The Spectrum of Absorption.

How Cash Flow Ratios Measure Value.

Every business is a flow of capital between two reservoirs.

The Toll. Cash today. (Reservoir A).	The Growth. Cash tomorrow. (Reservoir B).

What separates a great business from a poor one is the direction the capital moves.

Does the toll fund the growth, or does the growth devour the toll?

Overflow.
Toll absorbs Growth. Value created.

Erosion.
Toll funds bad Growth. Value destroyed.

Depletion.
Growth devours Toll. Business drains.

The direction of absorption leaves fingerprints in the financial statements.

Four dials reveal the flow.

1

2

3

4

Free Cash Flow

Revenue

The Overflow.
What remains of the toll
after growth is funded.

Cash Flow Growth vs. Invested Capital Growth

The Trajectory. Is the overflow accelerating, or is the capital ballooning to maintain it?

Maintenance Capex

Growth Capex

The Tell. Are you keeping the toll alive, or buying your expansion dollar by dollar?

Return on Invested Capital

Cost of Capital

The Threshold. Does reinvestment create value, or destroy it with every cycle?

The dial is a trajectory, not a photograph.

A single snapshot can flatter a doomed business, or condemn a magnificent one.

The Moat.

The ratios place the needle. The structural barrier dictates whether it will stay there.

Step 1: Read the Flow (The Ratios).

Step 2: Read the Barrier (The Moat).

Measure what it is today.   what it is today.
Interrogate what it is becoming.

This content is educational and does not constitute investment advice.