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Reflection on Inflection: Integrating The Value of AI

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Investment in artificial intelligence is evolving into a new orthodoxy. The so called “AI Race” – the dash by firms to invest in hard and software together with the data centers to host it – has now turned into an “AI Inflection Point”. How do firms justify their ongoing investments in AI? At what point will investment evolve into tangible economic returns? Perhaps more pressingly, will surpluses in value be realised before being consumed by the falling value of capital investments as fast-moving digitalisation accelerates the pace of technology-related write-downs?

These were precisely the questions facing Amazon’s CEO Andy Jassy recently when the tech giant announced it was increasing its capex programme from \$130bn in 2025 to a massive \$200bn in 2026. The numbers are staggering. Amazon’s investment is equivalent to the entire market capitalisation of AstraZeneca or what the UK spends annually on the NHS.

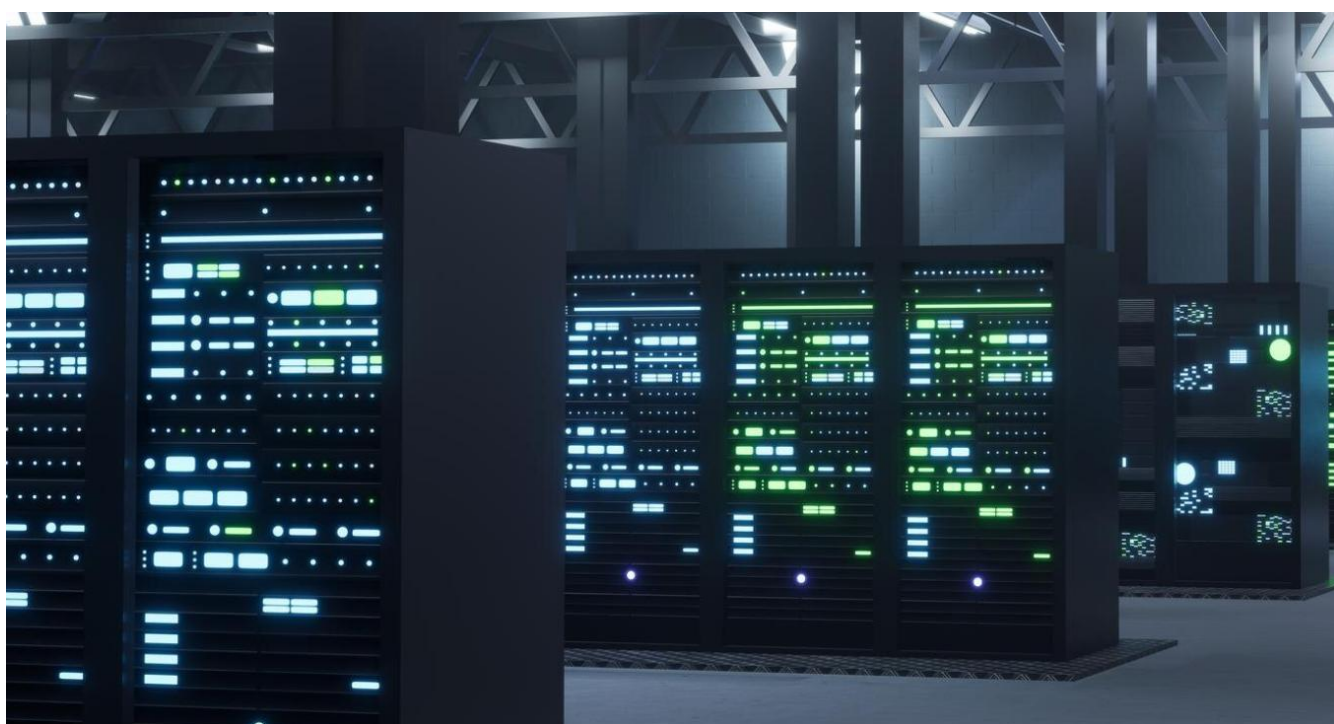
Much of this spend on computer infrastructure has a four-to-five-year life making it less a one-off investment than a recurring cost of staying competitive. Spread over that period, it implies \$40bn a year of incremental depreciation flowing through the P&L.

And here comes the inflection point.

With Amazon’s net income of roughly \$80bn, depreciation could ultimately consume half of today’s earnings. Given Amazon trades on a typical ~40x P/E, on a post-depreciation earnings base the multiple would look closer to ~80x P/E, unless revenues and margins expand, materially.

At an equivalent 40x multiple in five years’ time, Amazon would need to at least double post-depreciation earnings merely to justify today’s share price. The inflection point turns not just on achieving growth but realising a decisive expansion in margins from an already capital-intensive base. Amazon has a long and established track record of delivering stellar returns. Unlocking substantial value on investment at this industrial scale, however, seems a stretch.

How confident are you in your anticipated AI-related returns? Do you have a line of sight through to potential AI investments to release additional future value? How robust is the evidence on which you make your AI-related investment decisions? Will you be a market leader in utilising the power of AI-enabled investment, thereby rendering your data an asset as opposed to an expense?



Integrated Value: A New Orthodoxy



Executives, accountants, auditors and AI pioneers are currently transfixed by the challenge of fitting the complexity of firms' value chains into mathematics. Anthropic's Claude Code secured a valuation of \$1bn in just six months owing to its capacity to scale and conduct the reflexive judgement – or symbolic work – of knowledge workers.

Opinion appears to oscillate between the triumph of mathematics over business complexity to the failure of quantum computing to scale anything beyond the perfunctory. The intersection where debates over the math, the hardware and software, not to mention the energy to run it all, converge is generating a lot of insecurity as markets swing between confidence – demonstrated by AI pioneers – to doubts – caused by the challenges of accountants and auditors.

Navigating these challenges requires strategic phronesis: the capability of executives to understand and navigate how digitalisation is

reframing global competition and their firm's response. This turns on two further strategic challenges.

First, firms require granularity in the data relating to their strategic resources or 'capitals'. Scrutiny is widening from the capital structure of firms to include their relative access to "structural capitals". Defined by International Financial Reporting Standards (IFRS), these capitals extend beyond conventional financial capital to include natural capital (minerals), manufactured capital (products), and then the big three: human (skills) and social capital (relations) pulled together by intellectual capital (IP).

Second, executives will be judged by their capacity to achieve strategic optimisation: getting the right capitals in the right place, at the right time, for the right price to maximise returns. AI is front and centre of this value integration process.



\$2.52 trillion is the projected global AI spend in 2026, representing a 44% increase over the previous year. (Gartner)

Which brings us neatly to the challenges being laid down by the accounting and audit sectors.

The Inflection Point represents a significant challenge to the accounting and audit industry as it confronts an emerging new asset class attracting significant investment. Gartner estimates spending on AI will reach \$2.52 trillion in 2026, a 44% year-over-year increase. Investors are worried executives are simply blowing cash straight through their P&Ls without any value –manufactured or intellectual capital – to show for it.

The speed of technological development, most notably in the hardware used to handle the massive amounts of data AI craves, and the advent of new software versions retiring previous iterations before they have a chance to realise breakeven, has turned up the heat on securing integrated value. The executive

response has been to turn to their accountants in a bid to capitalise as opposed to expensing AI-related investments.

The Inflection Point comes at the intersection between the depreciating total value of AI assets and the value released by the business activities they support. The sooner the inflection point is reached, the greater the subsequent returns and underlying value of AI assets built. The later the inflection point, the greater the costs of capital, exacerbated by falling AI asset values.

Quick inflection point realisation generates surplus value; delayed realisation not only destroys shareholder value but leaves you further behind the competition as your relative (lower) margin and (slower) speed hurts you. This partly explains the AI Arms Race. Nobody wants to risk being left behind.

Know thyself: Unlocking the Integrated Value of AI

The advent of AI is transforming the potential of data. How well firms map, understand, and ultimately integrate their data, has been a challenge since the meteoric rise of analytics over two decades ago. The potential of combining AI and enterprise-wide data offers an opportunity to discover, unlock and drive value chains residing in the depths of firms' activities.

The scaling opportunities of these intangible "architectures of value" have evaded executives due to an inability to develop the maturity of

their data-capturing capabilities. Data does not come down to us from on high in perfectly formed data stacks. It requires arduous mining which attracts significant cost.

In some ways AI has significantly reduced these costs – in theory. AI requires significant up-front and on-going capital investment to release its integrative potential. It has also significantly reduced the speed-to-value of data – again, in theory. Firms are still attempting to scale the Data Capital Maturity curve (see Fig. 1).

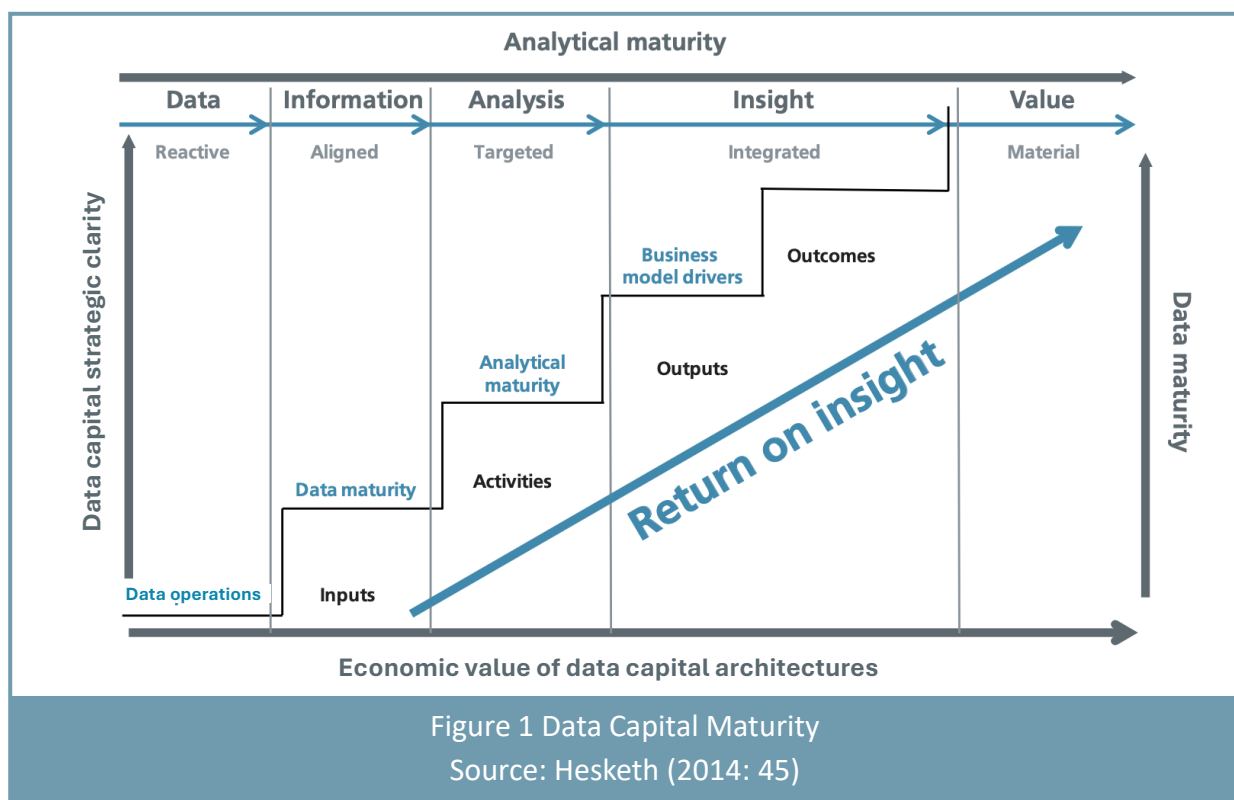


Figure 1 Data Capital Maturity
Source: Hesketh (2014: 45)

The primary challenge in unlocking more value from data lies in understanding how a granular evidence-base enables the subsequent integration of the strategic resources of the firm. Building the "data capital" of a firm requires evolution from baseline data relating to inputs, into Information regarding activities (what an organization does with its capitals). These activities generate outputs which we can then be subjected to further interrogation ensuring resources align operational slickness with strategic intent.

Two further things happen at this stage.

First architectures of value are surfaced, effectively revealing the vapour trails of previously unknown pockets of value in the myriad combinations AI reveals. Second, in surfacing relative performance traction, firms can place their efforts into resources where greatest future value lies by establishing a line of sight between their maturing data capital and value. This financially material return on insight catapults integrated value and its supporting data into investor grade territory.

Data assets: intangible or invisible?

Data and analytical maturity are separate but converging opportunities triggered by AI. Developments in underlying AI techniques have enabled raw data to be transformed into data intelligence with subsequent monetization opportunities. With these additional revenues and margin-enhancing capabilities comes the possibility to explore the recognition of data, or “data capital” as an asset as opposed to a cost.

This is not a mere conceptual exercise. Significant investment is being undertaken by firms exposing shareholder value to the future value of anticipated future cashflows anticipated to directly result from AI-related investments. Firms with proven material insight, investment and subsequent realization of additional returns from integrated value will secure even further advantages as the market rewards their integration of data with value.

It remains unresolved which approach is best suited to valuing data with economists and accountants adopting different views. Economists prefer methods ranging from the individual value of a firm; individual consumer valuations based on surveys establishing willingness to pay; or the economic cost of purchasing data. Alternatively, accountants consider valuation alternatives ranging from the

replacement cost of data, market valuations, or income methodologies.

Each methodology has its merits, and drawbacks. Whichever is adopted, key is the robustness of data. Financial regulators are sensitive to the limitations relating to the reporting of intangible data and its capacity to distort the valuation of firms. One solution is to ensure all data making the grade “data capital” meet a strict criteria relating to “urtext” data points. A German word for original source instantly recognisable to classical musicians, urtext involves stripping away the sediment of distorting edits and performance practices across hundreds of years and returning to the original score of the composer.

Like historically informed classical musicians rediscovering the original intentions of composers, the aim is to clear away the data proxies, or what economists label ‘stylised facts’ or psychologists relegate to ‘plastic data’ and what accountants simply reject as gobbledegook. These can be replaced by real or ‘authentic’ quantum data points pertaining to actually existing entities revealing the value released by the optimal integration of enterprise activities.

