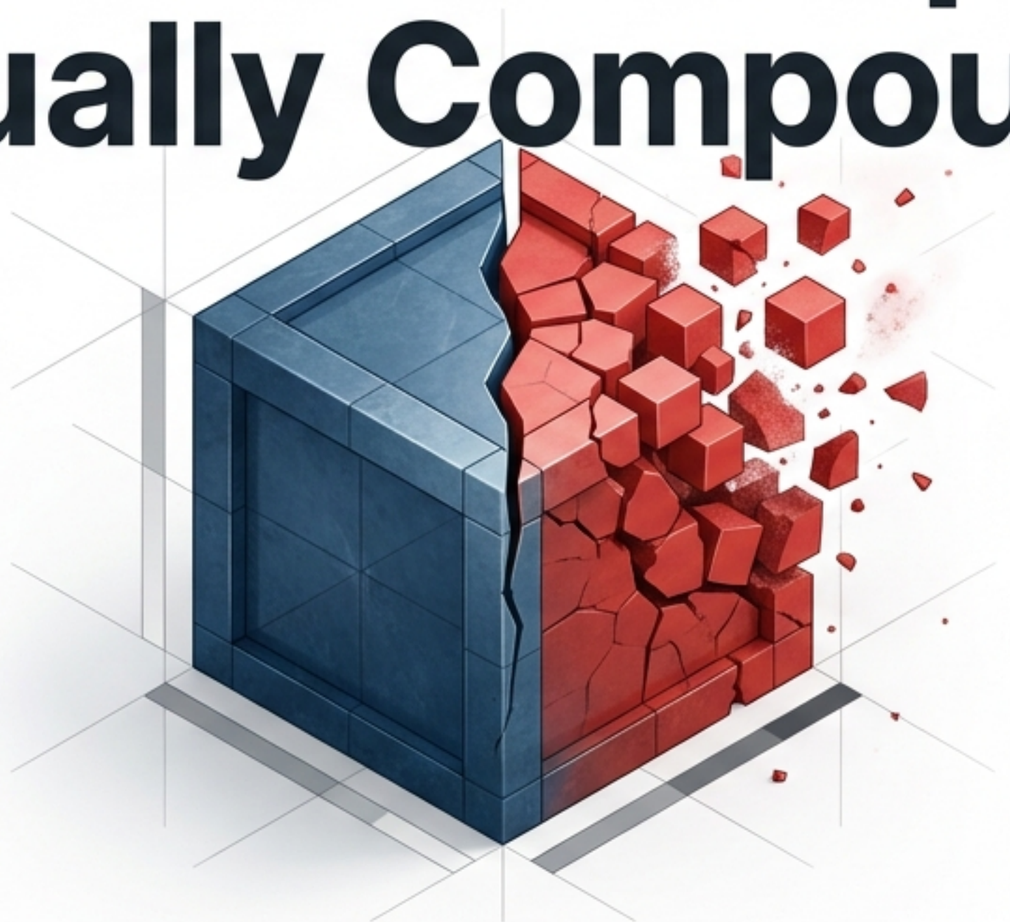
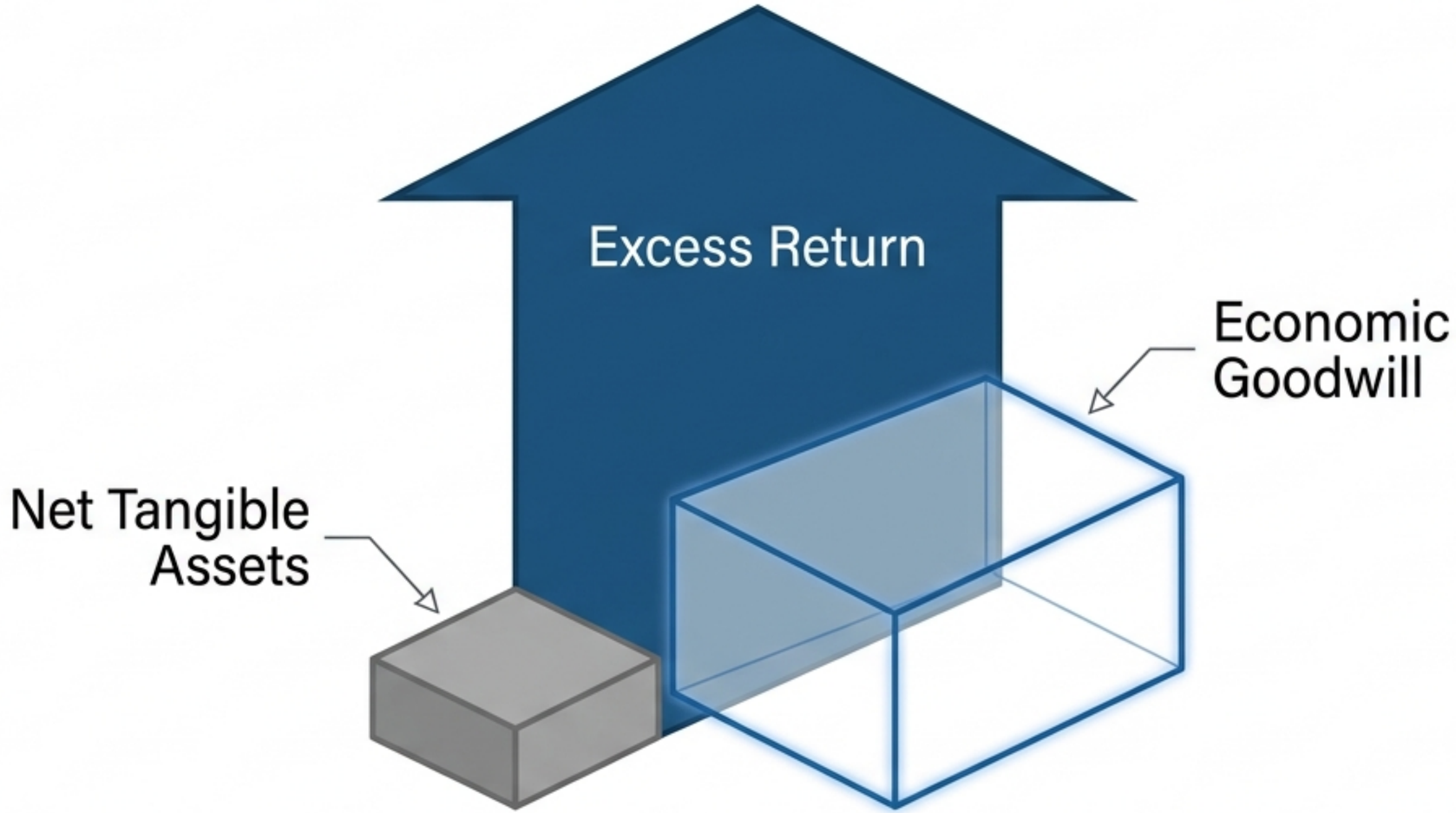
How Much of the Spending Actually Compounds



Searching for hidden capital, and finding the asset life cycle.

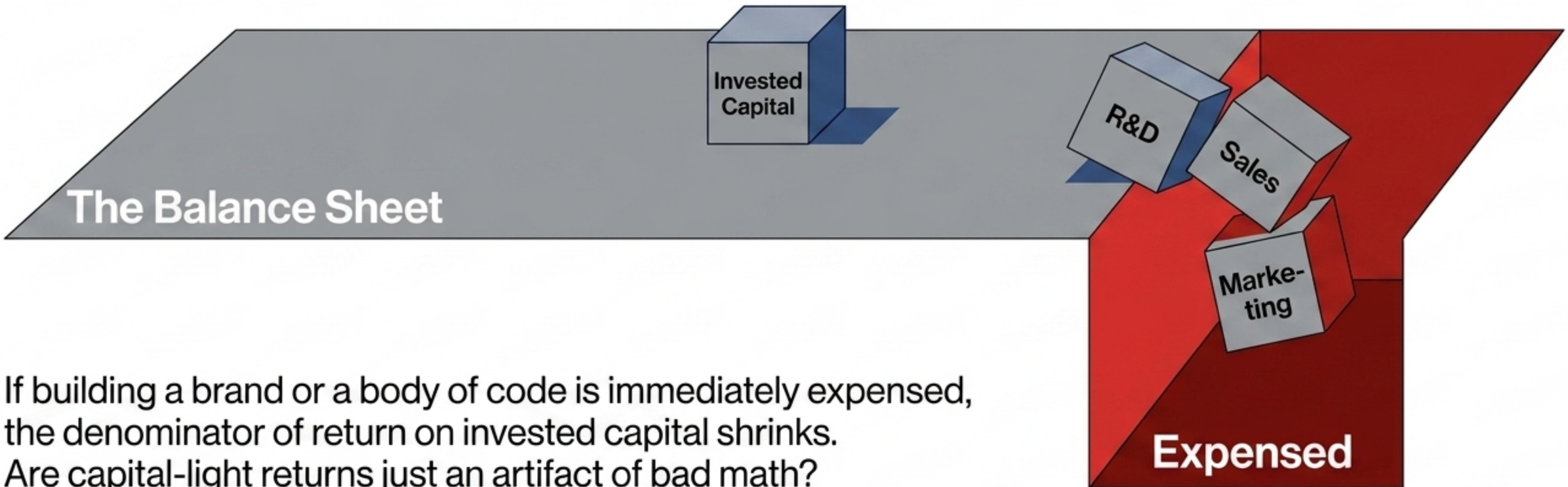
averagingup.com

High returns on tangible assets are a trace signal.



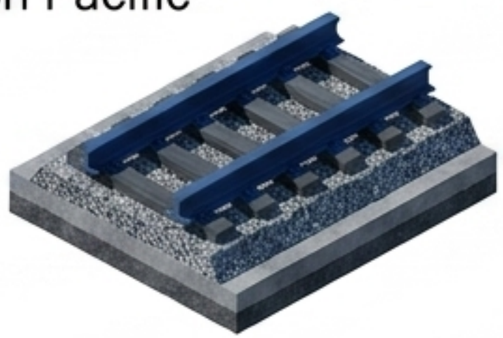
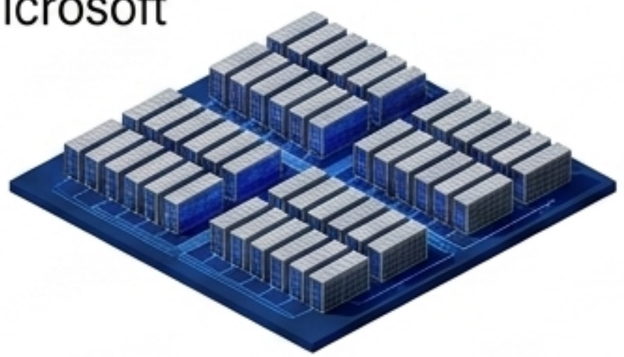
**A high return on capital doesn’t measure the intangible—
it proves the intangible is there and worth going to find.**

Thirty years of accounting debate asks if these returns are an illusion.

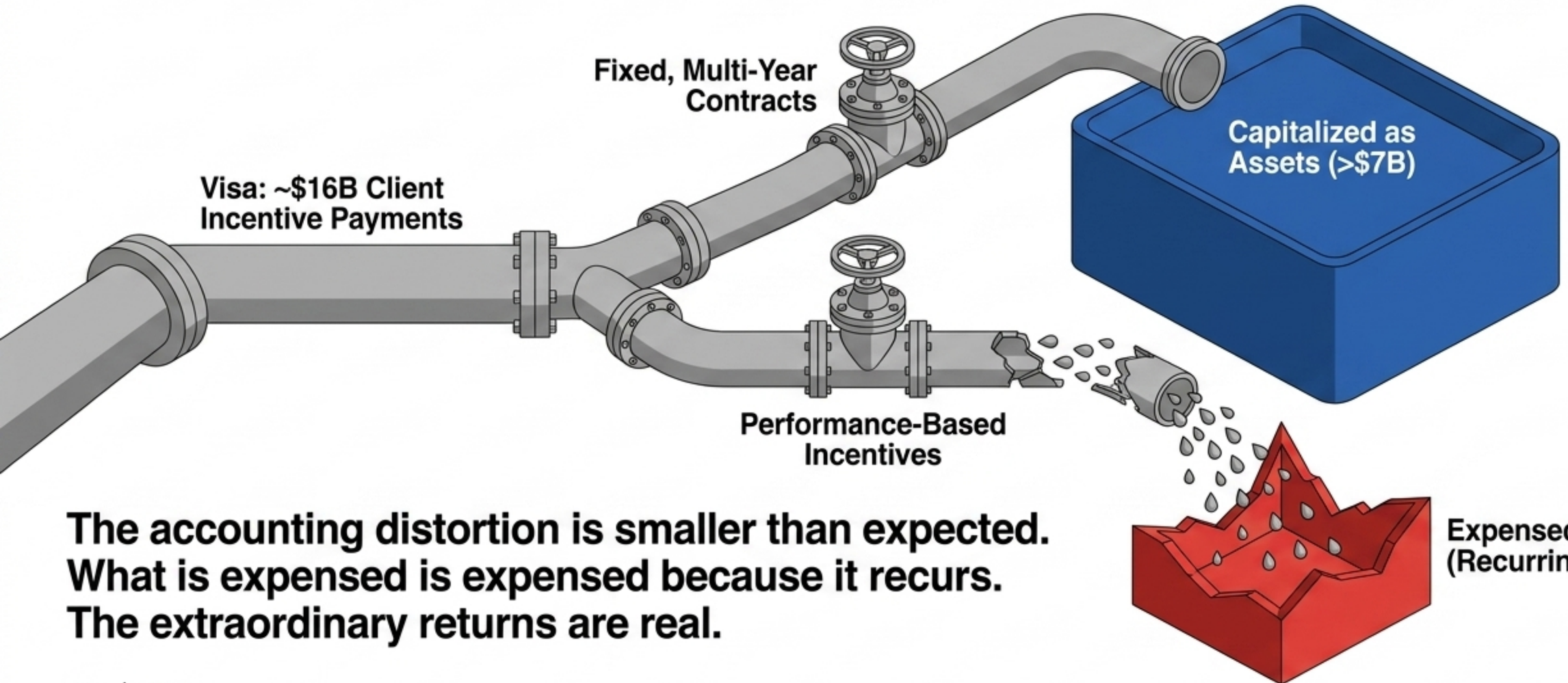


If building a brand or a body of code is immediately expensed, the denominator of return on invested capital shrinks. Are capital-light returns just an artifact of bad math?

Testing the architectures of six distinct companies.

Light Tolls	Heavy Tolls	Transitioning Tolls
Visa 	Linde 	Alphabet 
MSCI 	Union Pacific 	Microsoft 

Economically durable spending is largely captured on the balance sheet.



The accounting distortion is smaller than expected.
What is expensed is expensed because it recurs.
The extraordinary returns are real.

If the problem is not that we cannot see the capital...

...the problem is *what* the capital is.

The Capex Reality

	Capex / revenue	Capex / operating cash flow	Capex / depreciation	Life of the asset bought
Visa	3.7%	6.4%	1.21x	network already built
MSCI	4.1%	8.2%	n/m	software, index history
Linde	15.5%	50.8%	1.40x	**plants, 15–20 yrs under contract**
Union Pacific	15.5%	40.8%	1.54x	**corridor laid in 1862**
Alphabet	22.7%	55.5%	4.33x	**servers, six years**
Microsoft	34.9%	63.4%	3.01x	**servers, two to six years**

Fiscal years ending in 2025/2026. MSCI capex/depreciation not meaningful due to amortization reporting.

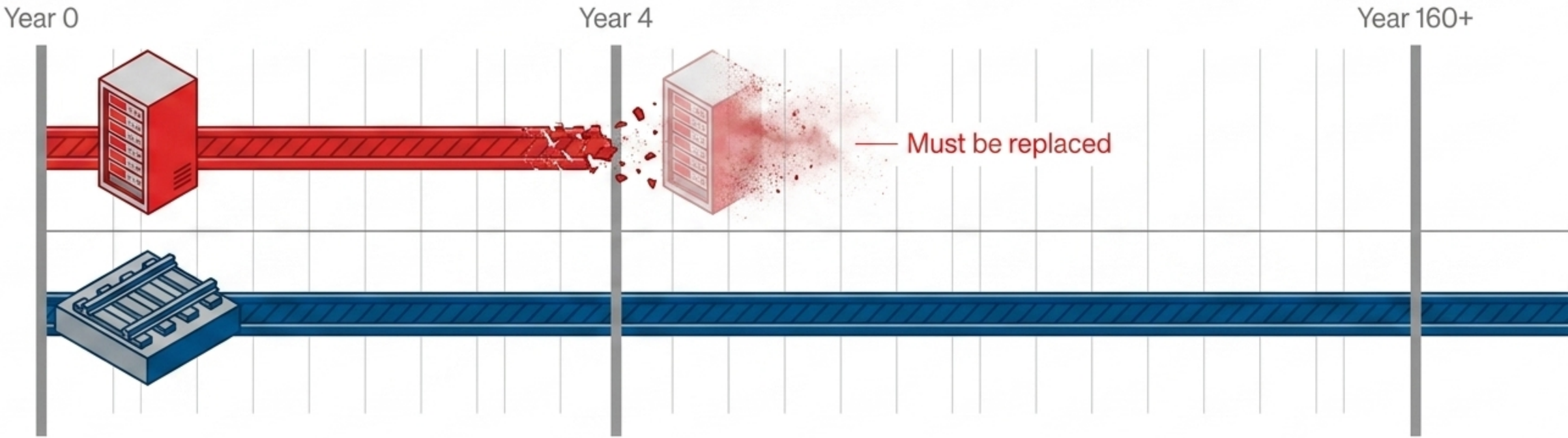
The asset-light archetypes have become highly capital-intensive.

Microsoft (Capex / Revenue)

Union Pacific (Capex / Revenue)

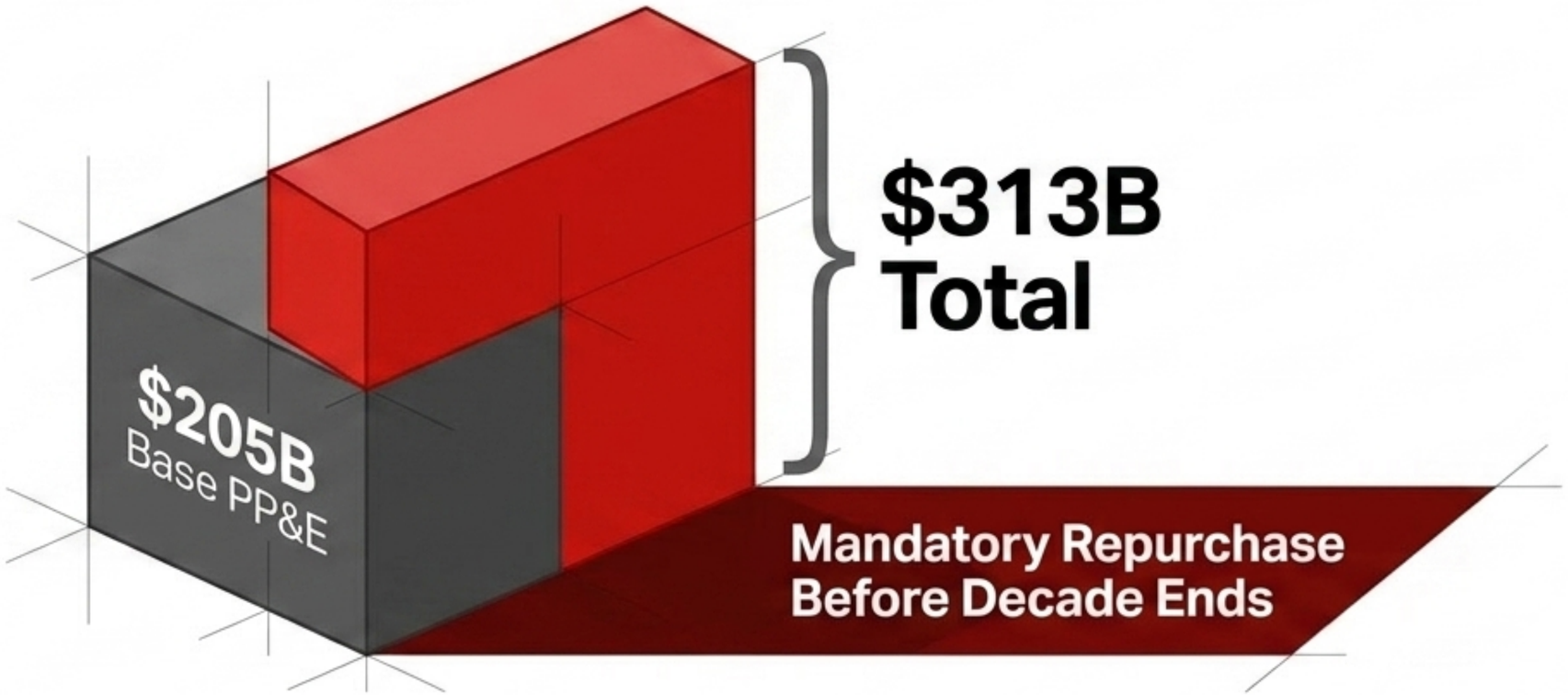
Microsoft and Alphabet now spend a higher percentage of revenue on physical equipment than an industrial gas manufacturer or a railroad.

A dollar of capital expenditure is not one thing.



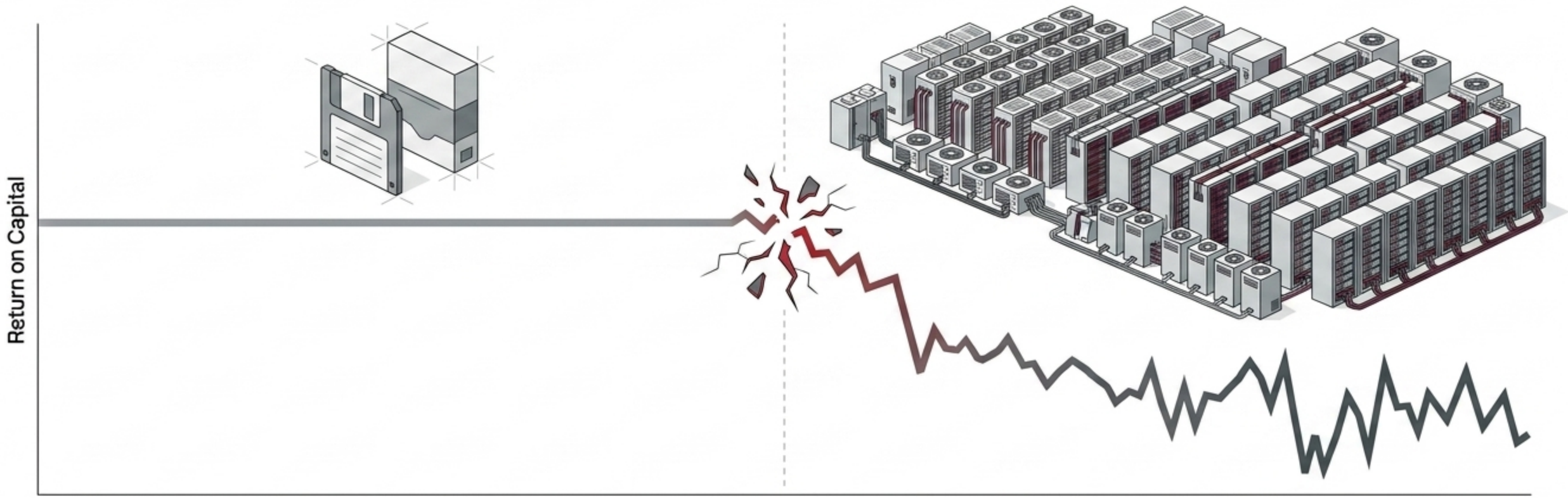
A rail corridor is bought once. A server is rented for six years and must be replaced.

Growth capital today dictates the maintenance obligations of tomorrow.



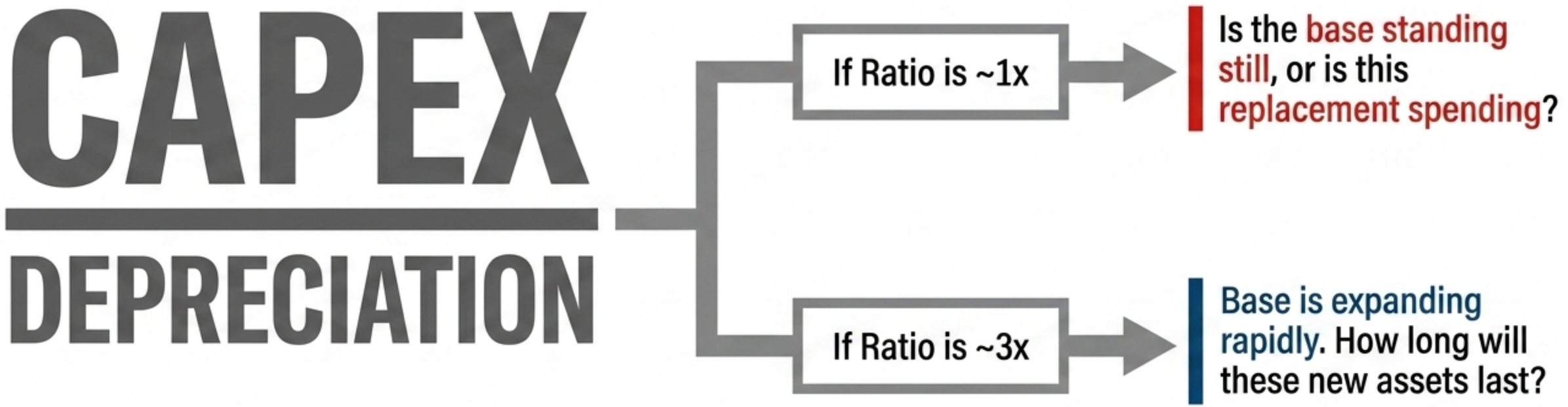
Because short-lived assets decay rapidly, the replacement obligation grows identically with the base.

The historical average has become a dangerous metric.



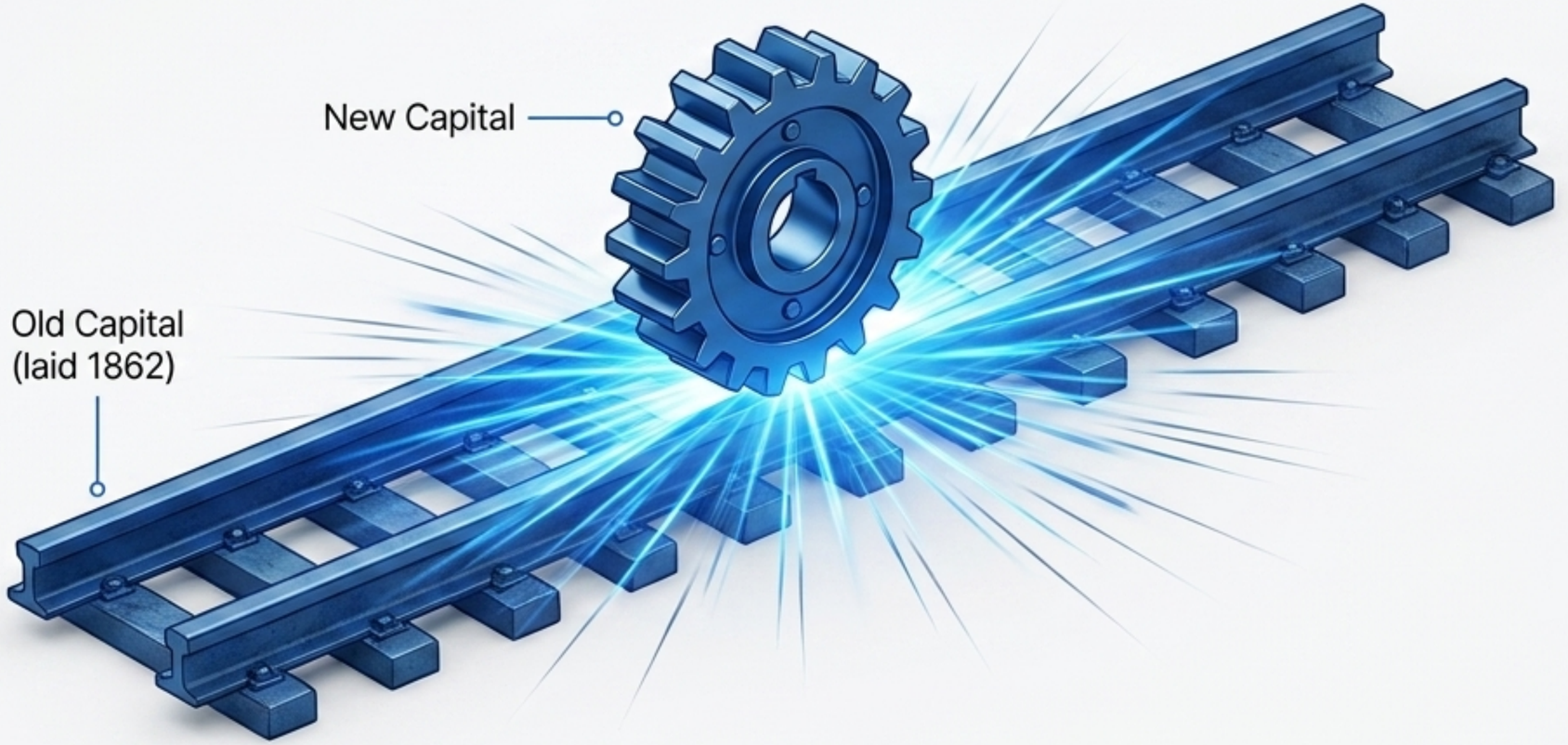
Microsoft’s reported historical ROC describes a software business with almost no physical base. That business is being replaced in real time by one with a $313 billion plant. The buyer today owns a new machine.

The ten-second diagnostic points to the right question in the footnotes.



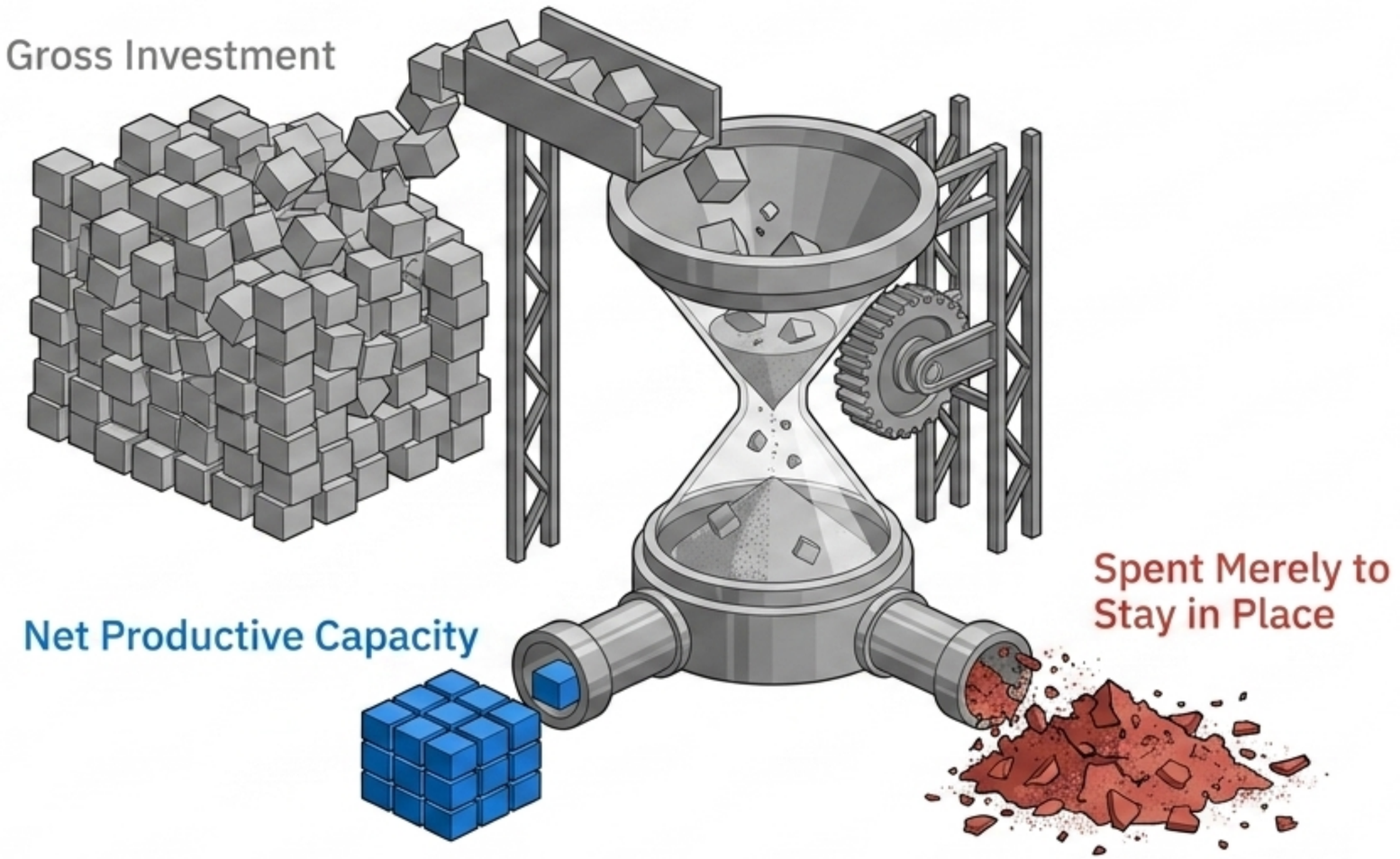
The ratio doesn't give the verdict; it tells you exactly what to look for in the useful life disclosures.

The anomaly: When new capital acts as a multiplier on old capital.



Union Pacific spent $3.8B (mostly on replacement) on flat volume. Yet velocity rose 8% and EPS grew 8%. Hypothesis: New capital was deployed not to expand the base, but to multiply the return on the existing base.

Capacity is what remains after the capital has aged.



A business earning massive returns on light tangible capital requires an unseen intangible. A business requiring massive tangible capital must be judged by how often that capital must be rebuilt to keep earning.

Disclaimer

This presentation is for educational and informational purposes only. It reflects a personal analytical framework regarding corporate capital expenditure and asset lifecycles. It does not constitute investment advice, an endorsement of any security, or a recomendation to buy or sell any financial instrument.