

Cash Flow Analysis: A Guide for the Corporate Financial Analyst

by Ann Marie Svoboda

Introduction

I've spent 25 years working in corporate finance. That means I've had decades to revel in the complexity of numbers. I love numbers, specifically financial numbers. I can happily spend hours, days, or even weeks building a dense financial model or an automated dashboard report. I am not normal this way.

Most people do not enjoy digging in the weeds of financial data. Moreover, most people don't care that I enjoy digging in the weeds of financial data. They do not want nor have time to deal with the weeds or the complexity. Most only want to know key points and final answers. This means that, no matter how long I spend studying and decoding financial data, my work is useless if I can't quickly and effectively explain my beloved numbers to the intended audience.

This dilemma holds true for everyone working in corporate finance; including all financial analysts, financial managers, and even financial executives. To be successful, finance professionals must quickly and clearly explain numbers. And it is to that purpose that I hope to help.

The goal of this book is to guide corporate finance professionals to effective financial analysis and presentation skills. Certainly, this book is too short to address all dimensions of presenting financial information. Instead, this is a concentrated tutorial on a somewhat neglected category; cash flow.

People with adequate cash flow presentation skills are scarce. Tools for effective cash flow analysis, as required for the corporate financial analyst, are rarely taught in business school. And as I have observed throughout my career, most companies typically only employ a few staff that can efficiently and strategically present complex cash flow data. That limitation is the focus of this book.

This short text is a guide to effective cash flow analysis and presentation for the corporate financial analyst. It is a handbook on how to use and communicate cash flow data and the related analysis.

What this book is not is an instructional textbook about the intricacies of cash flow information. This book assumes that the reader has had exposure to cash flow information and possesses some understanding of cash flow, particularly the mechanics and functionality of cash flow reconciliation and reporting. If you do not feel competent in deciphering cash flow information, I can offer my earlier publication, *Actual Cash Flow: The Route Back to Basics in Corporate Finance*, excerpts of which are included in this text in Appendix B.¹ *Actual Cash Flow*TM endeavors to scrutinize and integrate the mechanics of cash activity and positions and merges these two dimensions to explain a cash flow categorization and reporting tool for the internal corporate finance team. Overall, *Actual Cash Flow*TM introduces the Actual Cash FlowTM system, a form of direct cash flow reporting. Incremental suggested texts on cash flow are listed in Appendix A.

¹ Svoboda, Ann Marie. [Actual Cash Flow: The Route Back to Basics in Corporate Finance](#) (Parsippany, NJ, Blackworth Publishing, 2010).

This book is a guide to effective cash flow analysis and presentation for the corporate financial analyst. It is designed to help the corporate analyst competently review and present cash flow information for a variety of audiences. These audiences include management, executives, the board, shareholders, lenders, and other internal and external parties.

In this, the guidance is meant to be practical. The following sections cover topics a typical corporate analyst will actually encounter in their career. The related presentation formats, moreover, are the general analytical formats corporate analysts are expected to produce.

This book is further focused on analysis and analytical presentations. As such, the following sections do not dissect the minutia of accounting. And although the book will summarize instances of cash flow presentations for external audiences, the topics are grounded in management reporting instead of reporting as mandated through financial regulation. In fact, greater attention is paid to cash flow analysis and presentations geared toward internal audiences. This focus is chiefly a consequence of context.

Financial analysis functions of the internal manager are conceptually different from financial analysis activities conducted by external parties. The analytical intents, for instance, are different. Internal analysis acts as a diagnostic tool to guide the firm's overall strategic objectives while external analysis is focused to judge the success of that same strategy. In other words, while external analysts endeavor to track the development of a firm's *overall* profit and value, internal analysts work to dissect the *pieces* of their firm's profit and value-producing functions in order to manage operations toward superior return. This fundamental distinction forces internal analysts to scrutinize the financial data-set in much more detail than is required by external analysts.

In other words, external audiences, such as shareholders and lenders, typically have a narrow focus on cash flow information. There is therefore a narrow amount of externally focused presentation material required for discussion in this book. Inside the firm, however, cash flow information serves broader and deeper functionality. That broader functionality justifies this book's expanded review of cash flow analysis and presentation templates designed for internal audiences versus the more limited amount of examples geared towards external audiences.

Chapter 1 initiates the discussion with a review of the two forms of cash flow reporting; the indirect cash flow statement and the direct cash flow statement. This is followed by Chapter 2, which reviews liquidity analysis and presentation formats designed for both external and internal audiences. Chapter 3 tackles more advanced concepts of cash flow data and its relationship to measures of return. This is followed by Chapter 4, which provides a guide to creating cash flow forecasts to support long- and short-term strategic purposes. Finally, Chapter 5 discusses cash flow analysis and presentation in the context of reviewing firm and investment value. Together, these chapters are designed to divulge the logic that is inherent to cash flow analysis and presentation styles for varied audiences and purposes.

This book will guide you through the standard constructs of cash flow analysis and related presentations. As you discover the common formats of cash flow presentation and consequently use that knowledge in your own work, you'll see that cash flow analysis and presentation is often more of an art than a science. This variability is normal as cash flow analysis, and certainly the related presentation, is adaptable to the environment.

The outlines presented in this guide are geared towards the most common uses of cash flow information. But the application of the templates described can and should be adjusted to accommodate the specific needs of your individual firm and unique audience. As long as you maintain integrity and accuracy in your output, you don't need to enforce rigor in presentation.

Instead, this book offers a foundation in sufficiently presenting cash flow data. The following explorations of cash flow analysis and presentation provide an outline. Your ability to apply company and audience specific adjustments will evolve as your comfort with each category of application advances.