are underestimating the company's cash flow. As an example, consider Dorel (DIIB), a company we discussed last year as a potential value investment. The company's intangible assets fell \$12 million in its most recent quarter, which is significant compared to the \$35 million the company earned in the quarter (some of the \$12 million change was likely due to currency effects, but the rest would have been amortized, thus subtracting from income). The extra cash "generated" by these intangibles contributes to the company's cash flow in a meaningful way, and can be used by the company to buy back shares, grow the business, or some combination of the two, which is what Dorel has been doing. Of course, it's important to determine if the intangible assets being amortized need to be replaced with future cash flows. Often, a note to the financial statements will describe exactly what line items are included in the intangible assets (e.g. customer lists, non-compete agreements etc.). Amortization for items that need to be replaced to keep the business at its current level should not be added back to income in estimating cash flows, as they

The money to purchase intangibles has already been spent, but the expenditure is not yet recognized on the income statement. As such, future income statements often underestimate the actual cash flows of a business when large charges for amortization of intangibles are taken. But the cash flow benefits of these assets accrue to the **current** shareholder. As such, the current shareholder should take these cash flows into account in estimating the future cash flows of the business.

Disclosure: Author has a long position in shares of DIIB

should instead be treated similarly to depreciation of capital assets.

Share on Facebook
Tweet This

The preceding article is from one of our external contributors. It does not represent the opinion of Benzinga and has not been edited.

© 2020 Benzinga.com. Benzinga does not provide investment advice. All rights reserved.

**Related Articles** 

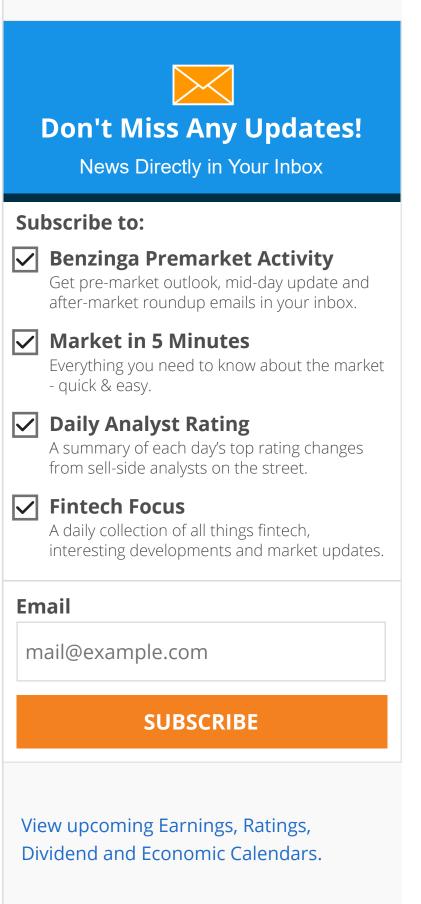
**View Comments and Join the Discussion!** 



**Premium** 

Q





Trending Recent TSLA, F: Cramer Questions Why Tesla's Stock Isn't Higher **F, SPY**: Here's How Much Investing \$100 In Ford Stock Back In 2010 Woul... 3 SAVA, HEPA: 15 Stocks Moving in Tuesday's Pre-Market Session 4 KTOS, REI: 27 Stocks Moving in Wednesday's Pre-Market... 5 TNXP, TTNP: 20 Healthcare Stocks Moving In Tuesday... **QSR, MCD**: Why Beyond Meat Now Has A Huge... **7 PLNT, BHC**: Citron Names Top Long...

**Brokerage Center** 

Compare All Online Brokerages

BENZINGA

Benzinga is a fast-growing, dynamic and innovative financial media outlet that empowers investors with high-quality, unique content.

Popular Channels Analyst Ratings

1 (877) 440-9464 (ZING) **f y** in **8 a** 

ETFs **Economics** Forex Hot News Options Press Releases

Start-ups

Tech

Tools & Features Affiliate Program PreMarket Prep Feeds

News Widget Real Time Feed Sitemap Submit News Tips About Benzinga About Us

Licensing & Syndication Market Data & APIs Apps (iOS and Android) Fintech Awards Blog In the News Careers Service Status Contact Us Disclaimer Privacy Policy

Terms and Conditions

Benzinga Partners

Ameritrade TradeStation Monte Interactive Brokers E\*TRADE Olly MORNINGSTAR\* stock YAHOO!

─ Webull suretrader ☐ DOW JONES Robinhood StockTwits

MarketWatch FOXIBUSINESS

BUSINESS. Mmsn Direxion

TradingView FREIGHTWAVES