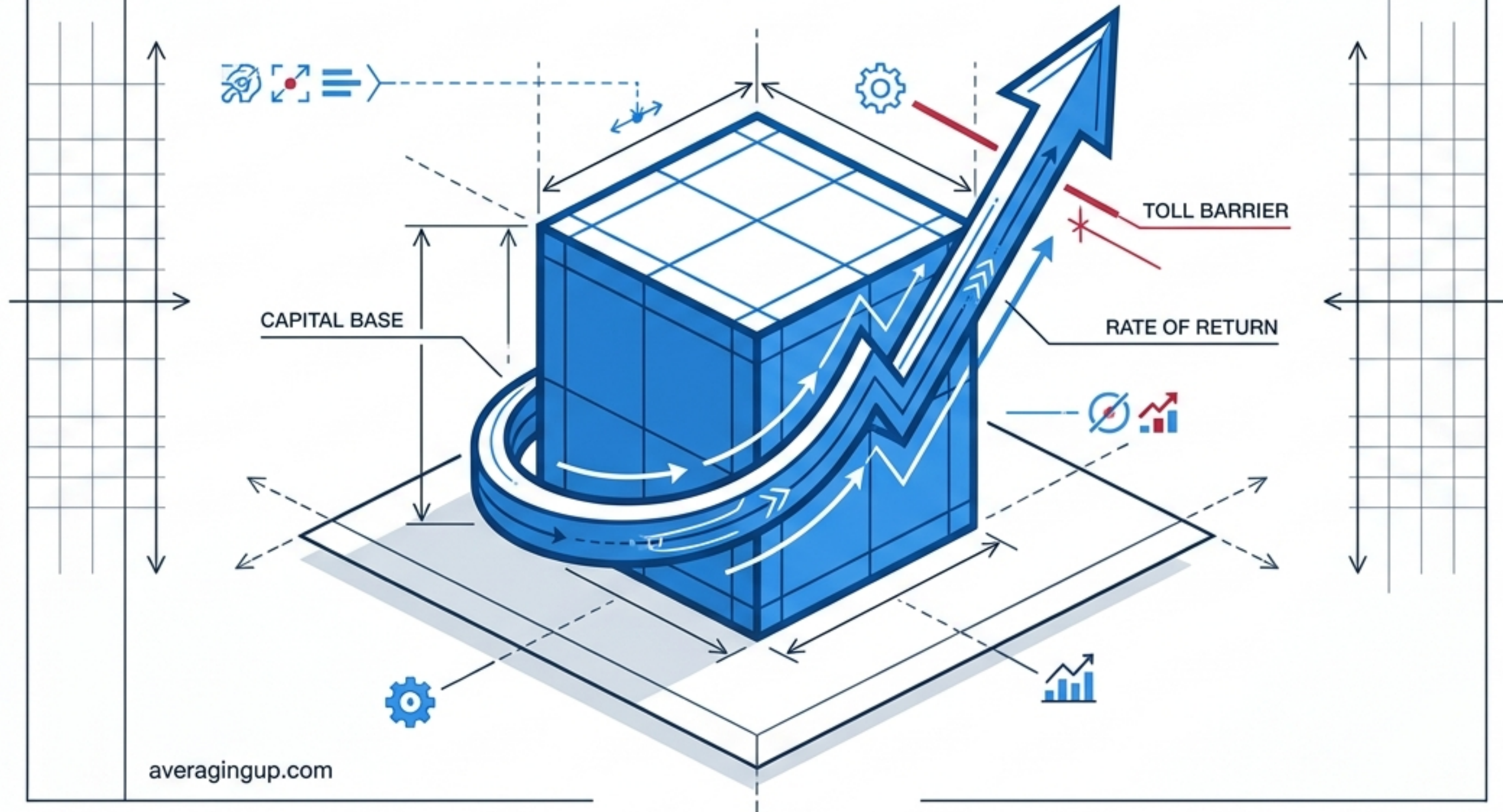


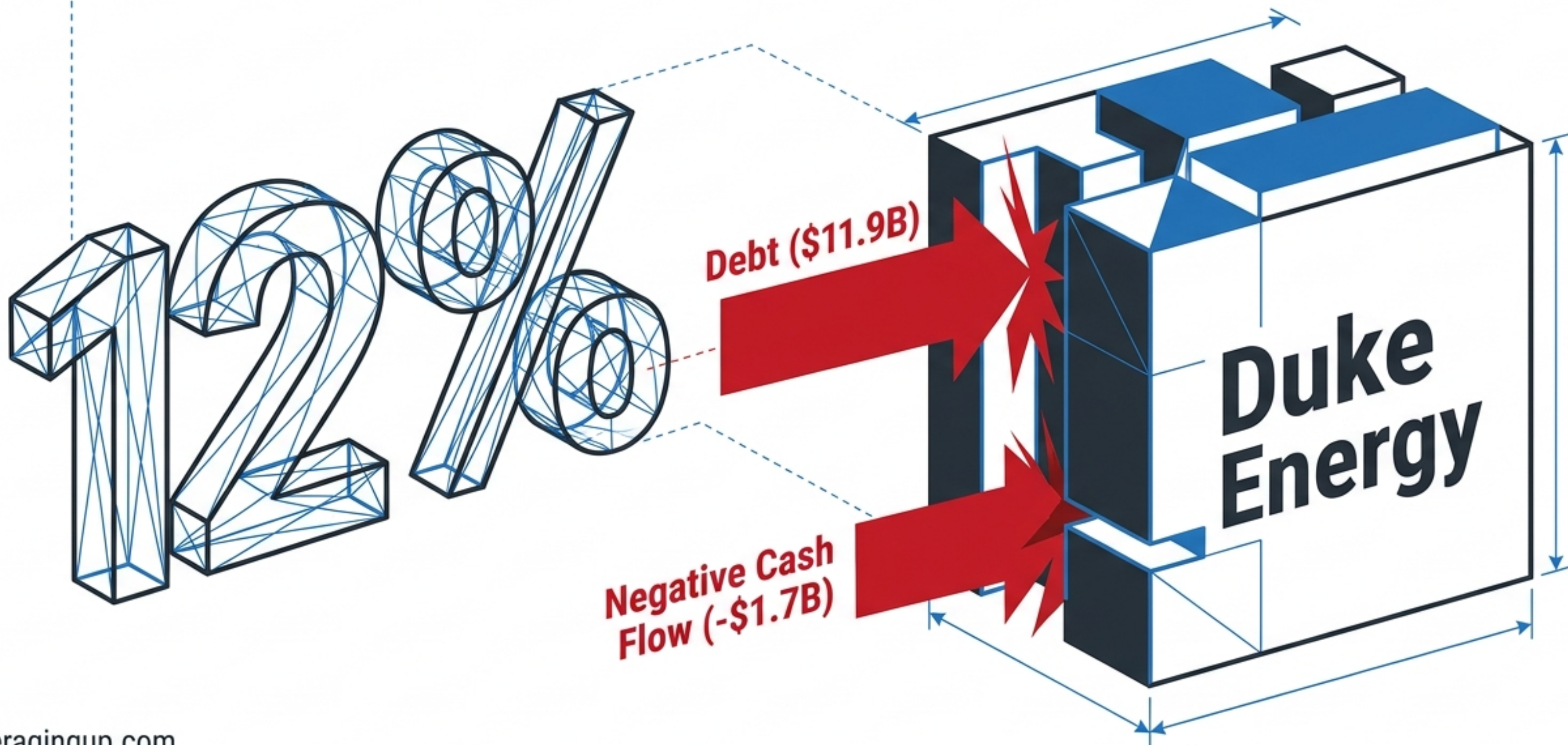
# Why Heavy-Toll Compounders Are Rare

The mechanics of capital absorption.



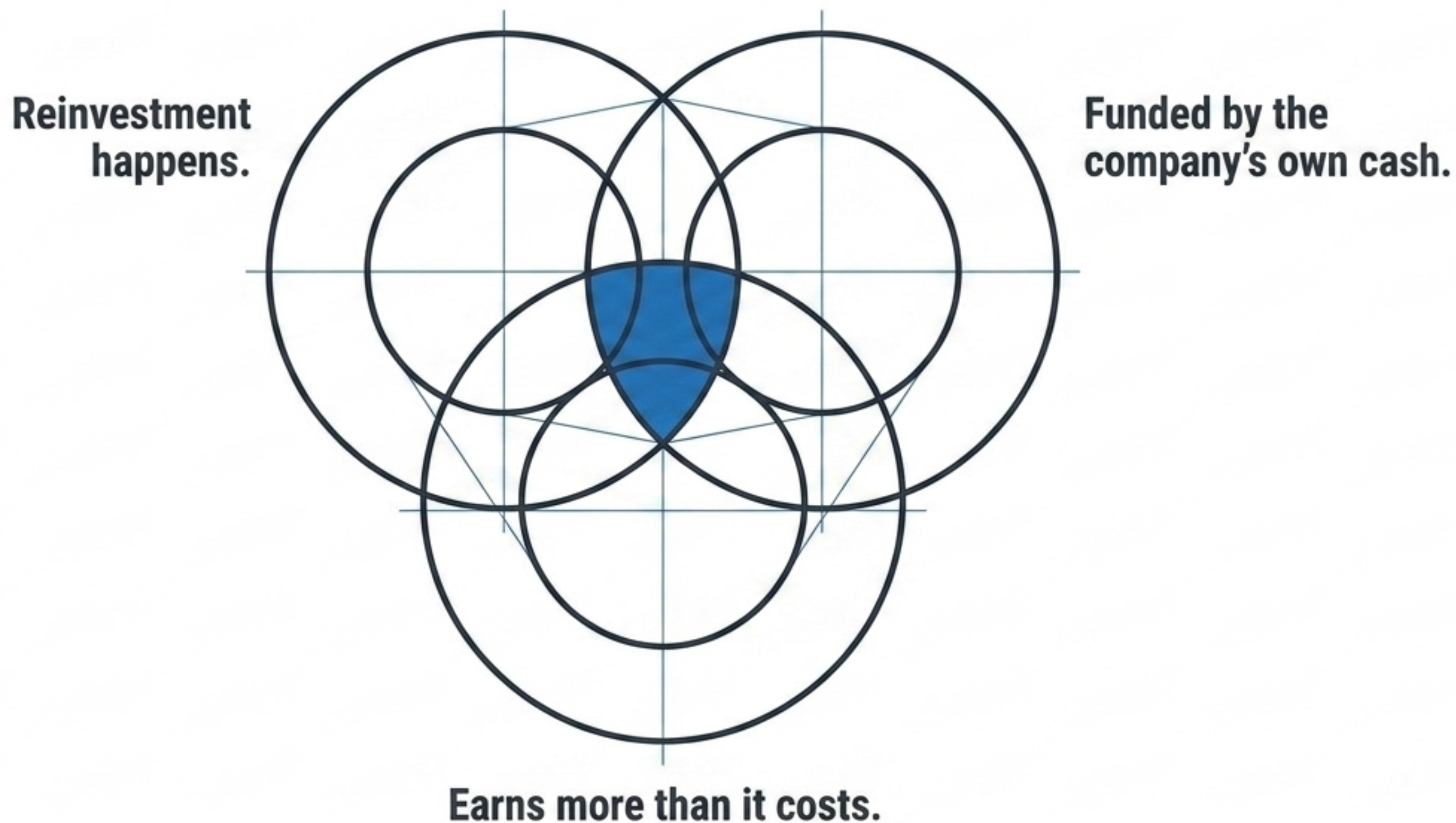
# Return on Equity hides the source of the capital.

A 12% return is real in the accounting sense, but the capital deployed did not come from the business.

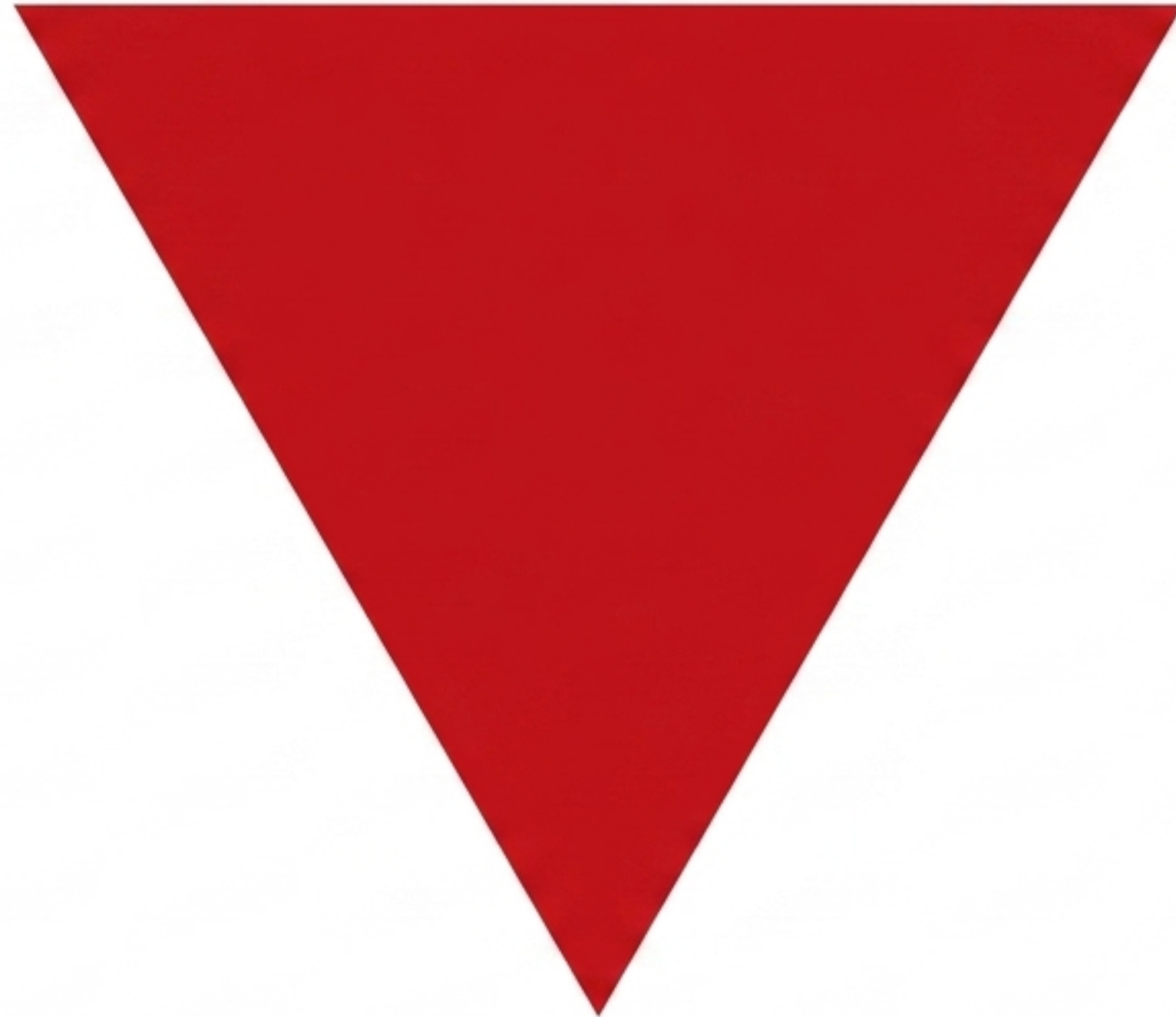


# The heavy toll must absorb capital on its own terms.

Almost nothing satisfies all three conditions.



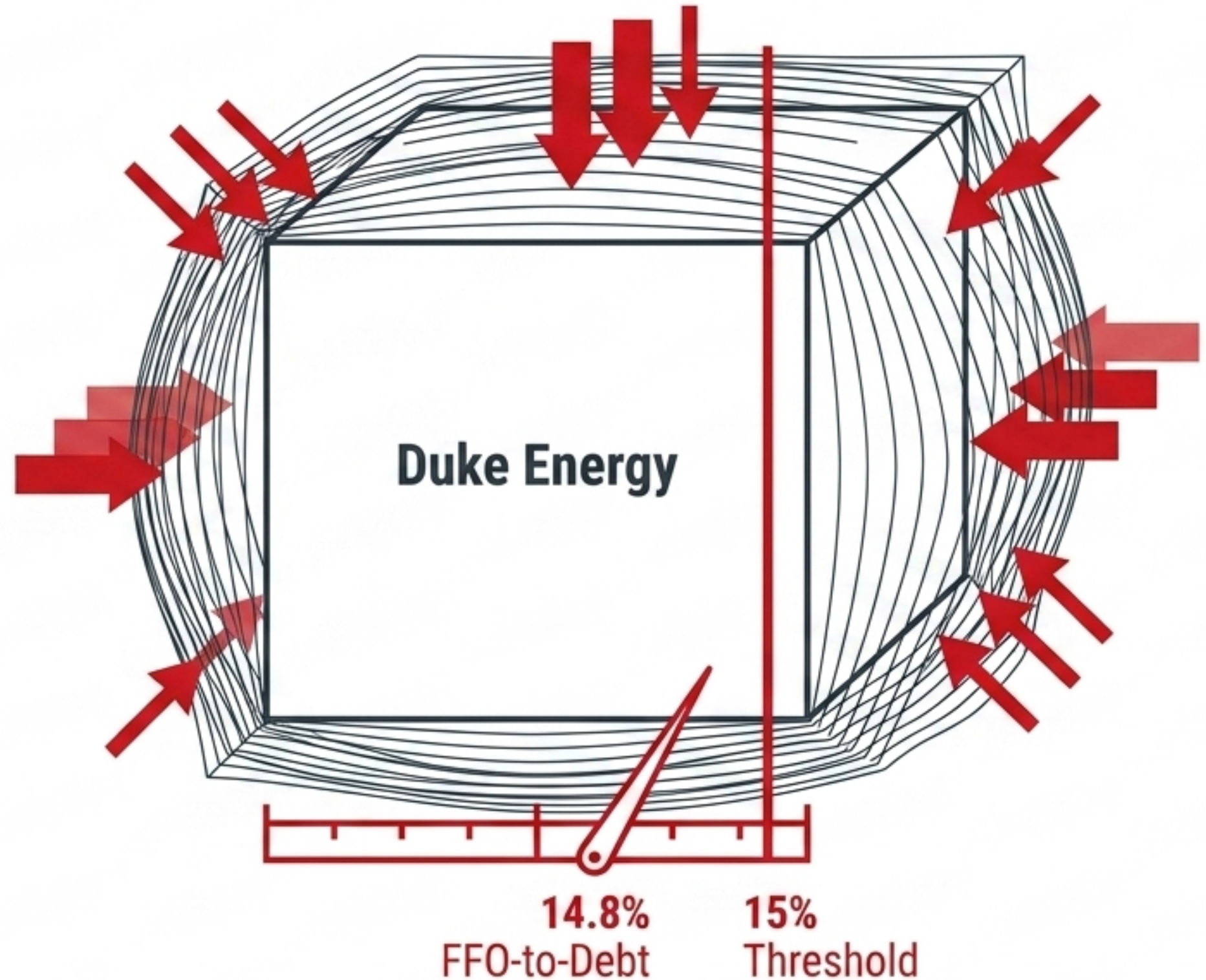
# Three ways to fail



# Duke Energy

The base expands, but the capital is borrowed.  
A business that absorbs so heavily that its solvency erodes is in a race.

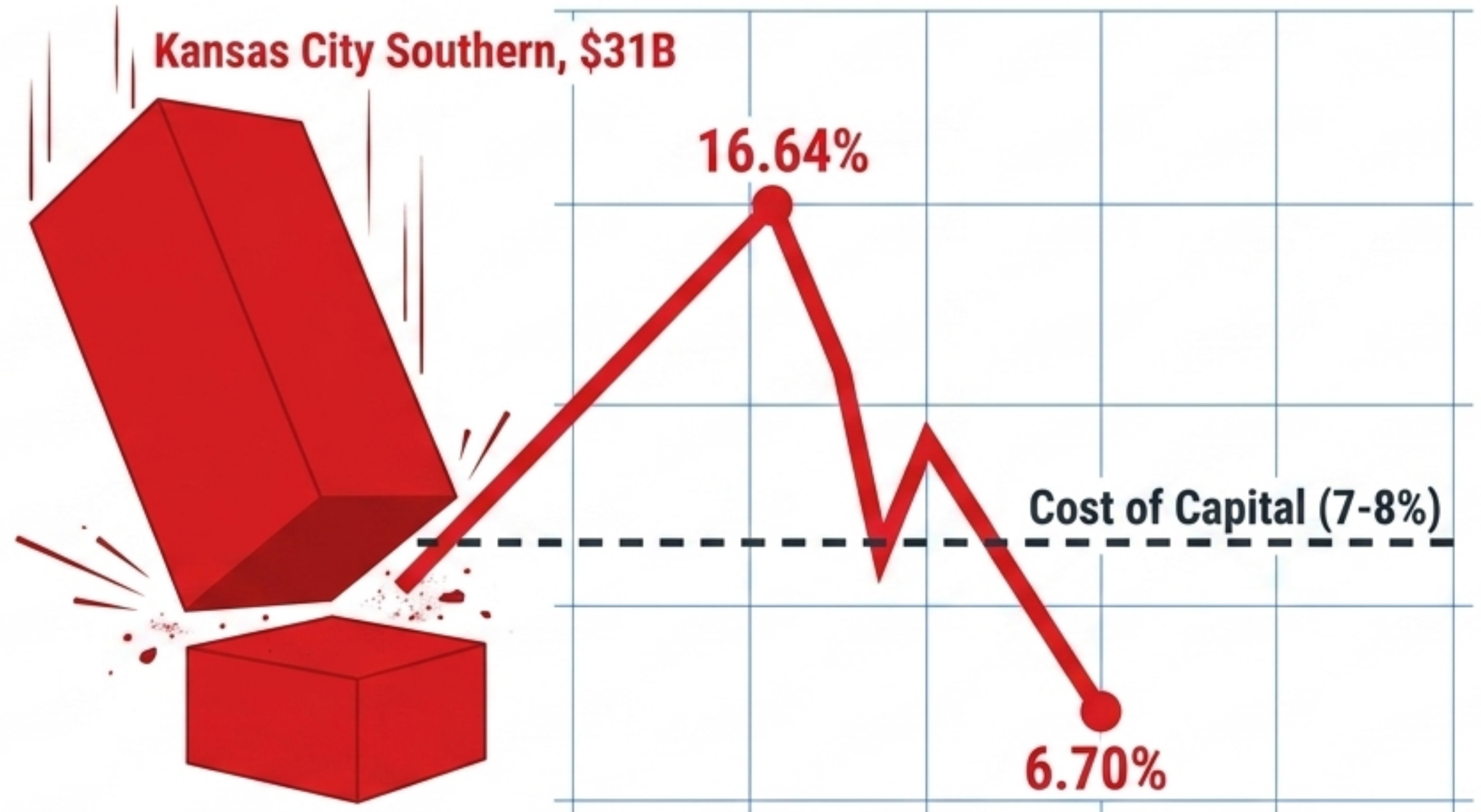
**-\$1.7B**



# Canadian Pacific Kansas City

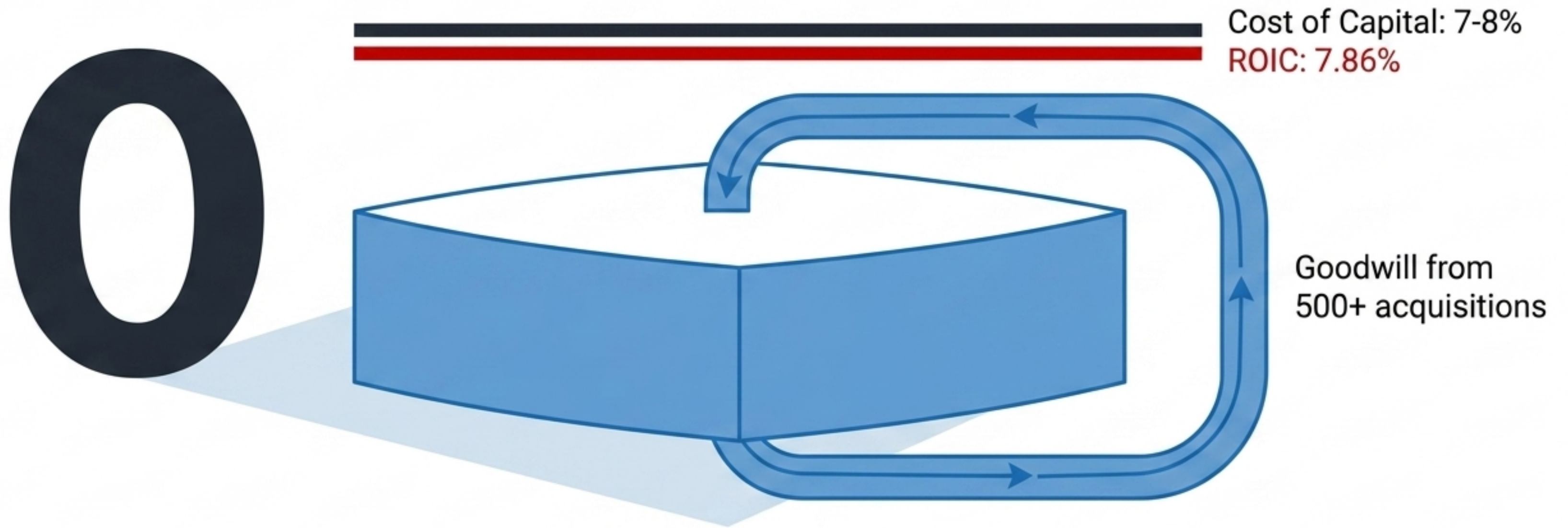
The base is bought at market price. Invested capital doubled via a 23% share dilution, and the return collapsed below cost.

6.70%

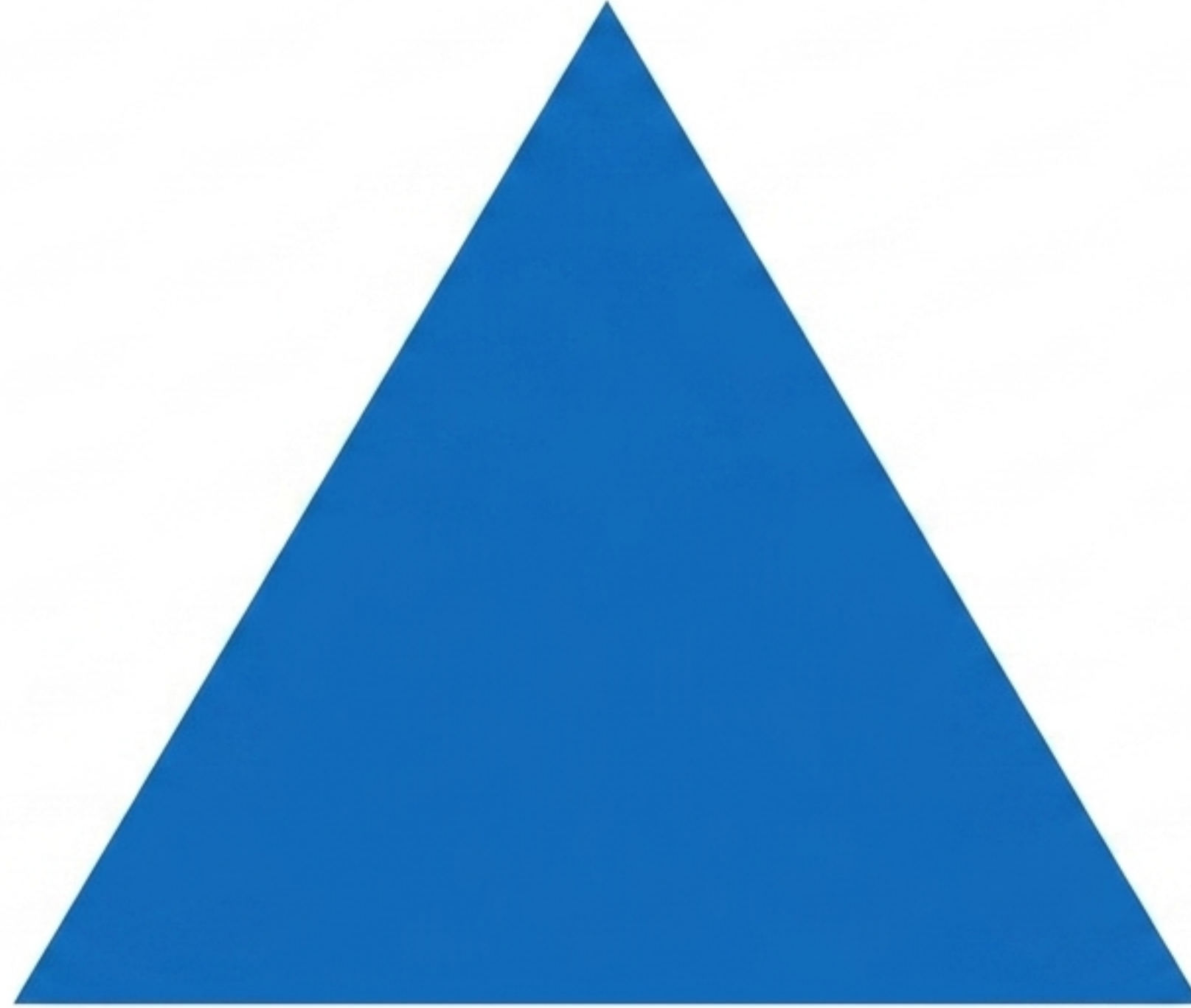


# Waste Connections

The capital is retained, but earns nothing above its cost.  
Irreplaceable landfills are monetized, not compounded.

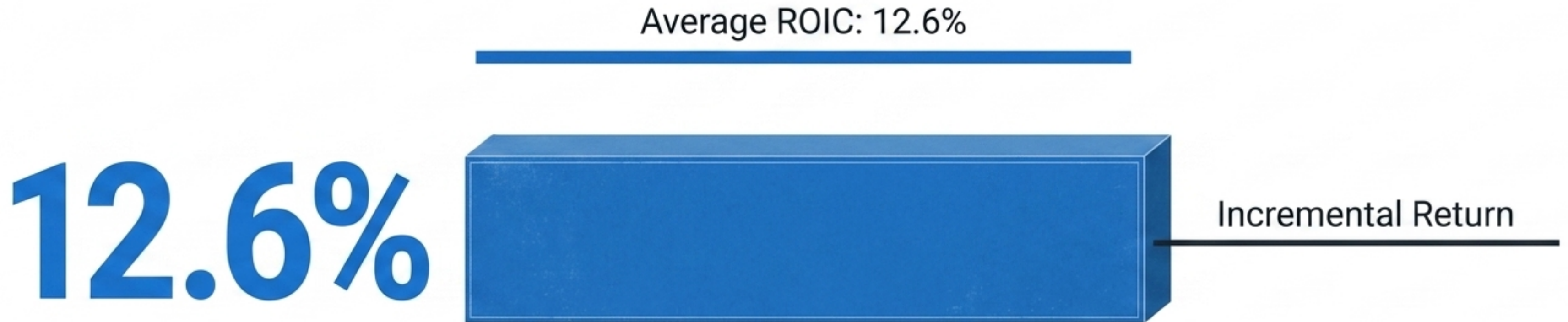


# Three ways to succeed.

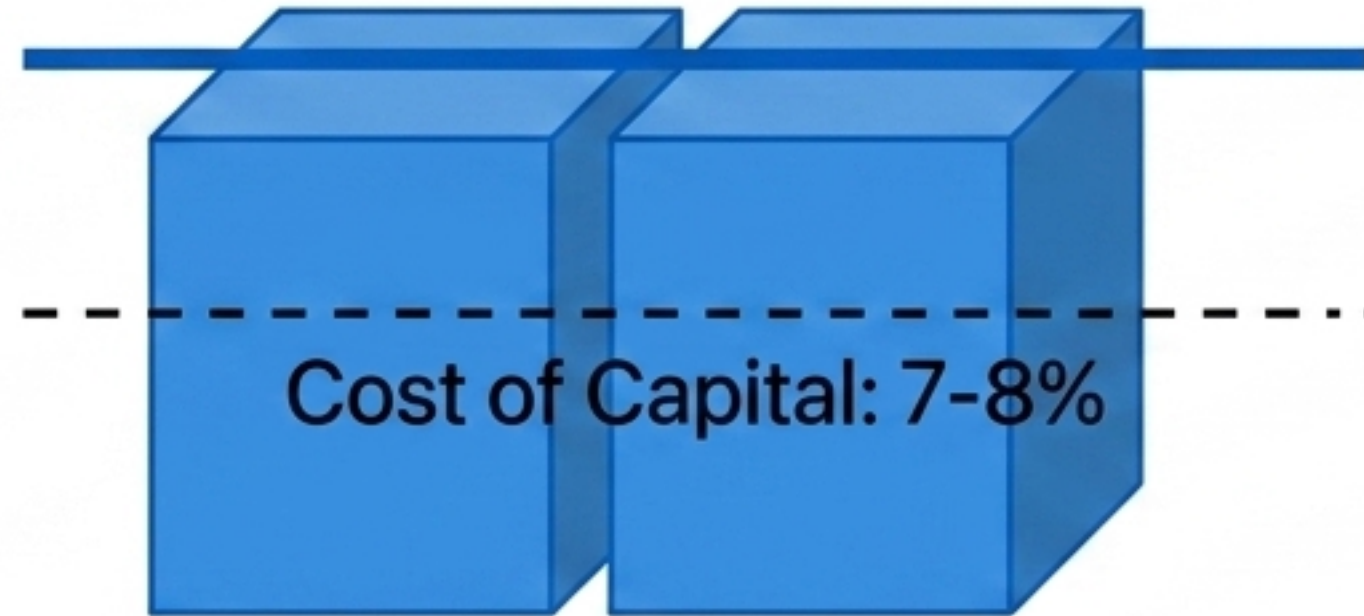


# Canadian National

The spread is real, but inherited. Average return remains high because the network was paid for a century ago. New capital adds nothing.



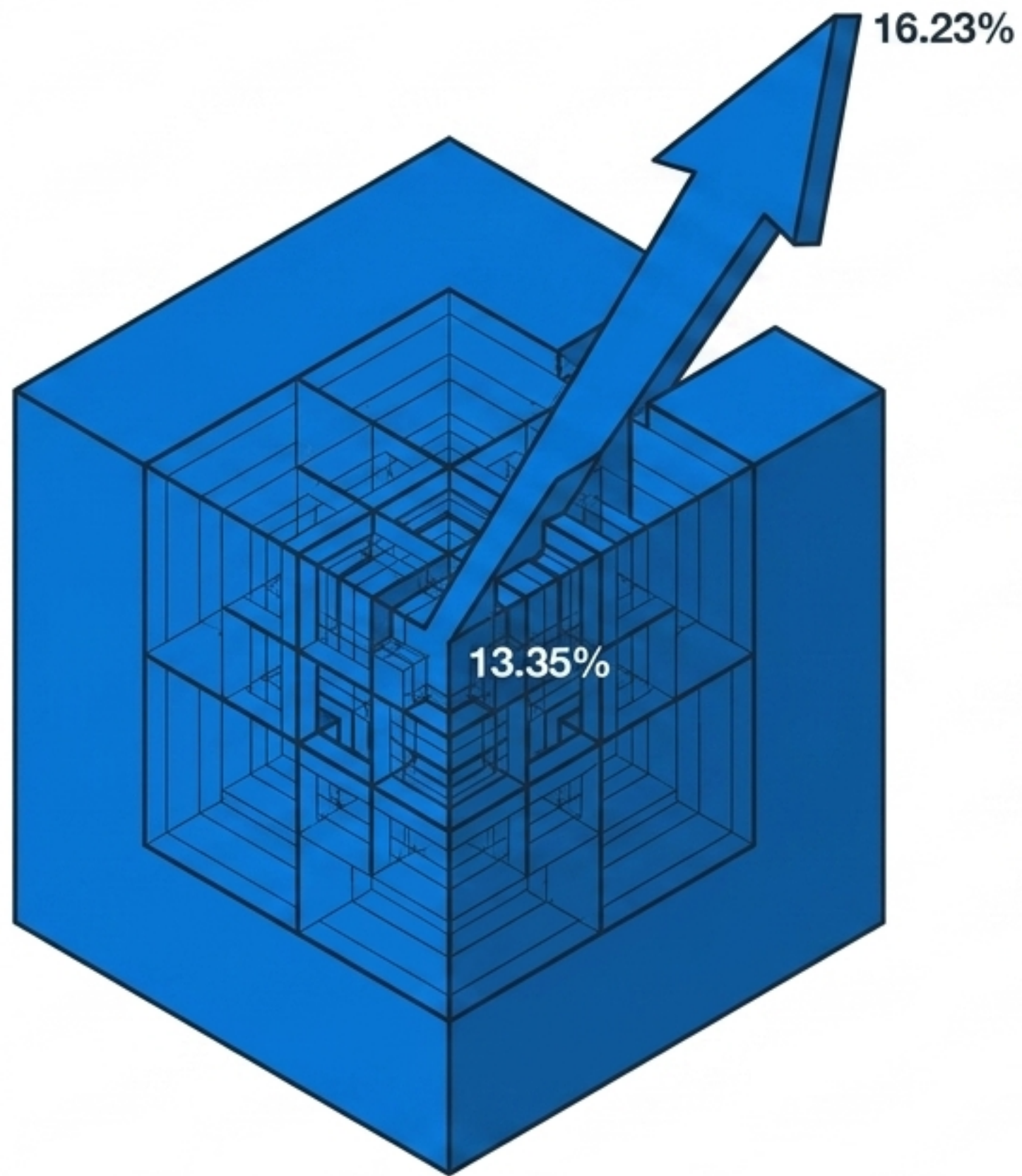
11.2%



## Linde

The base doubles. The rate holds above cost. The opportunity curve usually descends, making this preserved spread a rare achievement. Value created multiplies.

# 16.2%



## Union Pacific

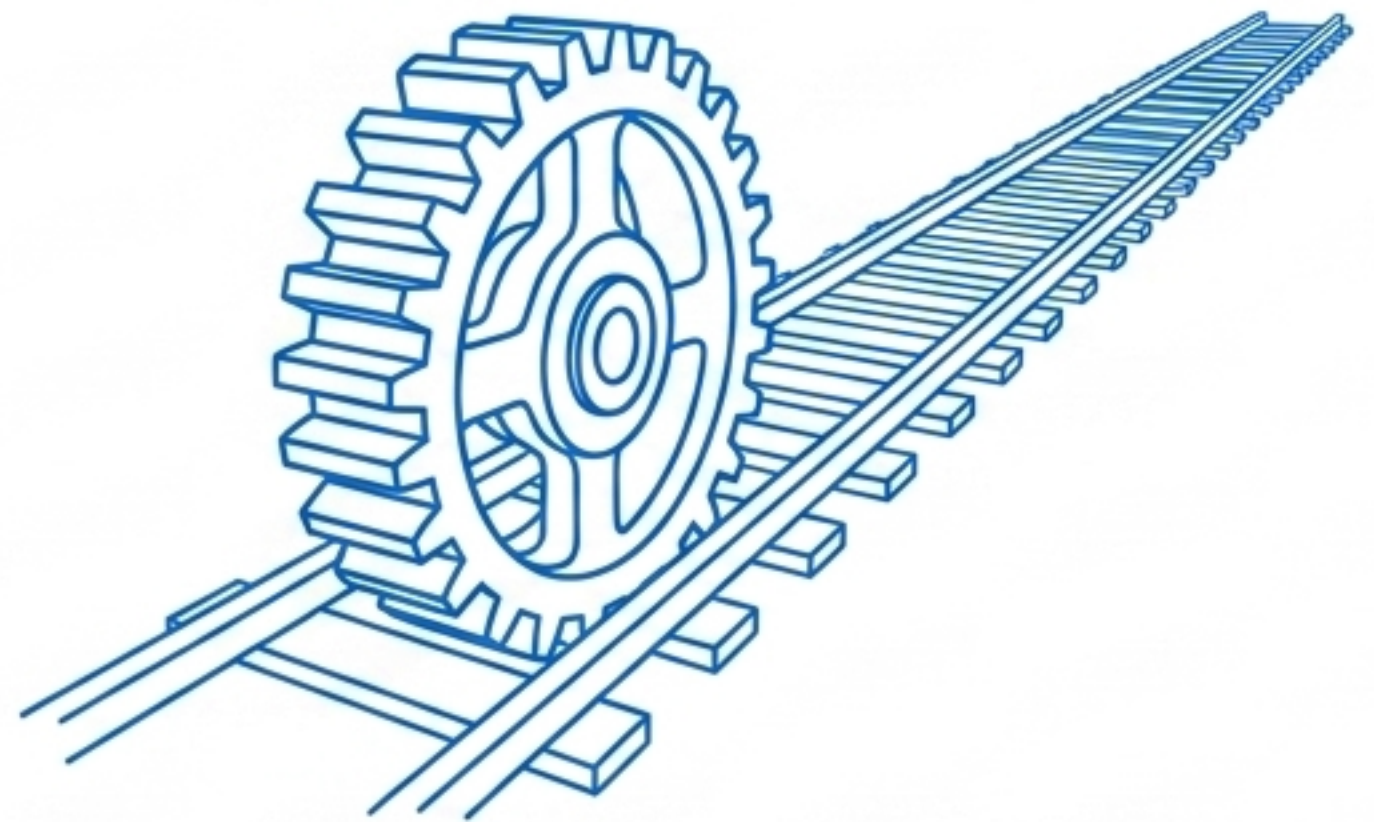
The base grows and the rate improves. The marginal dollar buys efficiency in an irreplaceable asset. Both engines run.

# You cannot buy the second engine.

A base purchased at market price earns the market's return. To achieve a rising rate, you must improve an unfinished asset you already own.



**Buying a base  
= Market return**



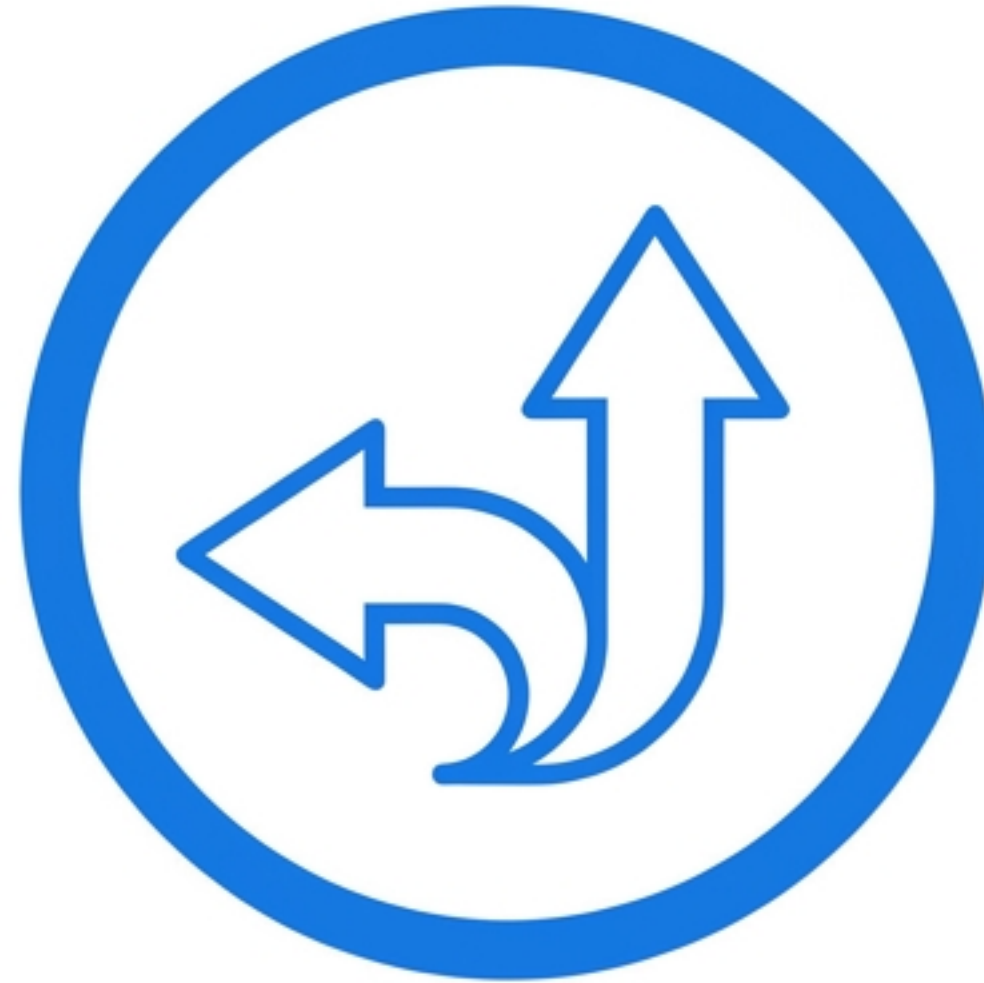
**Improving an unrepeatable  
base = Rising return**

# The hierarchy of absorption.

Three distinct regimes of capital, distinguished strictly by what happens to the rate as the base enlarges.

<b>Rate vs. Cost</b>	<b>Regime</b>	<b>Companies</b>
Rate < Cost	Absorption Destroys	CPKC, Waste Connections
Rate > Cost (Flat)	Absorption Compounds	Linde
Rate > Cost (Rising)	Both Engines Run	Union Pacific

**Absorption is the one thing a company cannot purchase.**



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