Free cash flow per share

Amazon letters: 2004, 2002, 2001 · Difficulty: Intro

> *"Our ultimate financial measure, and the one we most want to drive over the long-term, is free cash flow per share." (2004)*

1. In 2002 Amazon's net cash provided by operating activities was $174 million and its purchases of fixed assets were $39 million (2002 letter). What was its free cash flow ($ millions)? _____

2. Why does Bezos focus on free cash flow rather than earnings?

   A. Free cash flow ignores capital spending

   B. Earnings do not directly turn into cash: capital spending, working capital and new shares also matter

   C. Earnings are not audited

   D. Free cash flow is required by GAAP to be the headline number

Source: Jeffrey P. Bezos, Letters to Amazon.com Shareholders: 2004, 2002, 2001 (ir.aboutamazon.com). Quotation © Amazon.com, Inc., all rights reserved; reproduced in part for non-commercial teaching. Numbers in the questions are made up unless stated.