

The Gap, the Gift, and the Guarantee

What you actually buy when you buy a great business.

The absolute floor requires zero growth and zero risk.

- ▼ Current free cash flow.
- Zero growth projected.
- ▲ Discounted at the risk-free rate.

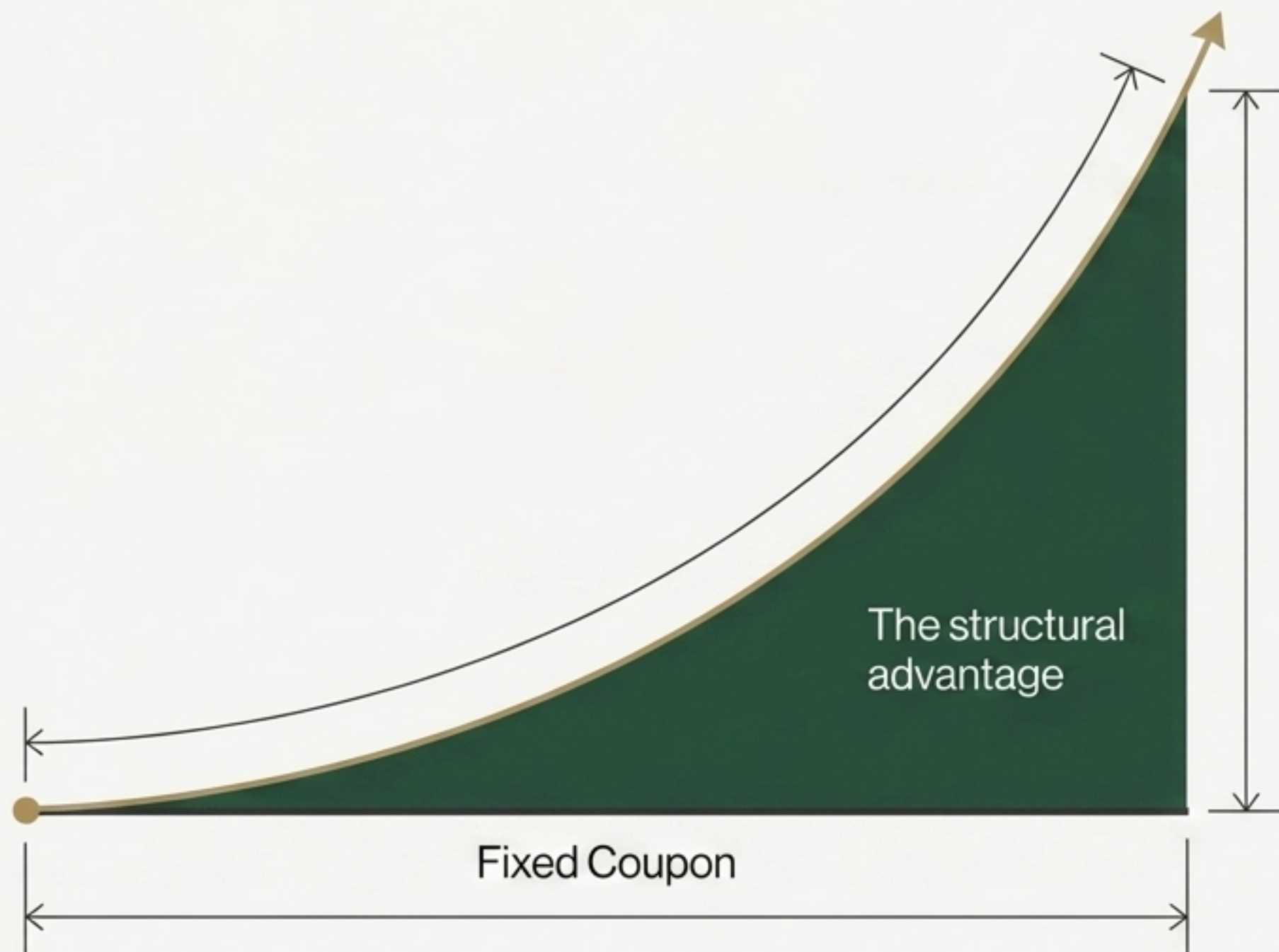


The foundation is built on real cash flow, not reported earnings.

Visible Metric:
Net Income.



Real Metric:
Free Cash Flow
(Can exceed net income by 20%+).



A temporary market mispricing creates the Gap.

A rare, immediate discount to the zero-growth perpetuity.
No projections required. Arithmetic over assumptions.



The growth that arrives tomorrow is the Gift.

You pay for a zero-growth perpetuity.
The structural 10–20% annual free cash flow growth is entirely free.



The equity coupon relentlessly accelerates on the original cost.

Assuming a 5% starting free cash flow yield and 15% structural growth



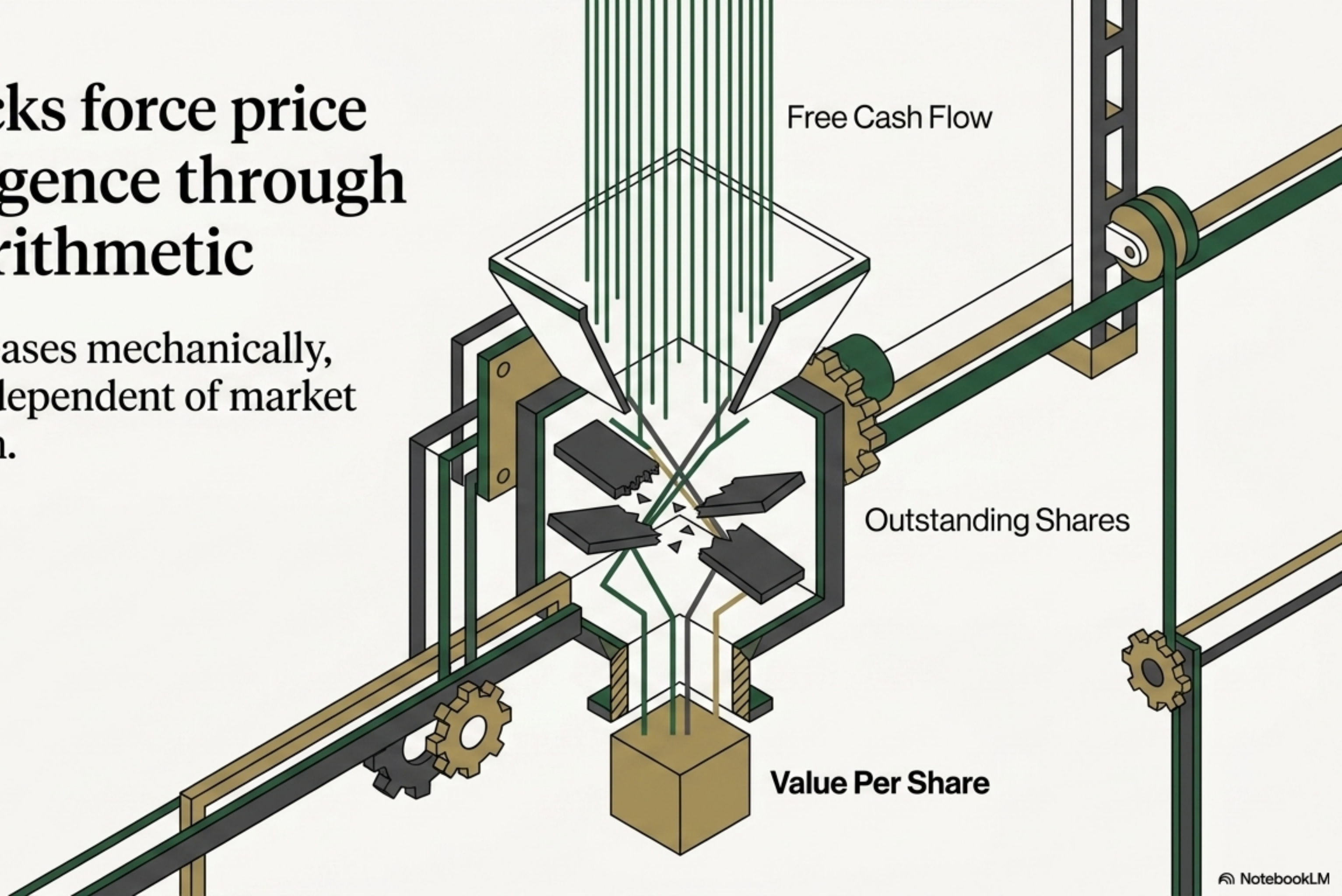
Dividends act as a cash advance that shortens the duration of risk.

Every dollar received physically reduces the effective cost basis.



Buybacks force price convergence through pure arithmetic

Value increases mechanically, entirely independent of market recognition.



The gift of compounding overwhelms the entry price over two decades.

20-Year Total Return Profile (Assuming 15% FCF Growth)

T-Bond @ 5%

2.65x
Return

S&P 500
Historical

6.7x
Return

Great Business
@ 25x (No Gap)

17.0x
Return
(15% ann.)

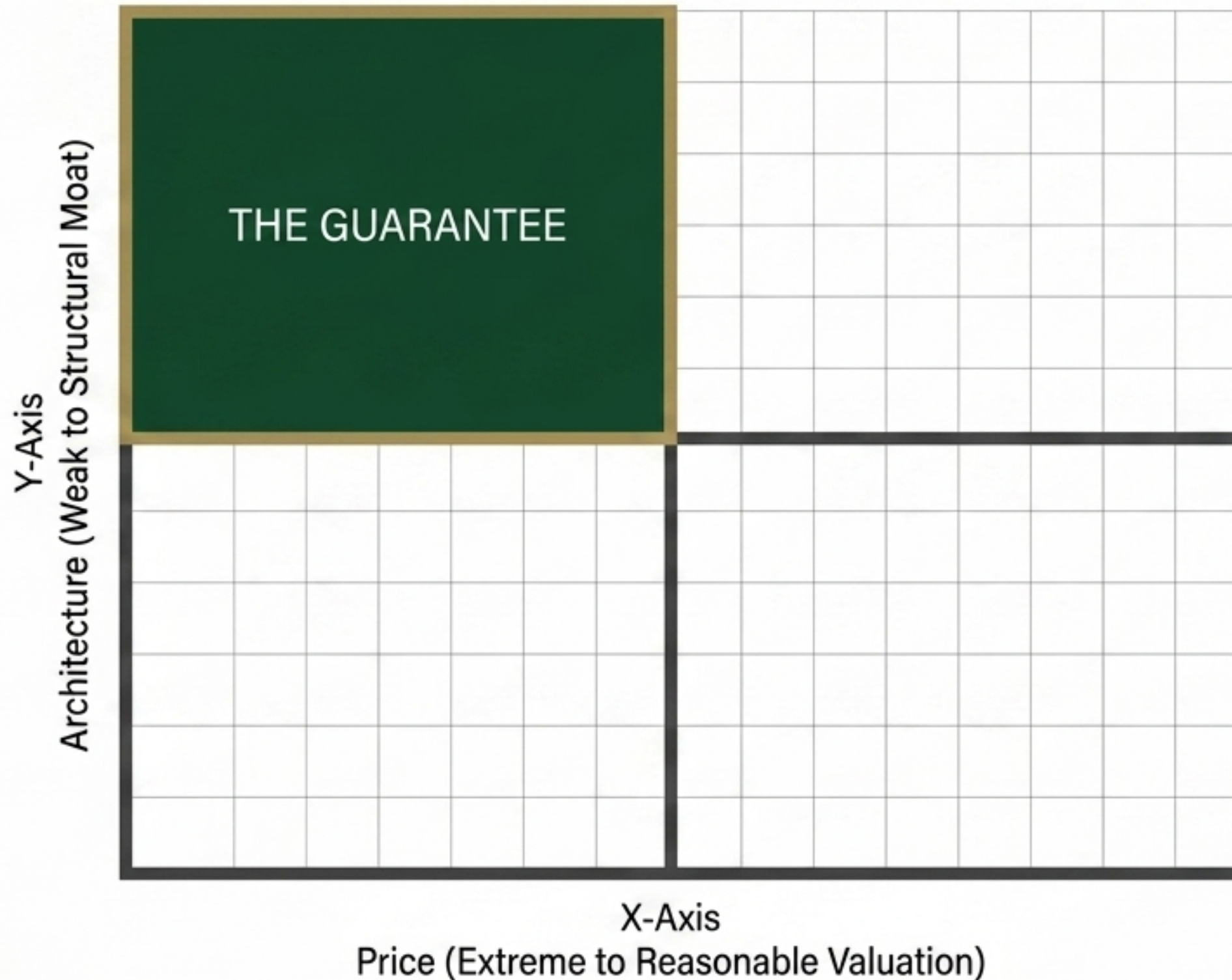
Great Business
@ 20x (The Gap)

21.0x
Return
(16% ann.)

The Gap is worth exactly 1% annually. The Gift is the 17x engine.

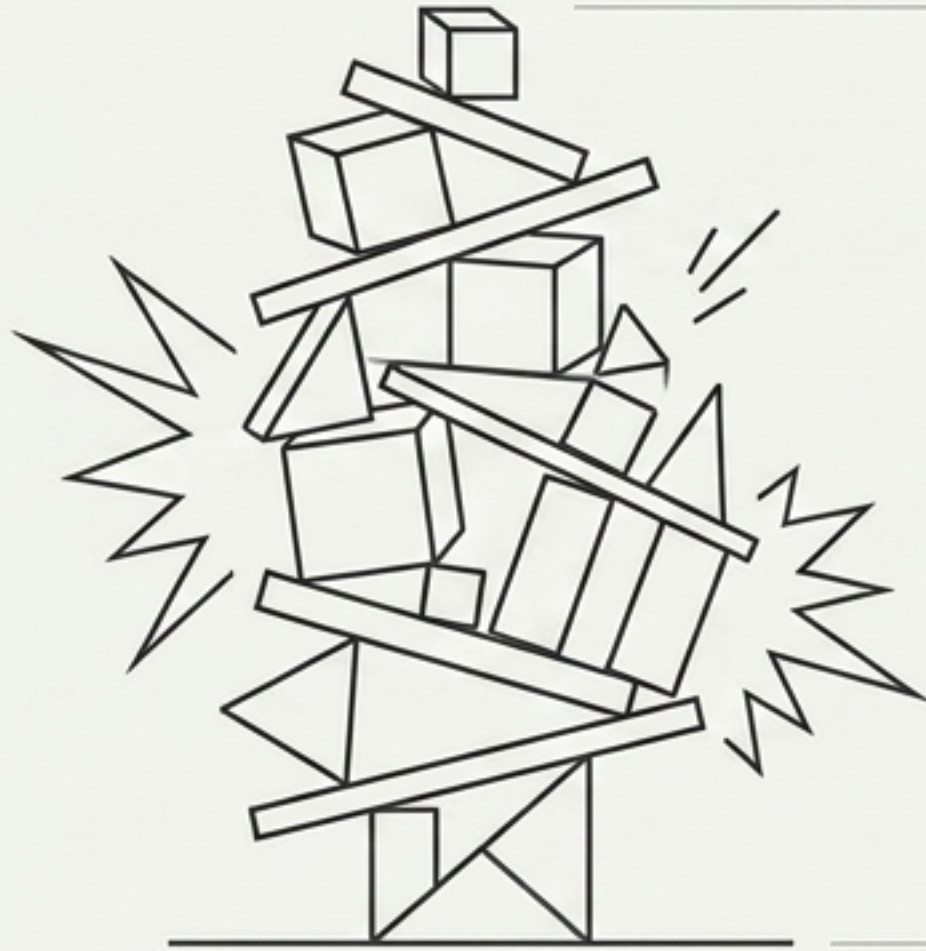
Returns inevitably converge to the internal compounding rate.

The entry price is temporary. The architectural moat is permanent. Both conditions must be met.



The strength of the guarantee rests on a spectrum of certainty.

Dependent Architecture:
Relies on execution and human decision.



Structural Architecture:
Embedded in secular forces. Inevitable.



e.g., Visa, MSCI - driven by structure, not choice

The intellectual progression from margin of safety to absolute convergence.

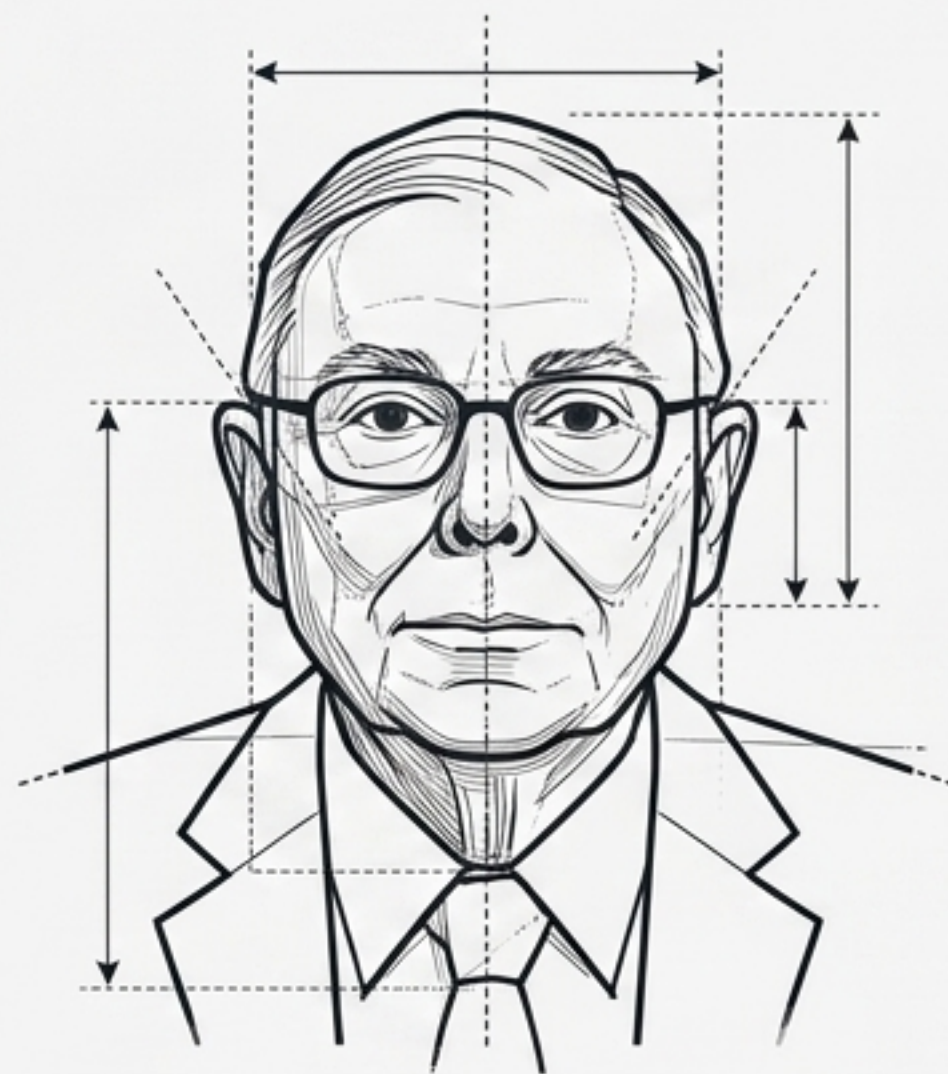
Three eras. Three fundamental truths. One unified philosophy.



THE GAP
(Arithmetic over assumptions)



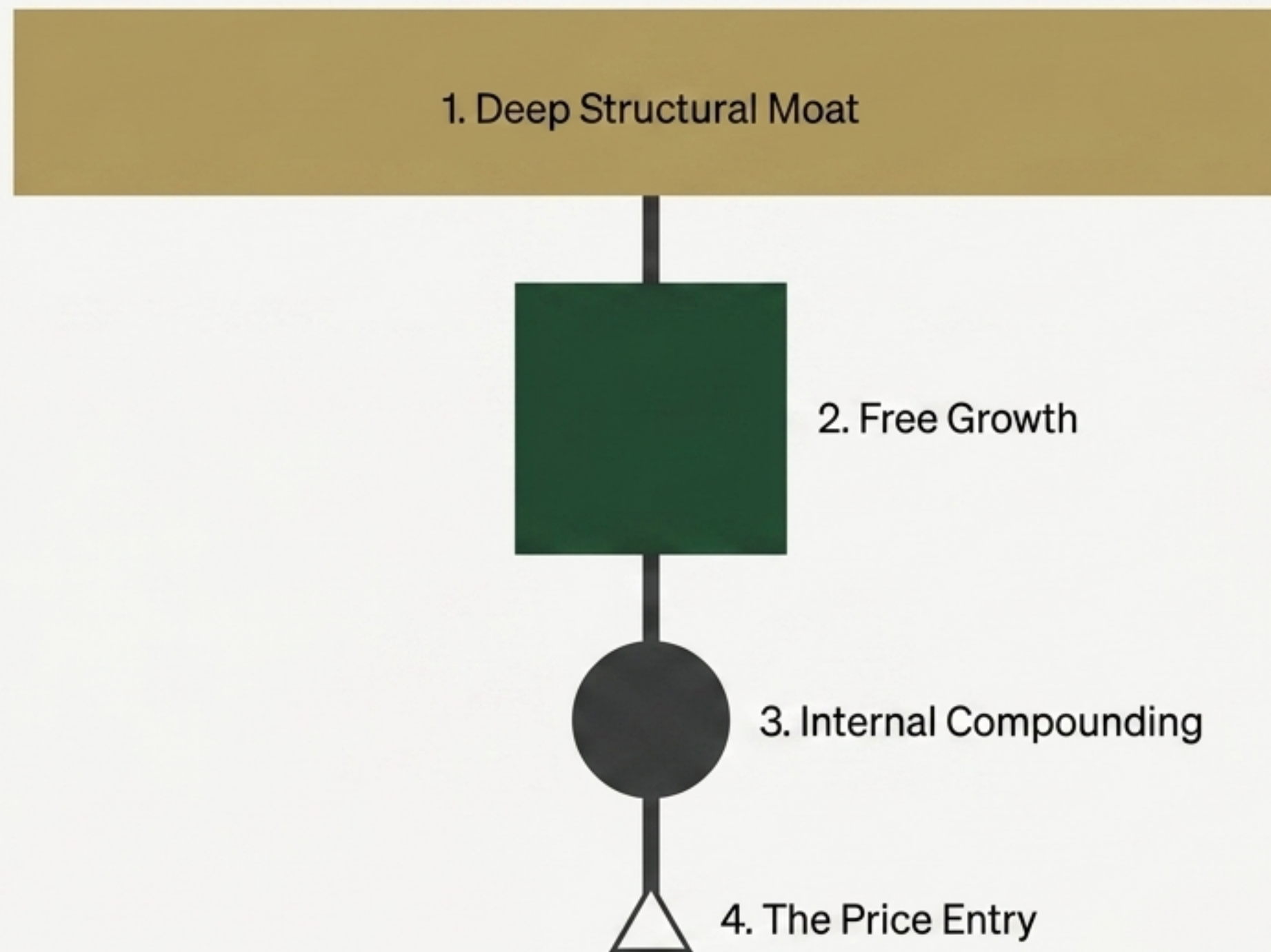
THE GIFT
(The ever-increasing coupon)



THE GUARANTEE
(Structural convergence)

Start with the architecture. Arrive at the price last.

Invert the traditional framework. The discount is the final, smallest variable.



What you actually acquire when you buy a great business.



- The Gap is precious.
- The Gift is powerful.
- The Guarantee is everything.