



## Defining Cash Flow

In this month's issue we will compare net cash flow to equity (NCFE), net cash flow to invested capital (NCFIC), and accounting cash flow. I will assume that you have a basic understanding of net cash flow to equity and net cash flow to invested capital from an earlier issue. Also, I will assume you have a basic understanding of the accounting cash flow statement that usually accompanies a profit and loss statement and balance sheet.

While each definition of cash flow have similar areas, each one is defining cash flow a little differently and for a different purpose. Accounting cash flow helps us to understand what, how, and why the change in operating cash occurred for a particular period. Net cash flow to equity provides us with the amount of cash available to distribute to common stockholders in the form of a dividend without impairing future growth. The table below illustrates the formula to arrive at both net cash flow to equity and net cash flow to invested capital.

Net Cash Flow to Equity	Net Cash Flow to Invested Capital
Net Income	Net Income
+ Non-cash Charges	+ Non-cash Charges + Interest Exp. (net of taxes)
Gross Cash Flow	Gross Cash Flow
- Anticipated Capital Expenditures	- Anticipated Capital Expenditures
+ / - Decrease/Increase in Working Capital necessary to support growth	+ / - Decrease/Increase in Working Capital necessary to support growth
+ / - Debt borrowings or repayments	
- Preferred Stock Dividends	- Preferred Stock Dividends
Net Cash Flow to Equity	Net Cash Flow to Invested Capital

The differences between the two are obvious. Net cash flow to invested capital adds back interest expense and does not account for changes in long-term debt. The net cash flow to invested capital is used when the goal is to value the invested capital (both equity and debt) of the company. The invested capital is appraised on a debt-free basis.

Both of the appraisal cash flows differ from the accounting cash flow in that the appraisal cash flows take into account anticipated capital expenditures and working capital required to maintain growth as opposed to actual capital expenditures and changes in working capital.

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