

Defining the Cash Flow to the Firm

	Net sales
Minus	Cost of goods sold
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Equals	Gross Profit
Minus	Expenses
Minus	Depreciation
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Equals	EBIT
Minus	Cash taxes on EBIT (i.e. cash taxes for an all equity financed firm)
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Equals	NOP(L)AT Net Operating Profits less Adjusted Taxes
Plus	Depreciation
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Equals	Gross Cash Flow
Minus/plus	Increase/decrease in working capital
Minus/plus	Increase/decrease capital expenditures in operating assets
Minus/plus	Increase/decrease in other operating assets
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Equals	Free Cash Flow to the Firm