

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

The calculation of **free cash flow** includes two amounts reported on the statement of cash flows for the year ended \_\_\_\_\_.

Net cash flows from operating activities	\$ _____	<b>OA</b>
<i>minus</i> capital expenditures	\$ _____	<b>CE</b>
<b>= Free cash flow</b>	<b>\$ _____</b>	<b>FCF (OA - CE)</b>

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.

**CE** The amount of capital expenditures is reported on the statement of cash flows in the second section, *cash flows from investing activities*.

**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.