Twitter Thread by Matt Allen



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Most people want to be an investor

But most investors don’t know how to read a cash flow statement

Here’s how to read a cash flow statement:

Cash Flow Statement Company XYZ
FY Ended 31 Dec 2017

All Figures in USD

Cash Flow From Operations		
Net Earnings		2,000,000
Additions to Cash		
Depreciations		10,000
Decrease in Accounts Receivable		15,000
Increase in Accounts Payable		15,000
Increase in Taxes Payable		2,000
Subtractions From Cash		
Increase in Inventory		(30,000)
Net Cash From Operations		2,012,000
Cash Flow From Investing		
Equipment		(500,000)
Cash Flow From Financing		
Notes Payable		10,000
Cash Flow for FY Ended 21 Dec 2017		1,522,000

Investopedia

The Cash Flow Statement shows how cash moves in and out of a company.

The cash flow statement is presented in the quarterly and annual company filings

The things I ask myself:

-Is operating cash flow positive or negative? (Positive)

-Is capital expenditures less than OCF? (Yes)
-Is the company buying back stock or issuing new shares? (Buying back)

These are 3 simple questions to ask yourself before reading one

Cash flow is divided into 3 sections:

-Cash from operating activities
-Cash from investing activities
-Cash from financing activities

These are the 3 main components of every cash flow statement.

Cash Flow Statement

For the Year Ended December 31, 2016

Cash Flow from Operations	
Net income	79,000
Adjustments for depreciation	2,000
Adjustments for increase in inventories	(22,000)
Adjustments for decrease in accounts receivable	12,000
Net Cash Flow from Operations	**71,000**
Cash Flow from Investing	
Cash receipts from sale of property and equipment	10,000
Cash paid for purchase of equipment	(12,000)
Net Cash Flow from Investing	**(2,000)**
Cash Flow from Financing	
Cash paid for loan repayment	(5,500)
Net Cash Flow from Financing	**(5,500)**
Net Increase in Cash	**63,500**

1. Operating Activities

Cash flows from operating activities explains the cash flows within the business for its normal operations over a particular period.

This will show whether a company is capable of generating positive cash flow to maintain and grow its operations.

1A. Operating Activities

The most important thing when looking at operating activities is to make sure the number is positive.

If the number is positive this means it is generating more money than it's spending for the normal operations.

Cash flows from operating activities	$230,000
Net income	
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation and amortization	63,000
Loss on sale of equipment	15,000
Changes in current assets and liabilities:	
Increase in accounts receivable	(21,000)
Decrease in prepaid expenses	3,000
Decrease in accounts payable	(28,000)
Net cash provided by operating activities	262,000

1B. Operating Activities

If the number is negative this means the company could be in major long term trouble. They will most likely have to take on debt to fund their company.

If a company is taking on debt to fund their operations, they will not survive

2. Investing Activities

Cash flows from investing activities comes from the profit and losses from investments that the company has made

Any long-term physical or intangible asset that the company expects to deliver value in the future will be included

Apple Inc.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)
(In millions)

	Nine Months Ended	
	June 29, 2019	June 30, 2018
Cash, cash equivalents and restricted cash, beginning balances	$ 25,913	$ 20,289
Operating activities:		
Net income	41,570	45,406
Adjustments to reconcile net income to cash generated by operating activities:		
Depreciation and amortization	9,368	8,149
Share-based compensation expense	4,569	3,995
Deferred income tax benefit	(38)	(33,109)
Other	(340)	(410)
Changes in operating assets and liabilities:		
Accounts receivable, net	9,013	3,756
Inventories	496	(1,114)
Vendor non-trade receivables	13,483	5,536
Other current and non-current assets	693	(65)
Accounts payable	(19,804)	(10,410)
Deferred revenue	(776)	(73)
Other current and non-current liabilities	(8,753)	36,250
Cash generated by operating activities	49,481	57,911
Investing activities:		
Purchases of marketable securities	(21,902)	(56,133)
Proceeds from maturities of marketable securities	26,783	46,290
Proceeds from sales of marketable securities	49,516	41,614
Payments for acquisition of property, plant and equipment	(7,718)	(10,272)
Payments made in connection with business acquisitions, net	(611)	(431)
Purchases of non-marketable securities	(632)	(1,788)
Proceeds from non-marketable securities	1,526	310
Other	(268)	(523)
Cash generated by investing activities	46,694	19,067
Financing activities:		
Proceeds from issuance of common stock	391	328
Payments for taxes related to net share settlement of equity awards	(2,626)	(2,267)
Payments for dividends and dividend equivalents	(10,640)	(10,182)
Repurchases of common stock	(49,453)	(53,634)
Proceeds from issuance of term debt, net	—	6,969
Repayments of term debt	(5,500)	(6,500)
Repayments of commercial paper, net	(2,026)	(10)
Other	(83)	—
Cash used in financing activities	(69,937)	(65,296)
Increase in cash, cash equivalents and restricted cash	26,238	11,682
Cash, cash equivalents and restricted cash, ending balances	$ 52,151	$ 31,971

2A. Investing Activities

Common line items in this section include:

-Purchase of Property, Plant, and Equipment (PP&E)
-Proceeds from disposal of PPE
-Proceeds from sell of stocks
-Acquisitions

3. Financing Activities

Cash Flow from financing activities explains the cash flows used to fund the company’s operations and payback their shareholders along with creditors

Company ABC (Cash Flow Statement)	2019
Cash Flow from Operating Activities	
Net Income	**$35,550**
(+) Depreciation Expenses	$ 2,000
Decrease in Accounts Receivables	$ 5,000
Increase in Inventories	-$ 7,000
Increase in Accounts Payable	$ 2,000
Net Cash Generated from Operating Activities	$37,550

Operating Activities

Cash Flow from Investing Activities	
Purchase of PPE (Machinery)	-$10,000
Net Cash Generated from Investing Activities	-$10,000

Investing Activities

Cash Flow from Financing Activities	
Payment of Short-term Debt	-$ 5,000
Borrowing Long-term Debt	$ 5,000
Dividends Paid to Shareholders	-$ 5,550
Net Cash Generated from Financing Activities	-$ 5,550

Financing Activities

Net Change in Cash Inflow/(Outflow)	**$22,000**
Cash at Beginning of year	$ 3,000
Cash at End of Year	$25,000

3A. Financing Activities

Common line items include:

-Borrowing of long-term debt
-Repayment of Long-term debt
-Repayment of short-term debt
-Proceeds from stock options
-Proceeds from stock offering
-Repurchases of Common Stock
-Dividends Paid

4. Free Cash Flow

The most important numbers you can gather from the cash flow statement is free cash flow

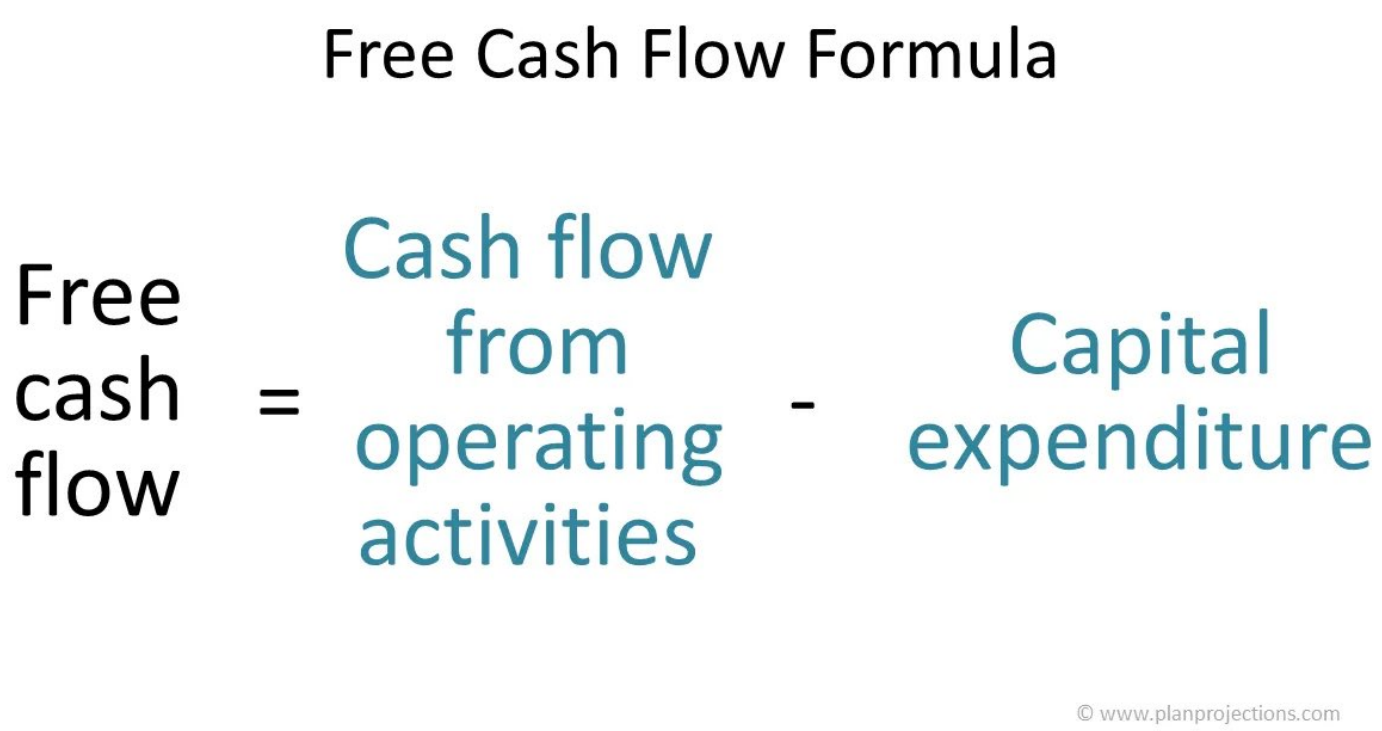
FCF tells investors and analysts how much cash a business generates after growing and maintaining it’s business

4A. Free Cash Flow

This cash can be paid to shareholders as a dividend, be used to pay down debt, buyback shares or to just keep as cash on balance sheet

This is a very important metric to gauge when valuing a stock

You should look for a company with FCF of 10%+



These are the 3 main sections in the cash flow statement

Learning how to read and analyze these are crucial when purchasing individual stocks

In closing, the cash flow statement shows how much cash different activities generate (or cost) a particular business over time

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