

Free cash flow = Net cash flow from operating activities minus capital expenditures

The amounts used on this form are the hypothetical amounts contained in the notes below.

The calculation of **free cash flow** includes two amounts reported on the statement of cash flows for the year ended December 31, 2022.

Net cash flows from operating activities	\$ 53,400	OA
<i>minus</i> capital expenditures	\$ 5,000	CE
= Free cash flow	\$ 48,400	FCF (OA - CE)

Notes:

OA Net cash flows from operating activities is also referred to as *net cash flows from operations*. It is the total of the items reported in the first section of the statement of cash flows. For this example, we assume that the net cash inflows from operating activities during the year 2022 were \$53,400.

CE The amount of capital expenditures is reported on the statement of cash flows in the second section, *cash flows from investing activities*. For this example, we assume the amount of capital expenditures for the year 2022 was \$5,000.

FCF Free cash flow is the amount of cash a company generated from its operations during a specified time period *minus* the net amount spent for capital expenditures during the same time period.

The larger the amount of positive free cash flow the better. Divisions or subsidiaries of a company which consistently generate large amounts of positive free cash flows are often referred to as cash cows.

Free cash flows are important to investors who view cash as king.