EXPLAINING THE

FREE CASH FLOW FORMULA

The free cash flow formula is an accounting tool that reveals how much cash is going into the business after deductions have been made for operational costs and capital expenditure. It is used as an indicator of a business' value and financial health.

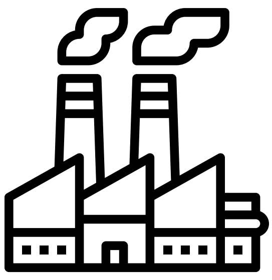
POSITIVE FREE CASH FLOW

A positive free cash flow indicates that the business has, at a minimum, sufficient funds to pay their bills every month and likely is also making a profit.

NEGATIVE FREE CASH FLOW

A negative free cash flow shows that the business does not have any money left over after paying their bills.

Free Cash Flow = Operating Cash Flow - Capital Expenditures



INDUSTRY

The industry that a business is in plays an important part in the free cash flow formula as well, given that not every business needs to spend money on land, equipment or inventory. As such, the formula works best for measuring the value of businesses with clear capital expenditures.