Twitter Thread by Brian Feroldi

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Accounting is the language of business.

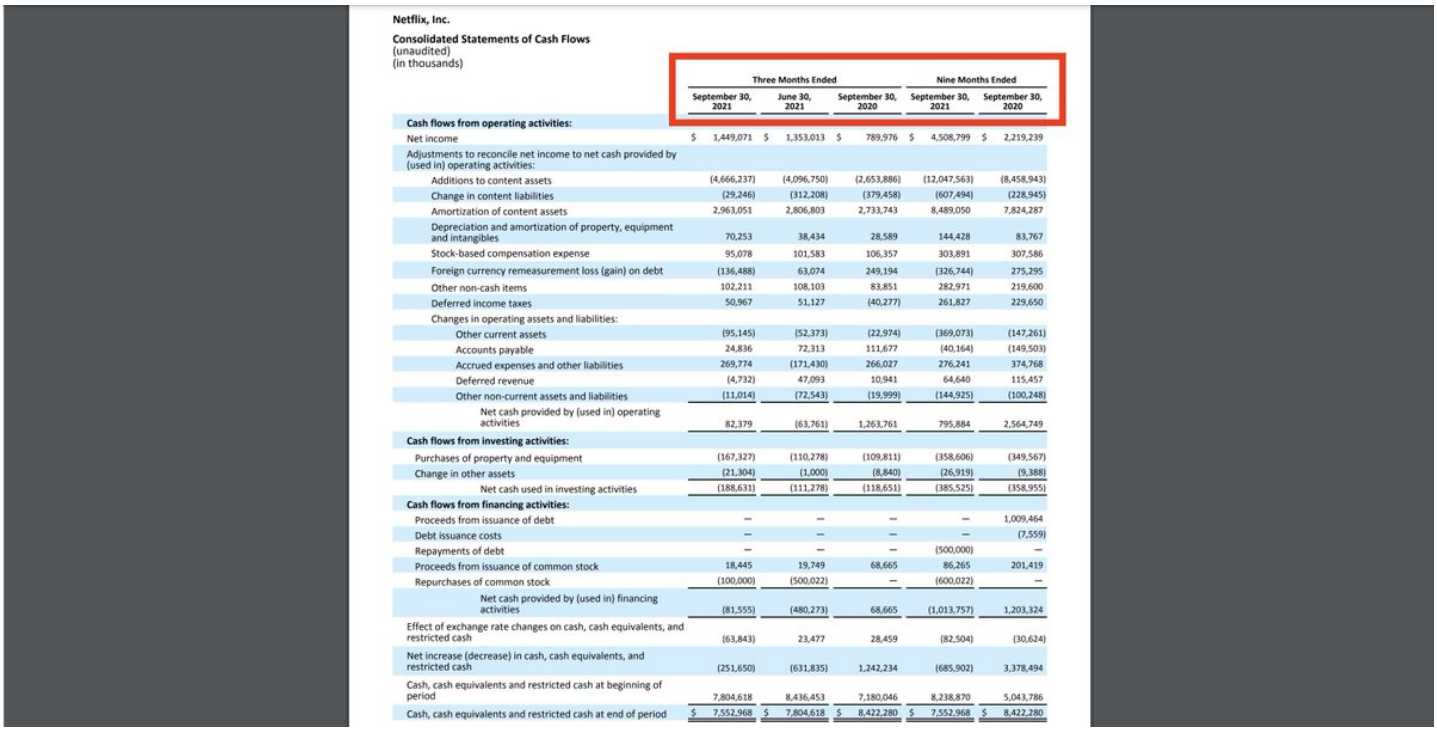
If you buy stocks, you MUST learn how to read a Cash Flow Statement.

Here's everything you need to know:

The cash flow statement shows how cash moves in and out of a company over a period of time.

The most common time periods are:
■■1 Quarter
■■1 Year
■■Year-to-date (usually 6 or 9 months)

The time period is at the top. Here's $NFLX recent cash flow statement time period.



Netflix, Inc.

Consolidated Statements of Cash Flows
(unaudited)
(in thousands)

	Three Months Ended			Nine Months Ended	
	September 30, 2021	June 30, 2021	September 30, 2020	September 30, 2021	September 30, 2020
Cash flows from operating activities:					
Net income	$ 1,449,071	$ 1,353,013	$ 789,976	$ 4,508,799	$ 2,219,239
Adjustments to reconcile net income to net cash provided by (used in) operating activities:					
Additions to content assets	(4,666,237)	(4,096,750)	(2,653,886)	(12,047,563)	(8,458,943)
Change in content liabilities	(29,246)	(312,208)	(379,458)	(607,494)	(228,945)
Amortization of content assets	2,963,051	2,806,803	2,733,743	8,489,050	7,824,287
Depreciation and amortization of property, equipment and intangibles	70,253	38,434	28,589	144,428	83,767
Stock-based compensation expense	95,078	101,583	106,357	303,891	307,586
Foreign currency remeasurement loss (gain) on debt	(136,488)	63,074	249,194	(326,744)	275,295
Other non-cash items	102,211	108,103	83,851	282,971	219,600
Deferred income taxes	50,967	51,127	(40,277)	261,827	229,650
Changes in operating assets and liabilities:					
Other current assets	(95,145)	(52,373)	(22,974)	(369,073)	(147,261)
Accounts payable	24,836	72,313	111,677	(40,164)	(149,503)
Accrued expenses and other liabilities	269,774	(171,430)	266,027	276,241	374,768
Deferred revenue	(4,732)	47,093	10,941	64,640	115,457
Other non-current assets and liabilities	(11,014)	(72,543)	(19,999)	(144,925)	(100,248)
Net cash provided by (used in) operating activities	82,379	(63,761)	1,263,761	795,884	2,564,749
Cash flows from investing activities:					
Purchases of property and equipment	(167,327)	(110,278)	(109,811)	(358,606)	(349,567)
Change in other assets	(21,304)	(1,000)	(8,840)	(26,919)	(9,388)
Net cash used in investing activities	(188,631)	(111,278)	(118,651)	(385,525)	(358,955)
Cash flows from financing activities:					
Proceeds from issuance of debt	–	–	–	–	1,009,464
Debt issuance costs	–	–	–	–	(7,559)
Repayments of debt	–	–	–	(500,000)	–
Proceeds from issuance of common stock	18,445	19,749	68,665	86,265	201,419
Repurchases of common stock	(100,000)	(500,022)	–	(600,022)	–
Net cash provided by (used in) financing activities	(81,555)	(480,273)	68,665	(1,013,757)	1,203,324
Effect of exchange rate changes on cash, cash equivalents, and restricted cash	(63,843)	23,477	28,459	(82,504)	(30,624)
Net increase (decrease) in cash, cash equivalents, and restricted cash	(251,650)	(631,835)	1,242,234	(685,902)	3,378,494
Cash, cash equivalents and restricted cash at beginning of period	7,804,618	8,436,453	7,180,046	8,238,870	5,043,786
Cash, cash equivalents and restricted cash at end of period	$ 7,552,968	$ 7,804,618	$ 8,422,280	$ 7,552,968	$ 8,422,280

Some companies show the cash flow statement in their earnings press release, but many don't.

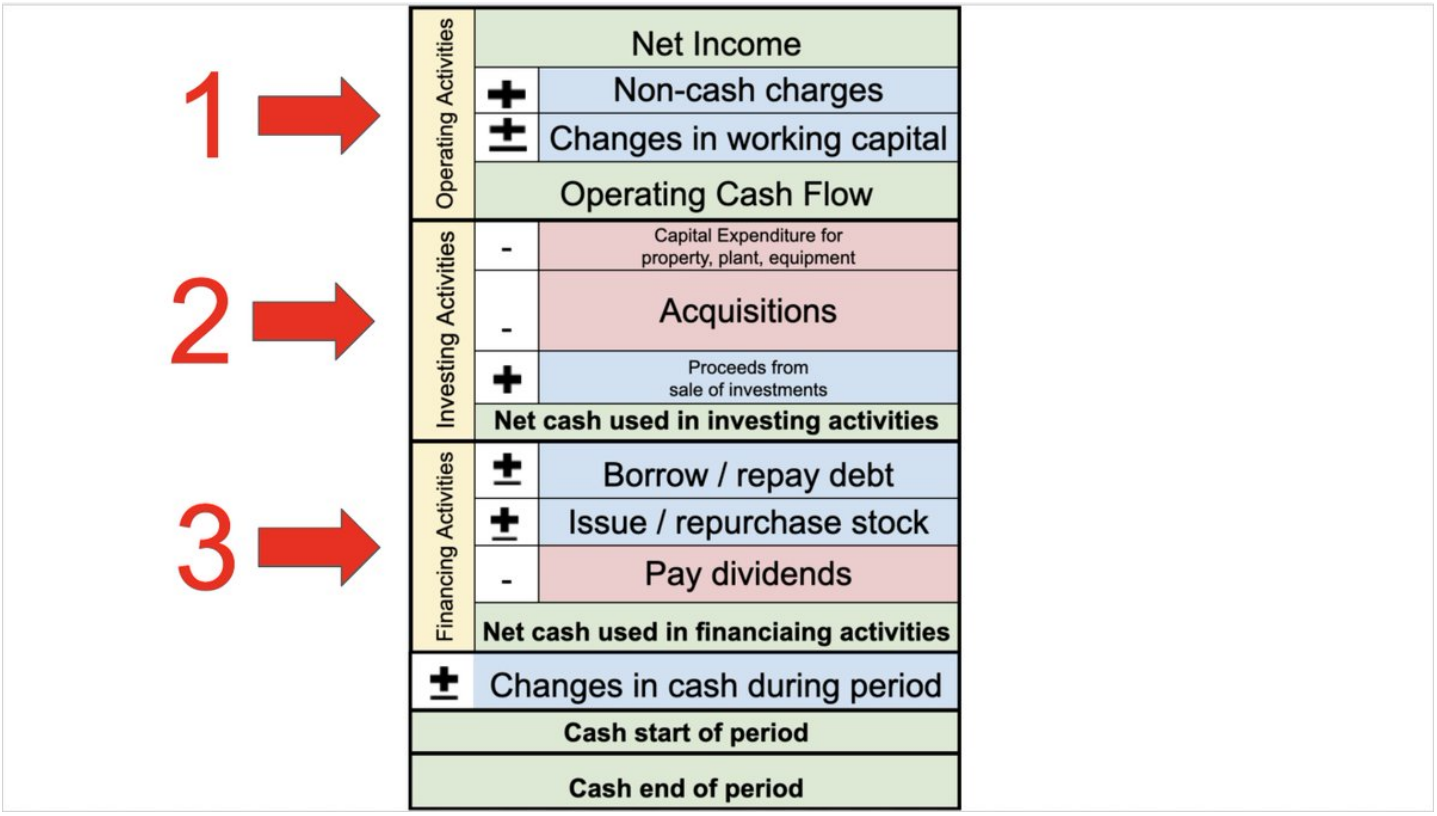
You can find the cash flow statement by looking at:
■■10-Q (Quarterly Report)
■■10-K (Annual Report)
■■Fnancial aggregators such as @theTIKR, @CMLviz, @themotleyfool, @YahooFinance

SEC Forms		
	Filling	**What it tells you**
Key Reports	**10-K**	Annual Report
	10-Q	Quarterly Report
	8-K	Current Report - Disclose "material" event
U.S. IPO	**S-1, S-1A**	Registration before/after IPO
	Form 424B7, Form 424B4	Prospectus
M & A	**S-4**	Merger or Acquisitions
	Form 425	Merger or Acquisitions
Ownership	**DEF 14A**	Proxy - Insider Ownership
	SC-13G, SC-13D	Some investor now own >5% of the stock
	Form 3, Form 4, Form 5	Someone owns more than 10% of the stock
Foreign	**F-1, F-1A**	Registration before IPO for Foriegn Company
	20-F	Annual report for Forign Company
	6-K	Interm reports for foriegn companies
SPAC	**S-4**	Acquisition Details & Financial Information
	Form 425	Tweets / Interviews
	SC-13G, SC-13D	Some investor now own >5% of the stock

There are three main segments to a cash flow statement.

1. Operating Activities
2. Investing Activities
3. Financing Activities

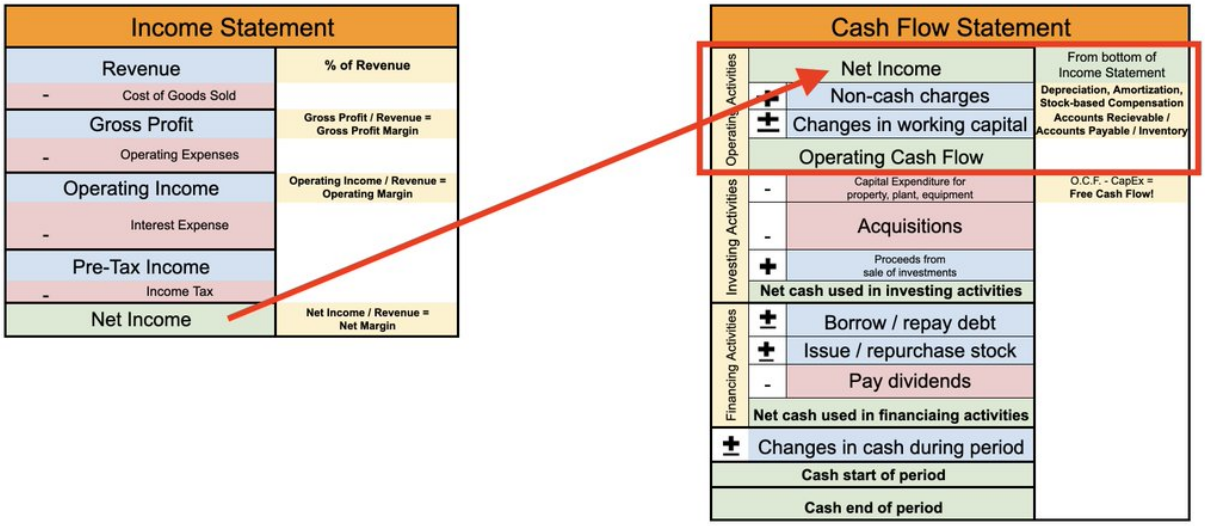
Companies get some leeway with how they breakout each segment, but they all follow this basic structure.



Let’s start with Operating Activities.

This segment STARTS with net income (the bottom number of the Income Statement).

It shows cash movements from all normal operational business activities.



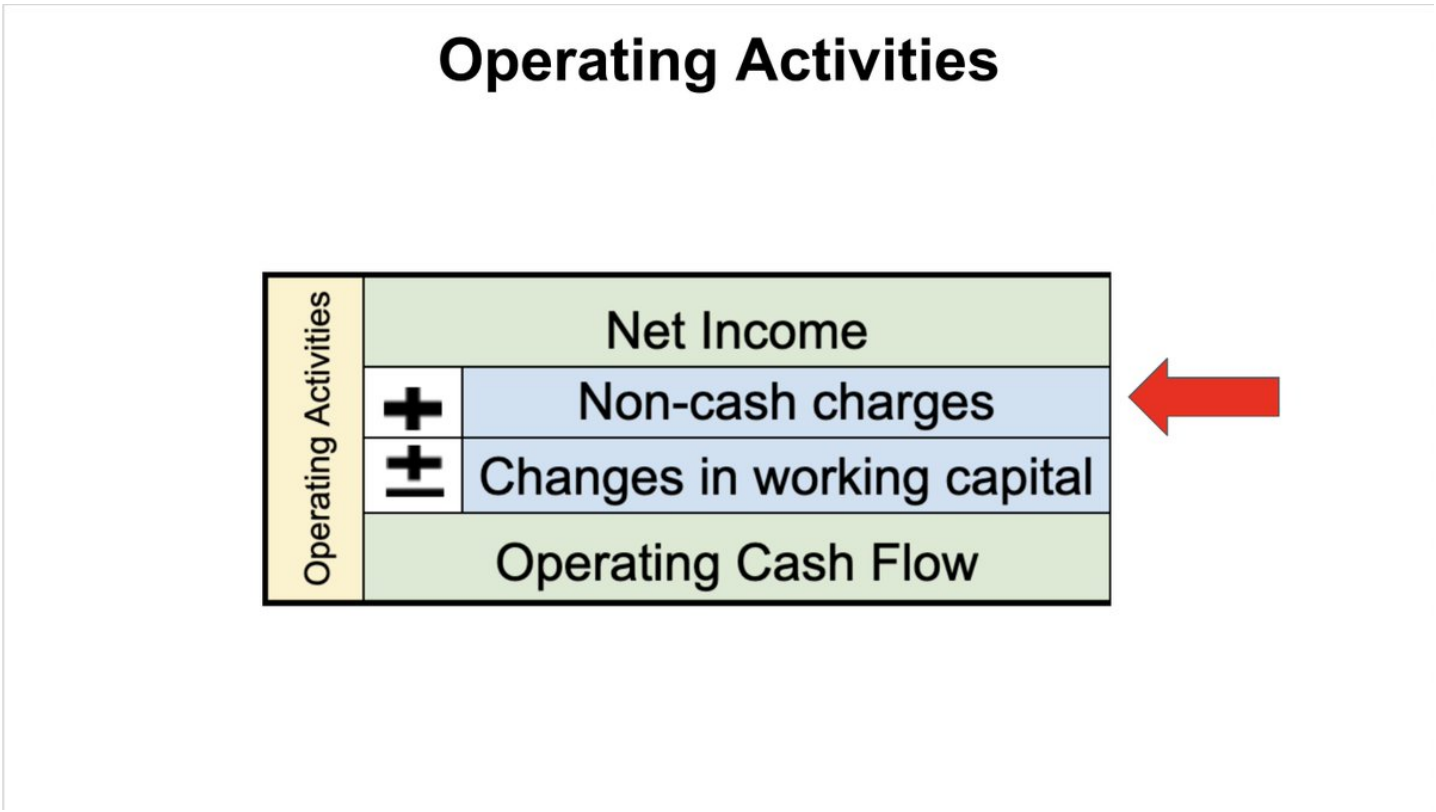
Non-cash expenses are ADDED back as a source of cash.

Common categories:

■■Depreciation: Value of asset decreasing over time

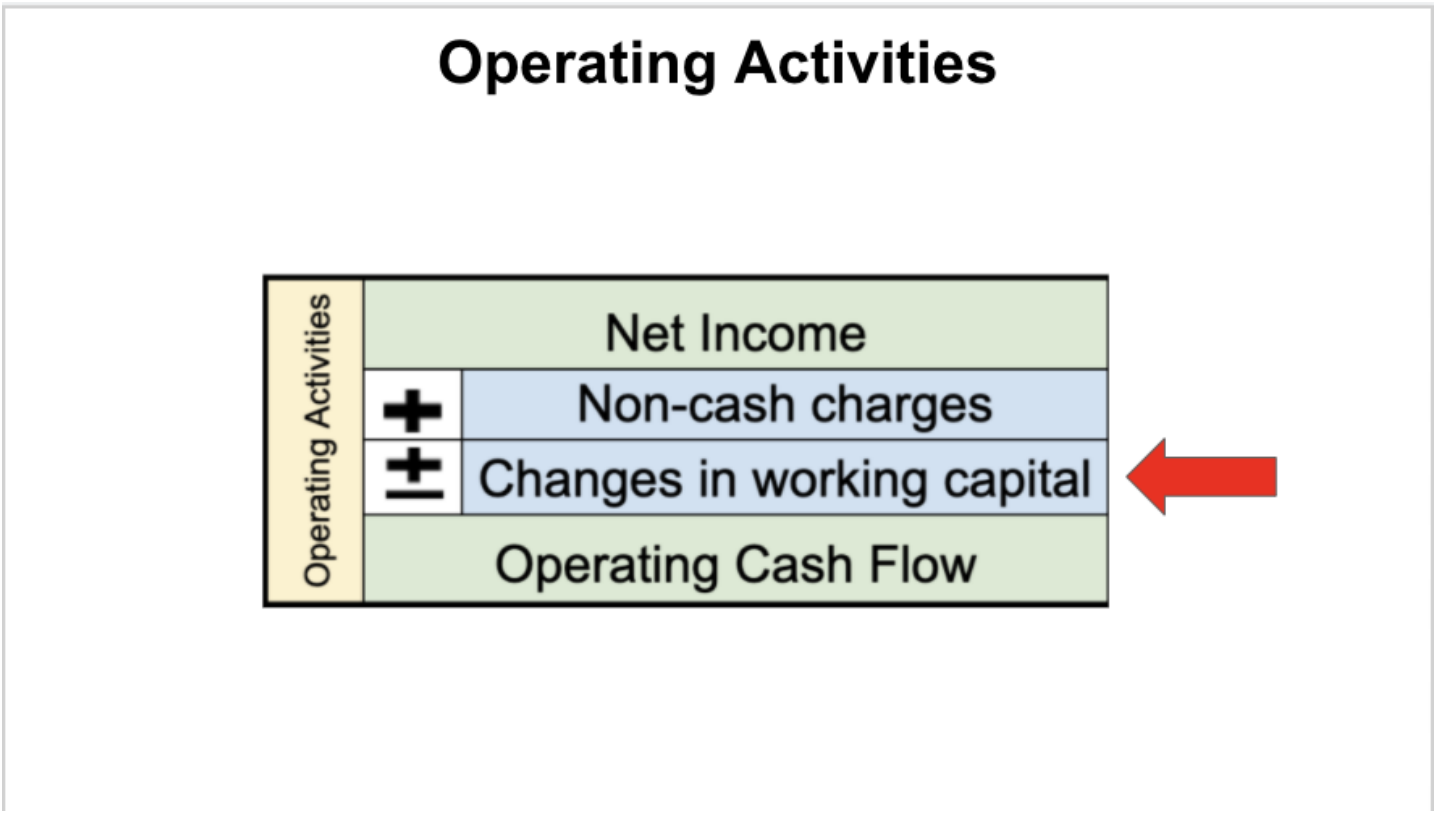
■■Amortization: Expensing a pre-paid cost over time

■■Stock-Based Comp: Paying employees with equity



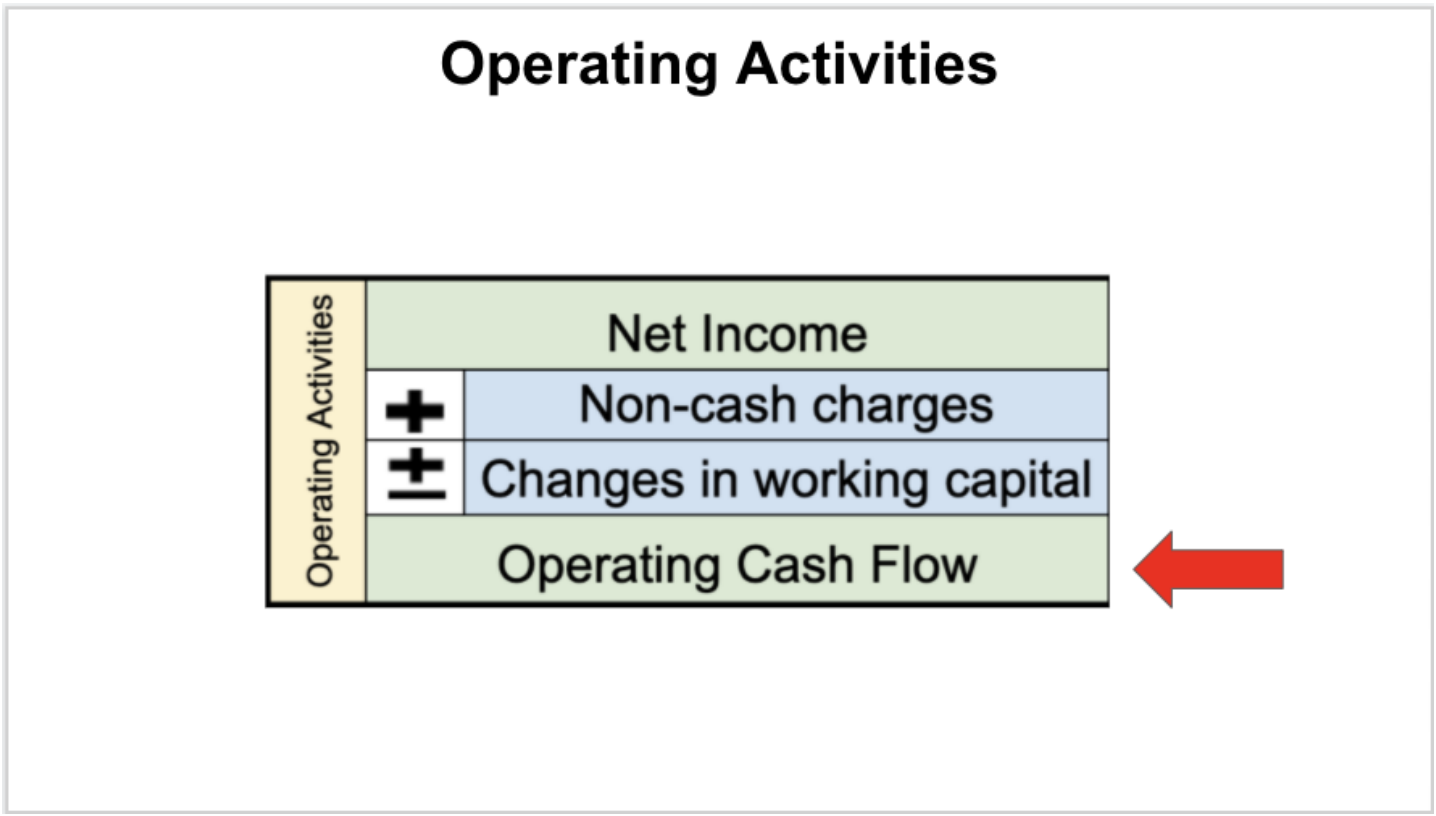
Next is Working Capital, which can ADD or SUBTRACT from cash flow:

Categories:
■■Accounts Receivable: Sales that haven't been collected yet
■■Accounts Payable: Bills that haven't been paid yet
■■Inventory: Value of product you haven’t sold yet



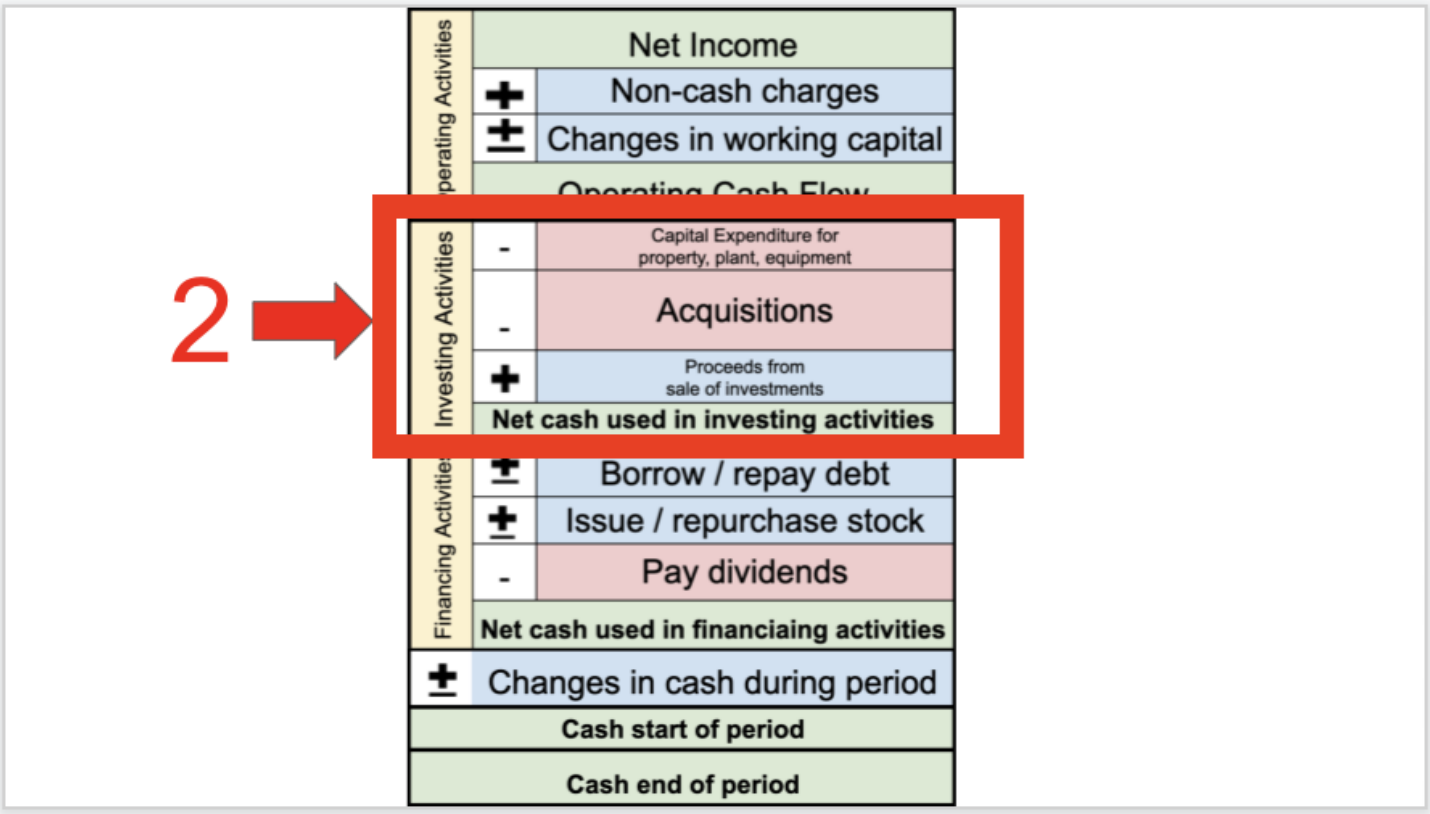
Once all cash adjustments are made, the net is a company's Operating Cash Flow.

Think of this number like a company's Net Income, but in actual cash.



The next section is called Cash Flows from Investing Activities.

The shows the cash gains and losses from investments the business has made.

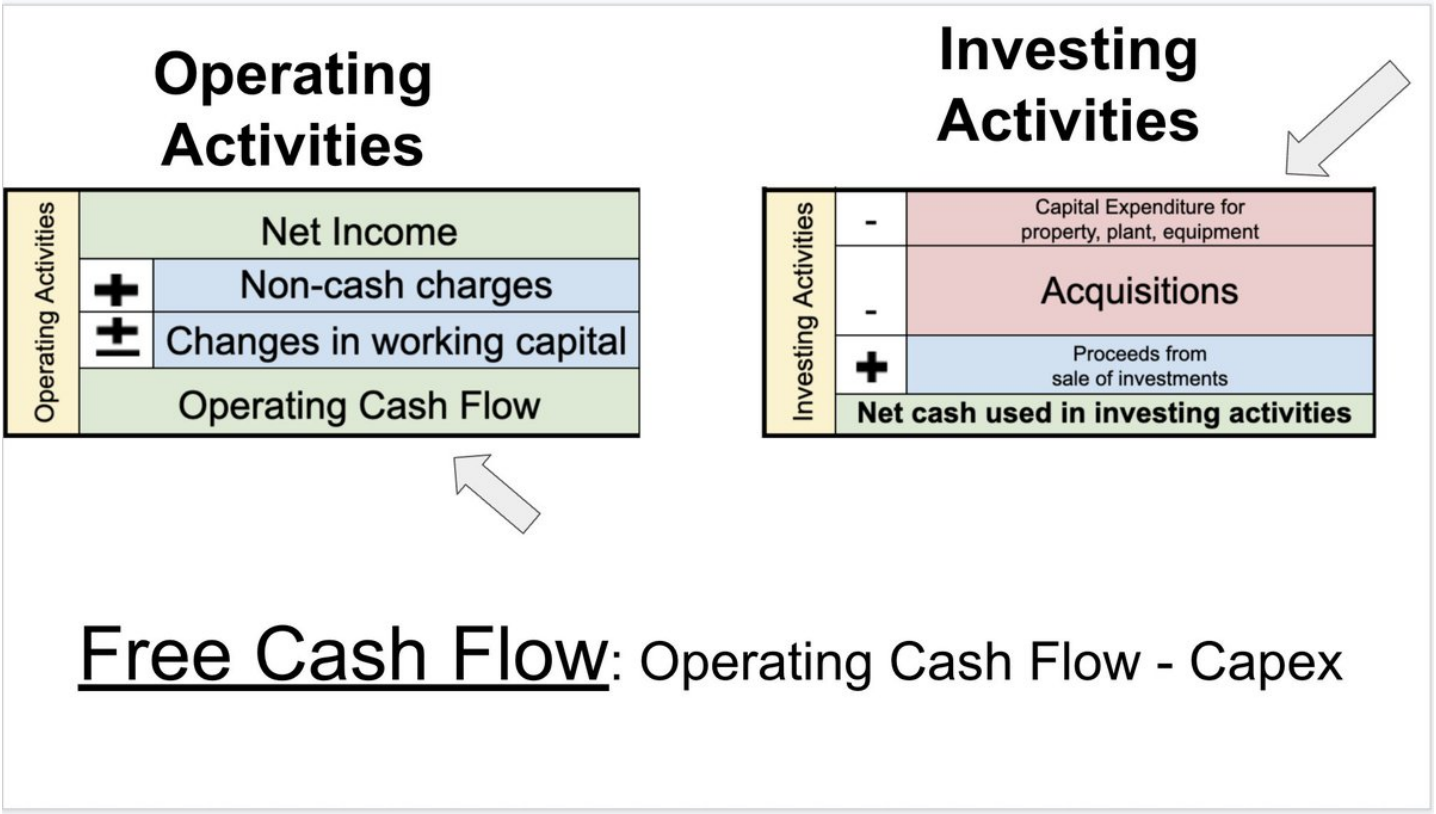


Categories:
■■Capital Expenditure (CAPEX): Money spent to acquire/maintain physical assets such as property, plants, buildings, or equipment.
■■Acquisitions: buying another company
■■Proceeds from sale of investments: Cash recieved from selling CAPEX or acquisitions

We can now calculate Free Cash Flow (FCF)!

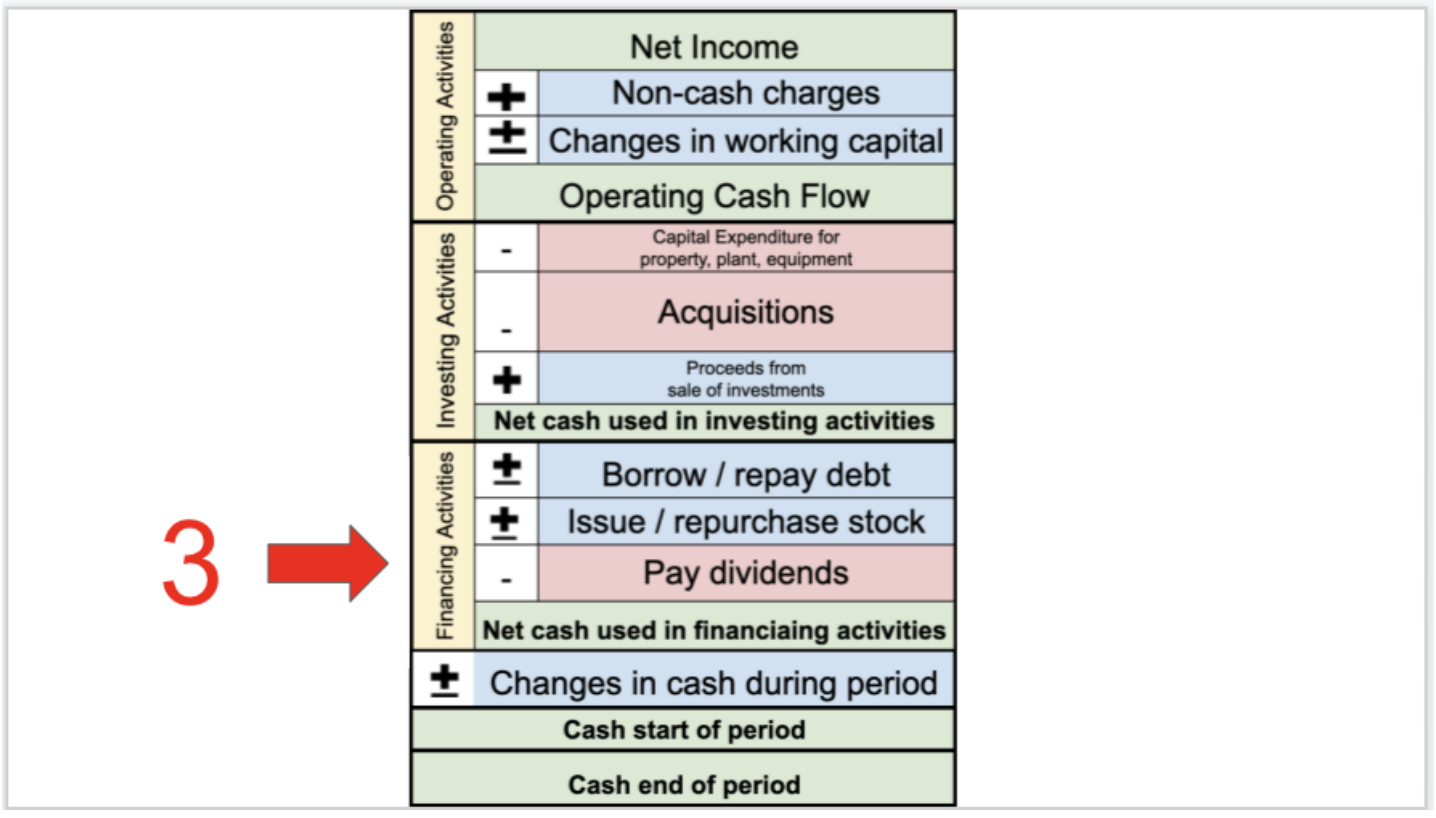
FCF is the cash that is left after a company has paid for its Operating Expenses and CAPEX.

Many investors (myself included) consider this to be a superior way to calculate a company's actual profitability.



Section 3 is Cash Flows From Financing Activities.

This measures the cash movements between a company and its owners (shareholders) and its creditors (bondholders).



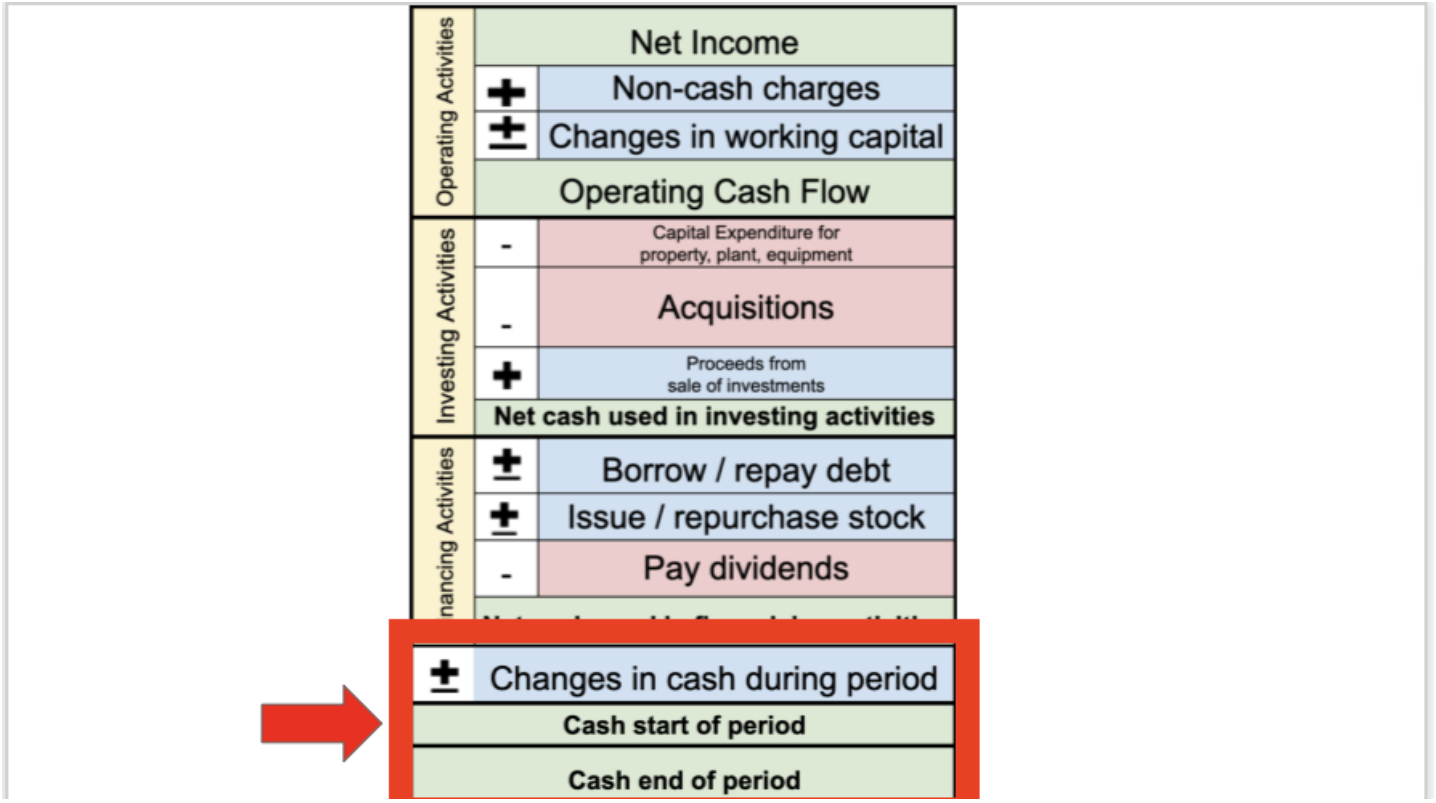
Common categories:

■■Debt: Cash gained/lost from borrowing/repaying debt

■■Stock: Cash gained/lost from issuing/repurchasing stock
■■Dividends: Cash payments to shareholders

The final section shows the total changes in cash balance during the period.

Its shows:
1■Sum of Operating Activities + Investing Activities + Financing Activities
2■Starting Cash Balance
3■Ending Cash Balance



The cash flow statement is complex.

Watching an example is VERY helpful

@brian_stoffel and I made a YouTube video about the cash flow statement that uses $NFLX as an example

Watch it here: https://t.co/VdpwQq7SYu

Enjoy this thread?

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We teach investors how to research stocks & the most important investing lessons we've ever learned.

https://t.co/lWwcb1JdD1

If this thread was helpful, you'll also enjoy my thread on how to read an income statement

https://t.co/75PRb0EenB

> Accounting is the language of business.
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> If you buy stocks, you MUST learn how to read an income statement
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> Here\u2019s everything you need to know:
>
> — Brian Feroldi (@BrianFeroldi) July 28, 2021

Finally, here's my thread on how to read a balance sheet

Happy investing!

https://t.co/Fdqn8qPkXr

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