

All of these are
Incremental, i.e.,
resulting from project

Operating Cash Flow (OCF)

Sales (Cash Only!)	100	R
Oper. Exp. (Cash!)	-60	O
Deprec. Expense	<u>-10</u>	D
Operating Income	30	EBIT
Interest Expense	0	← NOT considered
Taxes @ 40%	<u>-12</u>	T = 40%
Earnings after Tax	18	EAT
Deprec. Expense	<u>10</u>	
Operating CF	<u>28</u>	OCF

$$OCF = \underbrace{(R - O - D)}_{\text{EBIT}} \underbrace{(1 - T)}_{\text{Less Taxes}} + D$$

$$\text{EAT}$$

$$= R(1 - T) - O(1 - T) - D(1 - T) + D$$

$$= R(1 - T) - O(1 - T) + DT$$

\downarrow aftertax revenue \downarrow aftertax cash Op. Exp. \downarrow depreciation tax savings