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What Is Free Cash Flow? The Number Profit Can't Fake

How free cash flow is calculated, why it can differ wildly from net income, and how to use FCF yield to judge what you are paying.

Updated 4 Nov 2026

Read online: https://traderange.net/learn/what-is-free-cash-flow-fzcc2tbh/



Profit is an accounting figure. Free cash flow, by contrast, is the cash a business actually has left after paying to run and maintain itself. As a result, many investors trust free cash flow more than earnings. Below, we cover how free cash flow is calculated, why it can look very different from profit, and how to use it without being misled.

What is free cash flow?

Free cash flow, or FCF, is the cash a company generates from its operations minus the money it spends on long-term assets such as factories, equipment and data centres. That spending goes by the name capital expenditure, or capex. Whatever cash remains is free in one specific sense: management can spend it on dividends, share buybacks, paying down debt or acquisitions.

How to calculate free cash flow

The basic formula is **FCF = operating cash flow - capital expenditure**. Both numbers come from the cash flow statement (every listed company publishes one alongside its income statement and balance sheet). To get operating cash flow, you start from net income and adjust for items that do not involve cash, such as depreciation, and for changes in working capital.

> **Worked example**
>
> Imagine a company that brings in $500 million of cash from operations and spends $200 million on new equipment. Its free cash flow is $300 million. Say it also reported net income of $400 million. Free cash flow would then be lower than profit, because the equipment spending is a cash cost that has not yet shown up as an expense.

Not every data provider uses the same definition. Some also subtract interest payments or other items, so the free cash flow figure on one site may not match another. That said, the principle is the same everywhere: cash in from the business, minus cash spent to keep and grow it.

Free cash flow vs net income

Net income and free cash flow are not measured the same way. Under accounting rules, a new factory's cost is spread over many years as depreciation. The cash flow statement, by contrast, counts the full cost when the money leaves the bank. As a result, a company that is building heavily can report strong profits while producing very little free cash.

TRAILING TWELVE MONTHS. FREE CASH FLOW AS REPORTED BY TRADERANGE'S DATA PROVIDER, WHICH USES ITS OWN DEFINITION. TRADERANGE DATA AS OF 23 SEPTEMBER 2026; DATA IS DELAYED.

COMPANY	TICKER	NET INCOME	FREE CASH FLOW	FCF AS % OF NET INCOME
Apple	AAPL	$128.93 billion	$107.72 billion	84%
Procter & Gamble	PG	$15.75 billion	$13.28 billion	84%
Microsoft	MSFT	$133.75 billion	$16.55 billion	12%
Amazon	AMZN	$135.28 billion	$3.22 billion	2%
Tesla	TSLA	$3.81 billion	$4.84 billion	127%

Apple and Procter & Gamble, as the table shows, turn most of their profit into free cash flow. Amazon reported net income of $135.28 billion but free cash flow of only $3.22 billion. Tesla, on the other hand, shows the opposite pattern: its free cash flow of $4.84 billion is higher than its net income of $3.81 billion. Neither pattern is automatically good or bad; it depends on why the gap exists.

What is FCF yield?

FCF yield compares free cash flow with the company's market value; the formula is **FCF yield = free cash flow ÷ market cap**. It works like an earnings yield (the inverse of the P/E ratio), but it is built on cash instead of accounting profit. The higher the yield, the more free cash flow you get for every dollar you pay for the company.

FCF YIELD CALCULATED AS FREE CASH FLOW ÷ MARKET CAP. TRADERANGE DATA AS OF 23 SEPTEMBER 2026; DATA IS DELAYED.

COMPANY	TICKER	MARKET CAP	FREE CASH FLOW	FCF YIELD
Procter & Gamble	PG	$344.27 billion	$13.28 billion	3.86%
Apple	AAPL	$4.95 trillion	$107.72 billion	2.18%
Microsoft	MSFT	$3.7 trillion	$16.55 billion	0.45%
Tesla	TSLA	$1.5 trillion	$4.84 billion	0.32%
Amazon	AMZN	$2.75 trillion	$3.22 billion	0.12%

Procter & Gamble has the highest FCF yield in the group at 3.86%; Amazon has the lowest at 0.12%. A low FCF yield does not mean a stock is overpriced; it means investors are paying for cash flow they expect in the future rather than cash flow the company produces today.

When free cash flow can mislead

- Heavy investment years: when a company is building new capacity, capex rises and free cash flow falls, even if the investment later pays off.
- Cutting investment: by delaying spending it will eventually need, a company can boost free cash flow in the short term.
- Working capital timing: cash flow can be lifted for a quarter — without the business improving — by collecting from customers faster or paying suppliers later.
- Stock-based pay: because employee share awards are not a cash cost, they flatter free cash flow even though they dilute shareholders.

That is why free cash flow is most useful over several years; one large project or one timing effect can distort a single year.

How to use free cash flow in practice

1. Over at least three to five years, compare free cash flow with net income.
2. Check whether capex is rising, and ask whether the spending is maintaining the business or growing it.
3. To see whether cash and profit tell the same story, use FCF yield alongside the P/E ratio.
4. Check that dividends and buybacks are covered by free cash flow rather than by new debt.

Reading these numbers can be practised without risking money. With TradeRange's My Portfolio tool, you can build a simulated portfolio and compare it with the S&P 500.

KEY TAKEAWAYS

- ✔ Free cash flow = operating cash flow - capital expenditure.
- ✔ It measures the cash left for dividends, buybacks, debt repayment and acquisitions.
- ✔ Free cash flow can be far below net income when a company is investing heavily.
- ✔ FCF yield = free cash flow ÷ market cap; higher means more cash per dollar paid.
- ✔ Judge free cash flow over several years, not one.

⚠ **Not investment advice**

The figures in this article are TradeRange market data as of 23 September 2026 and are delayed. They are meant for education only, not as investment advice.

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