

# MEASURING CASH CREATION AND FLOW

## Depreciation and Capital Expenditures

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# DEPRECIATION AND AMORTIZATION

- ▶ Wear and Tear
- ▶ Loss of value
- ▶ Non-cash expense
- ▶ Amortization for intangibles
- ▶ Included in earnings!

# CAPITAL EXPENDITURES

- ▶ Buying/ replacing long-term assets
- ▶ Property, plant, equipment
- ▶ This spending not reported in earnings
- ▶ Need to be subtracted for FCF

# FREE CASH FLOW (FCF)

$$\begin{aligned}\text{FCF} = & \text{Operating Profit (after tax)} \\ & - \text{Increase in WC} \\ & + \text{Depreciation} \\ & - \text{Capital expenditure} \\ & + \text{After-tax salvage value}\end{aligned}$$

# SUMMARY

- ▶ D&A is noncash reflected in earnings
- ▶ Add D&A back for FCF
- ▶ CAPX is cash not reflected in earnings
- ▶ FCF needs to account for CAPX