20
Trend	0.005***	0.006***	0.006***	-0.000	0.007***
(t-value)	[6.28]	[6.46]	[6.12]	[-0.06]	[7.66]

Table A8 reports annual estimation results for cash-flow predictability of earnings and cash flows over two-year and three-year horizons for the sample period 1989-2015. Panel A (B) presents OLS estimation results of regressing current cash flows on two-year (three-year) lagged earnings and cash flows.

Adj. R^2_{EARN} is the explanatory power of the following regression model estimated by year:

$$CF_{i,t} \text{ (or } CF_{i,t+1}) = \beta_0 + \beta^{EARN} EARN_{i,t-1} + \varepsilon_{i,t},$$

Adj. R^2_{CF} is the explanatory power of the following regression model estimated by year:

$$CF_{i,t} \text{ (or } CF_{i,t+1}) = \beta_0 + \beta^{CF} CF_{i,t-1} + \varepsilon_{i,t},$$

Adj. R^2 is the explanatory power of the following regression model estimated by year:

$$CF_{i,t} \text{ (or } CF_{i,t+1}) = \beta_0 + \beta_1{}^{ACC} ACC_{i,t-1} + \beta_1{}^{CF} CF_{i,t-1} + \varepsilon_{i,t},$$

Inc. R^2: ACC and Inc. R^2: CF refer to the incremental explanatory power of accruals and cash flows respectively. *Time Trend* is the coefficient estimate obtained by regressing yearly estimates ((β/Adj. R^2)) obtained from each specification above on the time variable. All other variables are described in the Appendix. *, **, and *** indicate significance at the 0.10, 0.05, and 0.01 levels (two-tailed p-values), respectively.

Table A9: Cash flow predictability over time: Cohort Analysis

	Pre 1990		Wave 1990		Wave 2000	
	Adj. R^2_{EARN}	Adj. R^2_{CF}	Adj. R^2_{EARN}	Adj. R^2_{CF}	Adj. R^2_{EARN}	Adj. R^2_{CF}
Year	(1)	(2)	(3)	(4)	(5)	(6)
1989	0.14	0.28				
1990	0.14	0.24				
1991	0.14	0.23				
1992	0.13	0.26	0.07	0.24		
1993	0.15	0.28	0.08	0.27		
1994	0.17	0.28	0.13	0.32		
1995	0.16	0.30	0.11	0.26		
1996	0.20	0.28	0.14	0.21		
1997	0.27	0.31	0.21	0.32		
1998	0.21	0.36	0.17	0.33		
1999	0.22	0.31	0.22	0.32		
2000	0.25	0.31	0.22	0.27		
2001	0.15	0.22	0.22	0.32		
2002	0.18	0.27	0.22	0.38	0.25	0.44
2003	0.19	0.28	0.30	0.43	0.44	0.47
2004	0.22	0.37	0.37	0.53	0.36	0.48
2005	0.21	0.30	0.33	0.46	0.37	0.46
2006	0.20	0.30	0.37	0.49	0.37	0.52
2007	0.27	0.24	0.30	0.38	0.36	0.51
2008	0.19	0.34	0.27	0.37	0.35	0.40
2009	0.11	0.22	0.15	0.29	0.25	0.39
2010	0.14	0.25	0.27	0.39	0.26	0.39
2011	0.25	0.36	0.27	0.35	0.29	0.42
2012	0.33	0.43	0.32	0.47	0.38	0.54
2013	0.32	0.48	0.32	0.44	0.29	0.47
2014	0.32	0.51	0.34	0.44	0.46	0.57
2015	0.30	0.51	0.37	0.46	0.36	0.53
Average	0.21	0.32	0.24	0.36	0.34	0.47
Trend	0.005***	0.006***	0.011***	0.008***	0.001	0.004
(t-stat)	[4.20]	[3.96]	[6.35]	[4.57]	[0.13]	[1.05]

Table A9 presents results of regressions, estimated annually, of current operating cash flows on lagged earnings, and cash flows for each listing cohort corresponding to the sample period 1989-2015. All of the firms are divided into three listing cohorts in the following steps. The first year in which a firm's data are available in Compustat is referred to as the "listing year." All of the firms with a listing year before 1990 are classified as "pre 1990". Firms listed during the period 1990-1999 and 2000-2015 are classified as "wave 1990" and "wave 2000" respectively. Adj. R^2_{EARN} is the explanatory power of the following regression model estimated by year:

$$CF_{i,t} = \beta_0 + \beta^{EARN} EARN_{i,t-1} + \varepsilon_{i,t}$$

Adj. R^2_{CF} is the explanatory power of the following regression model estimated by year:

$$CF_{i,t} = \beta_0 + \beta^{CF} CF_{i,t-1} + \varepsilon_{i,t}$$

Trend is the coefficient estimate obtained by regressing yearly estimates ((β/Adj. R^2)) obtained from each specification above on the time variable. All other variables are described in the Appendix. *, **, and *** indicate significance at the 0.10, 0.05, and 0.01 levels (two-tailed p-values), respectively.

Table A10: Cash flow predictability over time: After excluding M&A firms

Table A10 presents results of regressions, estimated annually, of current operating cash flows on lagged earnings, accruals, and cash flows for the period 1989-2015, after excluding firm-year observations corresponding to the following non-articulating events: mergers and acquisitions, divestitures, foreign currency translations. EARN is defined as income before extraordinary items and discontinued operations [Compustat: *IB*]. CF is defined as cash flows from operations-increase in required cash +cash interest paid – tax shield –cash flow from investing [Compustat: *OANCF – XIDOC + INTPN – ((PI-NI)/PI)*XINT – CAPX]*.ACC is defined as the difference between EARN and CF *[EARN – CF]*.

Panel A (B) presents results where accruals and cash flows are computed using a balance sheet (cash flow statement) based approach

β^{EARN} and Adj. R^2_{EARN} are the coefficient estimate and explanatory power, respectively, of the following regression model estimated by year:

$$CF_{i,t} = \beta_0 + \beta^{EARN} EARN_{i,t-1} + \varepsilon_{i,t}$$

β^{CF} and Adj. R^2_{CF} are the coefficient estimate and explanatory power, respectively, of the following regression model estimated by year:

$$CF_{i,t} = \beta_0 + \beta^{CF} CF_{i,t-1} + \varepsilon_{i,t}$$

β^{ACC} and Adj. R^2_{ACC} are the coefficient estimate and explanatory power, respectively, of the following regression model estimated by year:

$$CF_{i,t} = \beta_0 + \beta^{ACC} ACC_{i,t-1} + \varepsilon_{i,t}$$

Trend is the coefficient estimate obtained by regressing yearly estimates ((β/Adj. R^2)) obtained from each specification above on the time variable. *, **, and *** indicate significance at the 0.10, 0.05, and 0.01 levels (two-tailed p-values), respectively.

Panel A: Balance-sheet based approach

$CF_{i,t}$ =	$\beta_0 + \beta^{EARN} EARN_{i,t-1} + \varepsilon_{i,t}$		$\beta_0 + \beta^{CF} CF_{i,t-1} + \varepsilon_{i,t}$		$\beta_0 + \beta^{ACC} ACC_{i,t-1} + \varepsilon_{i,t}$	
Year	β^{EARN}	Adj. R^2_{EARN}	β^{CF}	Adj. R^2_{CF}	β^{ACC}	Adj. R^2_{ACC}
	(1)	(2)	(3)	(4)	(5)	(6)
1989	0.38	0.07	0.24	0.04	0.02	0.00
1990	0.54	0.15	0.28	0.07	0.11	0.01
1991	0.56	0.19	0.32	0.09	0.17	0.01
1992	0.51	0.19	0.39	0.13	0.08	0.00
1993	0.61	0.19	0.42	0.11	0.19	0.01
1994	0.53	0.19	0.41	0.12	0.12	0.01
1995	0.48	0.15	0.41	0.13	-0.03	0.00
1996	0.59	0.19	0.40	0.11	0.15	0.01
1997	0.63	0.26	0.46	0.17	0.14	0.01
1998	0.50	0.17	0.41	0.13	0.04	0.00
1999	0.54	0.21	0.41	0.13	0.16	0.01
2000	0.66	0.02	0.46	0.01	0.30	0.00
2001	0.62	0.20	0.43	0.10	0.47	0.04
2002	0.68	0.32	0.59	0.24	0.44	0.03
2003	0.56	0.31	0.44	0.23	-0.01	0.00
2004	0.71	0.32	0.57	0.25	0.05	0.00
2005	0.69	0.34	0.56	0.27	0.00	0.00
2006	0.70	0.32	0.59	0.27	0.10	0.00
2007	0.75	0.38	0.59	0.28	0.19	0.01
2008	0.76	0.27	0.55	0.17	0.24	0.01
2009	0.45	0.24	0.39	0.18	0.29	0.02
2010	0.53	0.22	0.38	0.14	0.17	0.01
2011	0.69	0.32	0.57	0.26	0.04	0.00
2012	0.75	0.34	0.62	0.26	0.24	0.01
2013	0.70	0.33	0.62	0.27	0.30	0.01
2014	0.78	0.43	0.65	0.35	0.19	0.01
2015	0.75	0.32	0.65	0.25	0.24	0.01
Average		0.25		0.18		0.01
Trend		0.009***		0.008***		0.000
(t-value)		[5.44]		[6.24]		[0.10]

Panel B: Cash Flow Statement based approach

$CF_{i,t}$ =	$\beta_0 + \beta^{EARN} EARN_{i,t-1} + \varepsilon_{i,t}$		$\beta_0 + \beta^{CF} CF_{i,t-1} + \varepsilon_{i,t}$		$\beta_0 + \beta^{ACC} ACC_{i,t-1} + \varepsilon_{i,t}$	
Year	β^{EARN}	Adj. R^2_{EARN}	β^{CF}	Adj. R^2_{CF}	β^{ACC}	Adj. R^2_{ACC}
	(1)	(2)	(3)	(4)	(5)	(6)
1989	0.54	0.14	0.53	0.27	-0.29	0.07
1990	0.45	0.14	0.51	0.24	-0.21	0.03
1991	0.42	0.13	0.52	0.23	-0.17	0.02
1992	0.37	0.11	0.54	0.26	-0.20	0.04
1993	0.39	0.12	0.56	0.28	-0.21	0.04
1994	0.41	0.15	0.61	0.32	-0.16	0.02
1995	0.39	0.13	0.54	0.29	-0.22	0.04
1996	0.46	0.16	0.57	0.25	-0.12	0.01
1997	0.49	0.23	0.61	0.33	-0.09	0.01
1998	0.41	0.18	0.62	0.35	-0.13	0.01
1999	0.44	0.23	0.60	0.33	-0.03	0.00
2000	0.56	0.23	0.69	0.29	0.04	0.00
2001	0.38	0.22	0.58	0.31	0.05	0.00
2002	0.33	0.22	0.63	0.37	0.07	0.01
2003	0.45	0.31	0.67	0.41	0.07	0.00
2004	0.60	0.34	0.75	0.48	-0.17	0.01
2005	0.56	0.32	0.69	0.43	-0.10	0.01
2006	0.60	0.34	0.75	0.47	-0.10	0.00
2007	0.54	0.32	0.65	0.41	-0.03	0.00
2008	0.53	0.29	0.64	0.38	-0.11	0.01
2009	0.31	0.19	0.58	0.33	0.03	0.00
2010	0.44	0.24	0.64	0.37	-0.06	0.00
2011	0.54	0.28	0.71	0.38	-0.07	0.00
2012	0.63	0.36	0.79	0.50	-0.13	0.01
2013	0.54	0.31	0.79	0.47	-0.06	0.00
2014	0.63	0.42	0.79	0.53	-0.03	0.00
2015	0.54	0.37	0.74	0.51	-0.01	0.00
Average		0.24		0.36		0.01
Trend		0.010***		0.010***		-0.002***
(t-value)		[8.39]		[8.27]		[-5.56]

Table A11: Industry Analysis

Fama-French 10	Average		Time Trend	
Industry	Adj. R^2_{EARN}	Adj. R^2_{CF}	Adj. R^2_{EARN}	Adj. R^2_{CF}
	(1)	(2)	(3)	(4)
Non-Durables	0.21	0.27	0.005**	0.011***
Durables	0.21	0.28	0.012***	0.010***
Manufacturing	0.21	0.28	0.005***	0.003*
Energy	0.17	0.37	-0.000	0.007**
High Tech	0.24	0.35	0.011***	0.012***
Telecom	0.32	0.57	-0.007***	-0.002
Shops	0.19	0.30	0.011***	0.010***
Health	0.39	0.44	0.009***	0.006***
Utilities	0.13	0.19	0.003*	0.009***
Other	0.18	0.36	0.004***	0.007***

Table A11 reports average explanatory power and time trends in cash-flow predictability of earnings and cash flows after categorizing firms based on Fama-French 10-Industry classification for the sample period 1989-2015.

Adj. R^2_{EARN} is the explanatory power of the following regression model estimated by year:

$$CF_{i,t} \text{ (or } CF_{i,t+1}) = \beta_0 + \beta^{EARN} EARN_{i,t-1} + \varepsilon_{i,t},$$

Adj. R^2_{CF} is the explanatory power of the following regression model estimated by year:

$$CF_{i,t} \text{ (or } CF_{i,t+1}) = \beta_0 + \beta^{CF} CF_{i,t-1} + \varepsilon_{i,t},$$

Time Trend is the coefficient estimate obtained by regressing yearly estimates (Adj. R^2) obtained from each specification above on the time variable. All other variables are described in the Appendix. *, **, and *** indicate significance at the 0.10, 0.05, and 0.01 levels (two-tailed p-values), respectively.