The TIP Business Model and 2020 in Numbers

Below I included an overview of our revenue from 2020. The first thing that you might note is that you don't see the costs. The main expenses for TIP are salaries, and with my limited knowledge it's often something that many Filipinos do not feel comfortable sharing with their co-workers. If I were to disclose the costs for each business unit it would be very easy to tell how much each person on the team is making. That being said everyone is more than welcome to ask everyone on the team about how their contract details.

CASH FLOW BREAKDOWN - 2020		
Cash Flow Type	**Category**	**Amount**
Revenue	Course Payments	$166,358.04
Revenue	TIP Finance	$118,464.36
Revenue	Advertising	$495,809.01
Revenue	Affiliate	$180.00
Revenue	Merchandise	$10,050.93
Revenue	Paid Guests	$86,127.00
Revenue	GI	$1,114.34
Revenue	Book Royalties	$46,776.94

What I can say is that we have a profit before tax margin of 71%. Of the 29% cost between 60-75% are expenses to the team in salaries. The reason for the range is due to how you measure it. For example, we work with many different providers and it's typically not reflected as a salary in our statements, but as a "service."

One example is Art19 hosting which cost $1,500 per month in 2020 and will cost even more in 2021. The hosting is a big component of the service, but TIP has many requests that are labor-intensive on their end that we're indirectly paying for. Another example is that we have costs for our freelancer Bernice, and from Rev.com (doing transcripts), one is accounted for as salary and the other a service. Aside from salaries, we also have other digital services like a dedicated server, software, data for TIP Finance and similar.

The high profit before tax margin has different implications for TIP. For one it ensures a high degree of stability and consistency. We can take significant blows to our revenue and we would still be able to operate as if it didn't happen. The high profit before tax margin is also typical for a scalable tech company. Examples such as Google, Facebook, and Apple come to mind (though TIP's margins are significantly higher). Like TIP they are companies that can scale their services with very low marginal costs. For instance, it doesn't cost Google twice as much money to have twice as many users spending money on Adwords. Similarly, we do not incur twice the expenses when we get twice as many listeners on our podcasts – but we close to double our revenue.

On a related note I also want to stress that TIP has never borrowed any money, nor do we intend that to ever happen. Our conservative financing allows for TIP to be in full control at all times, and never rely on the kindness of strangers.

Looking Back at Each Business Unit 2020 and Our Expectations for 2021

In section I'll go through each of the five most profitable business units and comment on the performance in 2020 and the expectations for 2021. I've ranked them from least to the most revenue-generating business unit.

- **Book Sales (5%).** To the best of my knowledge we haven't promoted our books on the podcast since 2016. Amazon is the primary channel, and the Warren Buffett Accounting Book accounts for approximately 80% of our book revenue. It's also worth mentioning that since 2016 we've experienced stable book sales and not the decline that we expected to happen. The Warren Buffett Accounting Book has been translated to Traditional Chinese, Thai, and Korean, and is also sold to a few colleges in the US.

We don't plan on promoting the books more in 2021 than what we have in recent years. It might seem a little odd why we wouldn't like to promote books more given the relative success. It all comes down to focus and how to prioritize. If we want the listener to buy the advertisers' products, subscribe to TIP Finance, buy our courses, and buy our books (aside from many other things) we might risk that they do not do any of the above. In business and in life success often does not come from implementing new ideas but letting go of the old.

- **Paid Guests (9%).** TIP has had surprising success bringing on paid guests. It's currently also the most important source of revenue from GI. It will likely continue to be very important for GI in 2021, however for WSB, paid guests will likely be of less importance in 2021 than in 2020. We've experienced that we get significantly fewer downloads for those episodes, and what we might gain for paid guests we lose in advertising revenue. Given the size of WSB we approximately make as much money from one 60 second ad spot as we do from a paid guest (typically around $10-12,000). Therefore, when you also consider that we have four ad spots per week across all our episodes, and all the transaction costs setting a paid interview up, it's likely not worth our time unless we have a very warm lead with a minimum of sales work. For those reasons I wouldn't be surprised if paid guests would be a less profitable business unit in 2021for WSB in particular.

- **TIP Finance (13%).** The success of TIP Finance has been a pleasant surprise in 2020. We caught a lucky break as we launched TIP Finance just as the world's financial markets crashed, and the momentum tool that Alvin created predicted the crash. This attracted a lot of subscribers to the product. Since then we have in recent months seen a slow decline in the number of subscribers (we're around 270 at the moment).

  Recently TIP has been lucky to team up with Justin, who joined Alvin in working on TIP Finance. Starting in Q1 Trey and I will once a quarter have a segment on WSB about TIP Finance and how we use it. If successful we might consider promoting TIP Finance more often. As previously announced, Robert is starting full time with TIP on February 1st. The plan is to create two videos on a stock of his choice every month, where he shows how he has used TIP Finance to estimate the intrinsic value. The videos will be published on YouTube, our website, and sent out to our newsletter subscribers. For those reasons we wouldn't be surprised if we get more than 400 active subscribers in total in 2021.

- **Course Payments (18%).** When I met Bianca in 2016 one of her main tasks was to help us create the Intrinsic Value Course. We had a flying start and we made $25,000 in the first month of the launch and more than $20,000 in the following month. Since then course sales have not surprisingly dropped. I expect this to continue for not only the Intrinsic Value Course, but also the ETF course and The Intelligent Investor Course. The obvious question is whether we should create new courses. Preston and I do not have any plans to do so for the time being. We feel we have said what needs to be said about stocks (and we don't want to create a course about bitcoin), and most importantly we feel we can spend our time better doing other things. Preston to host "Bitcoin Fundamentals" that drives advertising revenue, and in my case, to run TIP together with Bianca and set up new projects.

  Robert and GI are currently working on a real estate course and the goal is to achieve at least $100,000 in course sales in 2021. Robert's goal is to have all the material completed by mid-January and give Kristine a handoff doing the creatives. Keep in mind that for accounting purposes GI is not included in "Course Payments" but has a single line under "GI" that includes all streams of revenue and costs for the business unit.

- **Advertising (54%).** We expect the share of revenue to continue to climb in 2021. Understanding the business model of adverting is very simple and can be explained by the simple equation: Impressions in thousands * the number of spots * revenue per thousands of impressions (called CPM). Using a simple example for 2020 the revenue for one week would typically look like this: 130 thousand impressions * 4 spots * $20 revenue = $10,400. We sold fewer impressions at the start of the year and more impressions by the end due to the growth of WSB.

  2021 will be a game-changer when it comes to advertising. Due to shifts in the podcasting industry it's now possible not only to sell new episodes, but all episodes across our catalog. At the same time our new bitcoin show in the WSB feed has proven to very successful. Therefore, we're currently targeting to sell at least 450,000 impressions per week for WSB alone. Using the same equation from before WSB's potential is no longer $10,400 per week but rather: 450 * 4* $20 = $36,000 revenue per week. On a related note we had recently had 543,000 impressions in our record week.

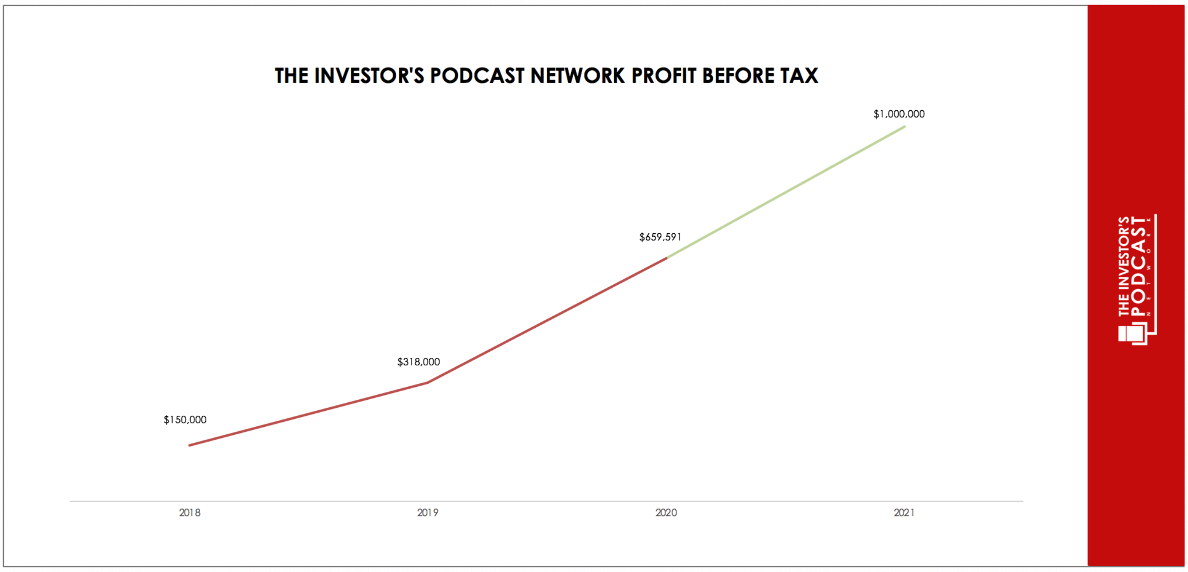
  Please allow me to go more into detail with this. The numbers you've seen here for 2020 are all "cash-based" and are therefore backward-looking. In Q1 2021 for instance we would receive payments (cash) for Q4 2020 based on much fewer impressions that we're delivering in that quarter. Right now we're selling ads for Q2 2021 so we know that the money is coming, but for Q2 2021 we won't receive the funds before Q3 2021.

  On a related note we haven't had any clients default on payments despite COVID-19. It could of course happen, but it's currently not a major concern, nor are we too heavily exposed to one client. At the time of writing we have secured $600,000 in advertising sales for 2021. As mentioned clients typically pay in the following quarter, but we even experienced a client (NetSuite) to pay 9 months later the first media ran. This also shows the power of the business model. Going from 130,000 to 450,000 impressions per week comes at close to no extra cost to TIP, but more than triples the revenue.

Goals and Strategy for 2021

Due to the "lag" in accounting it's therefore important to clarify if we refer to "cash accounting" or what is being earned in that period for instance by running the client's campaign, but where the cash is not received (called "accrual accounting"). As a value investor I like to use the most conservative metric, and looking at the monetary goal for 2021 we're aiming for $1,000,000 in profit before tax (cash-basis). On a related note the goal for 2020 going into the year was $500,000 profit before tax (cash-based).

Given that the profit before tax was $659,591 in 2020 it might seem like a tall order, but taking a closer look at advertising, it does seem like a very plausible goal – perhaps even on the conservative side. If we apply "accrual-based accounting" in 2021 we expect to be safely above $1,000,000 since the change in advertising potential is not fully reflected in our cash-based numbers before 2022. For instance, if we assume that we will sell 450,000 impressions each week * 4 Spots * $20 CPM * 52 = $1,872,000 in revenue.



You might wonder why I've chosen to focus on "Profit before tax" and not "revenue", "downloads" or another metric. For value investors like us here on TIP it all comes down to the bottom line.

Stability and ensuring a good working environment for our team, come from TIP's profitability and not from revenue. If you can't pay your team because you have $100M in costs that exceed your $90M revenue you're no longer in control, and we would have to live on the kindness of strangers (lenders and investors). We never want to put the team in that situation. So, what happens if we do (or do not) reach our goal of $1,000,000 in profit before tax in 2021? The answer to both questions is "absolutely nothing." As such you can even argue that we shouldn't have a goal in the first place. Why not go to work every day and do our best instead of setting a goal dependent on many factors that we can't control? Consider how changes in the industry allow us to sell advertising across all of our episodes, and not only the new episodes. That effectively doubled our revenue potential and was out of our control. Could we imagine the opposite to happen in 2021? Sure. I hope you see why a monetary goal is often not a relevant metric to evaluate a company's performance.

That also takes me to the next question about Key Performance Indicators (KPIs). Many companies have KPIs for themselves and their team, and I've even been asked a few times why we don't have them on TIP. The answer to that lies in the famous quote from the vice-chairman of Berkshire Hathaway Charlie Munger: "Show me an incentive and I'll show you the outcome."

The best companies in the world use KPIs – so why don't we? KPIs are great for bigger companies that have a set business model. It's a great way to monitor and potentially reward the team, however I think about this differently. TIP is still a small company, and while we might eventually get KPIs it's not in the cards for the time being. Our advantage is that we are flexible in our organization and we can allocate resources to where it creates the most value.

Let me give you a simple and generic example to prove my point. Let's assume that we set up KPIs for Adrian to ensure the lowest loading time for the website. That makes sense - we want to have the fastest possible website, right? Now let's assume if we decide mid-way in 2021 that we wanted to make changes to the website to improve the user experience, and it would be at the expense of website speed. In that case Adrian would rightly push back and say that we shouldn't implement the changes even though it might be better for TIP as a whole. Or what if we compensated Camille and Noelle on the number of designs they created since quality would be too subjective to determine? In that case we incentivize many and not necessarily the best designs.

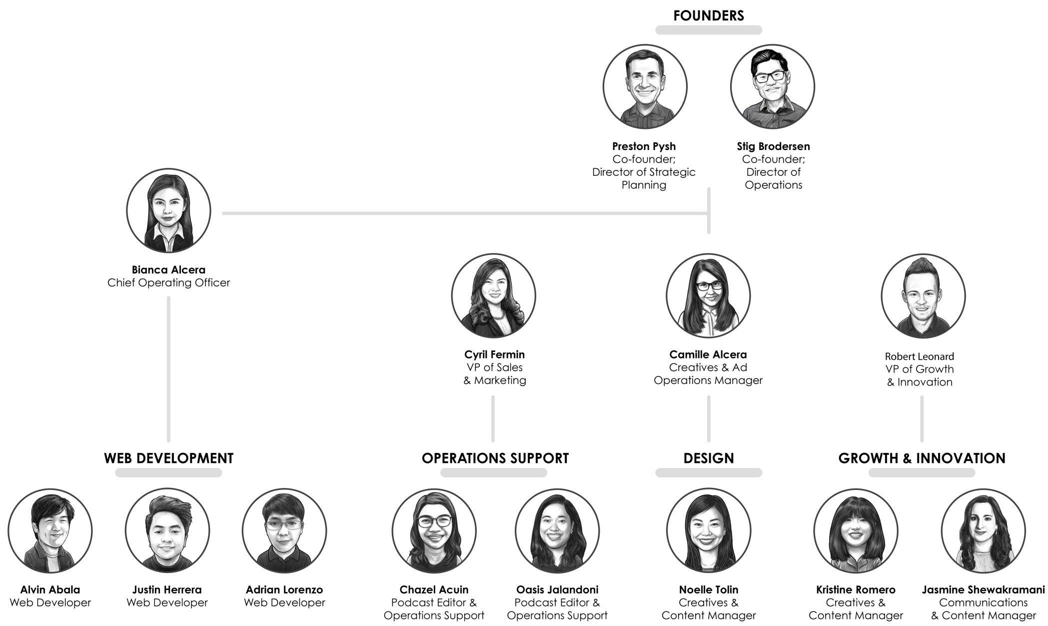
Again, there is nothing wrong with KPIs. TIP is just not at a stage where it makes sense to implement, and we're built on different values. As you know our first core value is "First Things First" meaning that we do what is most important, and in a company like ours "what is important" changes all the time.

Therefore – if I had to set up a goal it would be $1,000,000 profit before tax on (cash accounting), but as mentioned, we likely wouldn't do anything differently if we at the end of 2021 had $800,000 or $1,200,000 for that matter. We would still like to provide a good working environment for the team and educate our community. As you know TIP is an employee-focused organization. Like all other businesses we have to show a profit, and like many other businesses we only want to work with high-performing team members. But with that said we would, at all times, prefer to show a little less profit if we in return have a happy and high-performing harmonious team, and a community around it that appreciates the education we provide.

Preston, Bianca and I believe that running an employee-focused company is also the most profitable approach, and even if it's not, it's the right thing to do.

Organizational Structure

Given the growth of TIP, Bianca and I have been working on a new organizational structure for the full-time members of the team. We wanted to have a simpler structure than today, but also a structure where we can grow up to 25 team members should it be needed. Therefore, we will in 2021 have 3 VPs, Robert, Camille, Cyril, and Bianca as the COO, who will each be managing a small team.



Below I will comment on each team, and what the expectations are for 2021.

- **Growth and Innovation.** Robert will like today be leading "Growth and Innovation" (GI). GI is growing fast, and with Robert going full-time on February 1st we can expect many new initiatives in 2021.

  The business model of GI is very simple. Robert can put TIP's brand and resources to its best use whether it's through podcasts, courses, books, or something different entirely. To make that happen Jasmine and Kristine are dedicated 100% to GI, and Robert can ask for support when needed from the rest of the team.

For the privilege of working with TIP GI is paying 1.5x of Jasmine's and Kristine's salary and benefits per month to TIP. Robert is then compensated on a given percent of the profits of the business unit. As you might have already considered, 1.5x is a vast underestimation of the real costs for TIP running GI, but a more than fair cost to be teaming up with someone as skilled as Robert.

GI is a business unit we think already in 2021 can be nearly as profitable as TIP Finance, and in 2022 account for a significant part of TIP's revenue. Please note that in the revenue overview as seen above, GI is reported as a "profit center." In other words, you have significantly higher revenue than what is being reported, but the costs have been included in the number.

For the foreseeable future the plan is not to add new staff to the GI team, but it's no secret that in the long-term as GI continues to grow, more will likely be joining the GI team.

- **Design Team.** In 2021 as in 2020 Camille will be leading our "Design Team." As you can see on the Organizational structure Camille is currently managing Noelle. Due to Camille's expertise she is also taking the creative lead on all of TIP's projects, and is continuously helping Kristine with her GI tasks. Camille is also managing Richard, who is not officially a part of our team, but has worked with us close to full time as a freelancer since 2015, and will soon be handling a part-time member that we expect to join us shortly.

  Camille and Noelle support all design-related tasks on TIP, most noticeable they have revamped our highly successful YouTube channel. Aside from YouTube there is no major task planned for 2021, but in line with the discussion of KPIs, the design team will focus on where they add the most value. As Camille is a key person in our advertising efforts, it's leaving Noelle very busy at the moment. One more full-time designer will likely join Camille's team in 2021 should the number of tasks continue to grow.

- **Operations Support.** This is a brand-new team on TIP that Cyril will manage in 2021 and beyond. As you can tell from the organizational structure, Chazel and Oasis will start reporting to Cyril. While Chazel and Oasis are both editing audio, having only four shows in 2021, and knowing that audio editing can be exhausting at times, Chazel and Oasis will also be handling various other tasks.

  What are the operations support tasks? For the time being it is tasks that are "not related to design or website development," so it's really a "catch-all category." It could for instance be SEO tasks, show notes, or anything in between. Cyril has just onboarded Iza, and we expect to add another 2 members to the team shortly. We're looking for an SEO specialist, just like we're looking for a person to take on more operations tasks in general.

  The team also serves as a training ground for new employees joining us part-time, or full-time on a project basis. Iza who is currently working with us part-time is an example of this. We'll together with the candidate decide if we should continue working together. TIP always aims to retain and grow talent as much as we can. Considering that there is a turnover in all companies, and the current growth of TIP, we want to be prudent and have secured a pipeline of talent for TIP at all times. The Operations Support team plays a very important part in this.

- **Web Development.** Bianca leads this team. Adrian is solely focusing on our website, whereas Justin and Alvin are working on TIP Finance. I've outlined a few of the expectations for 2021 already, when I went through the 5 main business units above. Adrian's main focus coming into 2021 is to complete mobile responsive integration for our website, and ensuring that our website performs well. Adrian is doing a great job, and we do not expect to add another programmer to work on the website.

TIP Finance performed well in 2020, and it would be natural to double down on the efforts. It's a very scalable business where twice as many subscribers would come with almost no extra costs. We are considering extra hiring a third dedicated TIP programmer in 2021, but we're in no rush to get there.

We have multiple bottlenecks in the TIP Finance process. Preston and I are the only two people who are currently handing off tasks to Bianca and the TIP Finance team. As such we're in no shortage of ideas (quite the contrary), but we're in lack of time. It's not a time-consuming task to envision a filter to identify the cheapest stocks, but doing it in practice is another matter. Problems can include having the right data, having data in various currencies, validate data, testing etc.

The decision of whether to add another team member to TIP Finance is therefore not so much how many extra subscribers we will get in 2021, as the concept has already been validated. Rather it's about how much bandwidth Preston and I will have in 2021, and how advertising performs.

It might surprise you how and why advertising and TIP Finance are related. The reason comes down to "opportunity costs." We could focus a lot more on TIP Finance which will likely increase revenue from the unit, but if we using the same amount of time could increase the revenue from advertising much more, then we should focus on the latter. Currently it looks like advertising will be the main driver. As mentioned before we've just seen that the expected advertising revenue has tripled in a few months. It would be naive to think that we won't face unexpected headwinds with advertising in the future. If that happens our main revenue focus could likely become TIP Finance.

We think that TIP Finance's potential is "thousands of users," however, we don't expect that to happen in 2021 already. 2025 is far out in the future, but I wouldn't be surprised if both TIP Finance and GI combined or even solely could be million-dollar businesses just like we expect WSB advertising to be in 2021.

Bianca and Trey and the Organizational Structure
How about Trey? He has not been included in any business units since he is not working full time on TIP. As you know Trey is already running a highly successful business on the side of being the co-host of WSB. At this stage we're still testing out how we feel about working together. On my end I can only say that WSB couldn't wish for a more insightful co-host than Trey, and I hope we can continue working with Trey for many years to come. For the time being on co-host WSB and hosting live events, and if successful perhaps integrate Trey even more on the team.

To understand Bianca's role in the organizational structure we have to go back to the spring of 2018 when TIP offered Bianca the COO position. At the time, Bianca worked part-time with TIP and Cyril and Camille haven't agreed to full-time employment either. Back then I told Bianca that she would be heading the Manila office, and I never expected it to be more than 5 people and of them would be reporting to her.

History has shown that I was wrong. While we're still a small company, we now have 11 full-time employees in Manila alone, Richard in the US, 3 freelancers (Richard, Bernice, and Iza) and we hope to add another 2-3 people to the team as soon as possible. TIP can only continue to grow with the right organization in place, and I couldn't think of a better person to make that happen than Bianca. Buying stock in Amazon or Apple years go pales in comparison to teaming up with Bianca!

Going into 2020 with only 5 members on the team in Manila it quickly became apparent that before too long Bianca couldn't manage everyone in Manila, and at the same time also lead the growing web development team. Therefore, we decided to have a system where the team's VPs all report to me and not Bianca. However, the overall responsibility for the Manila team is ultimately Bianca's.
When a decision needs to be made for anyone on TIP, Bianca has the authority to decide on behalf of TIP at all times. So while she is technically is ranked higher than our VPs, Cyril, Camille and Robert do not report to her, because I'm often closer to their tasks than Bianca.

On a related note everyone on the team can find who will be handling their Annual Performance Review here. The Annual Performance Review is typically held 3 months before your contract expires.

Stig and Preston in the Organizational Structure

TIP has come a long way since Preston and I started TIP back in 2014. Today Preston is mainly focused on recording the weekly episodes of our Bitcoin Fundamentals show and preparing tasks for TIP Finance. Preston is also invaluable with his insights on the strategy of TIP.

Except for recording half of the WSB episodes (Trey records the other half), my role is very loosely defined. I like to say that “I never/always work.” Aside from the podcast you can argue that I don’t have anything that I “have to do” on a weekly basis, and my calendar is often empty or close to, when I wake up in the morning, and I have to “come up with tasks.”

One way to look at my role is to be an “asset allocator.” Like all other companies we have a limited amount of resources on the team. Resources include money and time. But it can also be the inventory of our podcasts and the balance between buying more “time for the team” by hiring more people or outsourcing tasks. I constantly have to optimize and grow the team’s resources. Examples include:

- Should we start up a US sales team or continue using third party agencies?
- Should we say no to an advertiser, or should we “gamble” in the hope a better brand that will pay more for the inventory comes along?
- Should we start up another business unit like GI knowing that it will take a long time before it’s profitable and that it takes focus away from other projects?

There is no easy answers to these questions and no guideline or timeline. The task makes me very humble, and I’m grateful that you’ve all been very forgiving of the many mistakes I’ve committed over the year allocating TIP’s resources.

Final Remarks

“Radical Transparency” is a core TIP value and I hope you have found this document to be just that. As I’ve mentioned on Slack multiple times, the decision to be radically transparent about TIP has been easy. I’m providing you the detailed information that I would like to have, had our roles been reversed.

I’d be happy to answer any question about this, and I’ll be happy to clarify and elaborate in detail during our next team meeting.

Lastly, I would like to thank all of you for your hard work. Thank you for making TIP possible!

Warmly,
Stig