

# Cash Flow Summary

## I. The cash flow identity

$$\begin{aligned}\text{Cash flow from assets} &= \text{Cash flow to creditors (bondholders)} \\ &+ \text{Cash flow to stockholders (owners)}\end{aligned}$$

## II. Cash flow from assets

$$\begin{aligned}\text{Cash flow from assets} &= \text{Operating cash flow} \\ &- \text{Net capital spending} \\ &- \text{Change in net working capital (NWC)}\end{aligned}$$

where

$$\begin{aligned}\text{Operating cash flow} &= \text{Earnings before interest and taxes (EBIT)} \\ &+ \text{Depreciation} - \text{Taxes}\end{aligned}$$

$$\begin{aligned}\text{Net capital spending} &= \text{Ending net fixed assets} - \text{Beginning net fixed assets} \\ &+ \text{Depreciation}\end{aligned}$$

$$\text{Change in NWC} = \text{Ending NWC} - \text{Beginning NWC}$$

## III. Cash flow to creditors (bondholders)

$$\text{Cash flow to creditors} = \text{Interest paid} - \text{Net new borrowing}$$

## IV. Cash flow to stockholders (owners)

$$\text{Cash flow to stockholders} = \text{Dividends paid} - \text{Net new equity raised}$$