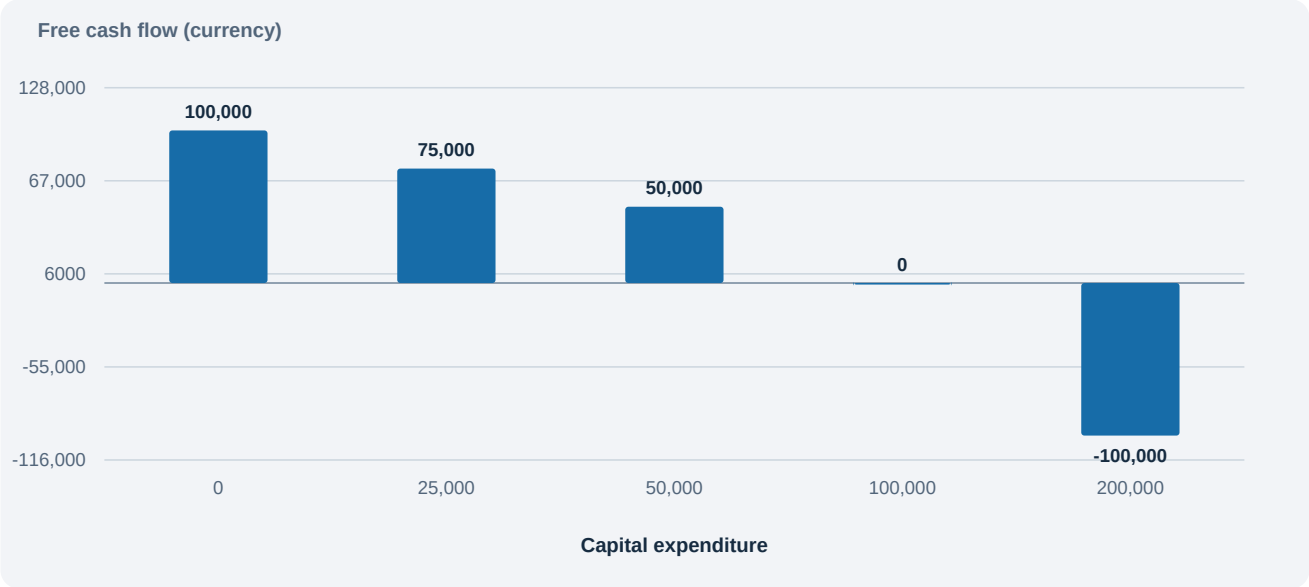
A simple free-cash-flow convention

Fundamental ratios | Original synthetic example | Edition 2026-11-26

One common free-cash-flow measure subtracts capital expenditure from operating cash flow. This worksheet uses that convention; other definitions may treat acquisitions, leases or financing differently.

FORMULA Free cash flow = operating cash flow - capital expenditure

SCENARIO 01: Operating cash flow 100000; FCF = OCF minus cash capex



WORKED EXAMPLE

Cash capex 50,000 gives 100000 - 50,000 = 50000 FCF under the stated convention.

COMMON MISTAKE

Comparing differently defined free-cash-flow figures without reconciling exclusions can reverse a conclusion.

BEFORE YOU USE THE CALCULATION

1. State the FCF convention.
2. Use cash capital expenditure.
3. Reconcile nonrecurring and working-capital effects.

COMPARE TWO MORE INPUT SETS

Scenario 05: Operating cash flow 200000; FCF = OCF minus cash capex. Cash capex 50,000 gives 200000 - 50,000 = 150000 FCF under the stated convention.

Scenario 10: Operating cash flow 325000; FCF = OCF minus cash capex. Cash capex 50,000 gives 325000 - 50,000 = 275000 FCF under the stated convention.

Synthetic values are not historical market data. Educational material; trading can result in substantial losses.