

# MEASURING CASH CREATION AND FLOW

## Calculating Free Cash Flow

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# FREE CASH FLOW

FCF = Operating Profit (after tax)

– Increase in WC

+ Depreciation

– Capital expenditure

+ After-tax salvage value

# LET'S WALK THROUGH A SIMPLE EXAMPLE

Year	0	1	2	3
Revenue		\$500	\$500	\$500
Total costs		\$300	\$300	\$300
Depreciation		\$100	\$100	\$100
EBIT		\$100	\$100	\$100
Taxes (30%)		\$30	\$30	\$30
NOPAT		\$70	\$70	\$70
Capital Spending	\$500	\$0	\$0	\$0
Net PP&E	\$500	\$400	\$300	\$200
Cash from operations	\$0	\$170	\$170	\$170
Working Capital	\$150	\$100	\$50	\$0
Terminal (Asset Sales)	\$0	\$0	\$0	\$200
<b>Free Cash Flow</b>	<b>-\$650</b>	<b>\$220</b>	<b>\$220</b>	<b>\$420</b>