ANNUAL LETTER

YEAR OF 2023

To The Team at The Investor's Podcast Network

Warren Buffett has famously said that since 1965, he has only made 12 good decisions for Berkshire Hathaway—humble words from the greatest investor of all time. Looking closer at his decision, one hire stands out — Ajit Jain, the Vice Chairman of Insurance Operations for Berkshire Hathaway.

For TIP, two team members stand out. First, teaming up with Bianca in 2016 completely changed the game for TIP. I would take too much credit if I said it was my decision. It was as if Michael Jordan called you, asking about an open spot on your team.

Just as Bianca has raised the bar for everyone on the PH team since 2016 (and still does!), Robert has done the same since 2019 for our Westen team. It's safe to say that we wouldn't be where we are today without him, and it's with a heavy heart that we will enter 2024 without Robert at our side.

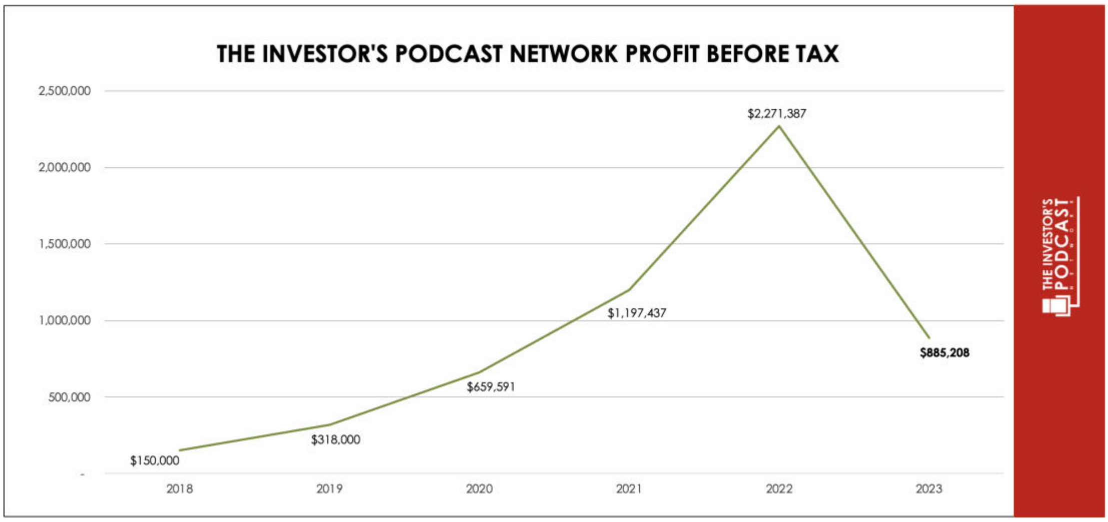
I'm grateful that Robert allowed me to be a small part of his continued journey, and I do not doubt that soon, we will be reading about his business success in widely recognized publications.

As we have just entered 2024 with a stronger brand and more resilient team than ever, we should always remember that we're standing on the shoulders of giants.

An Overview of Our Business in 2023

2023 was the first year in company history where we didn't grow our free cash flows. Not only that, but we were also less profitable than in 2021. I could give you a song and a dance about how this is from competitive pressures, but I'll also be the first to admit that I don't feel it's the right way to conduct business. Too many take credit for good times and blame everyone else in tougher times. No wonder they say success has many fathers, and failure is an orphan.

It would be a stretch to call 2023 a failure, but it certainly was a far cry from 2022, and the overall responsibility is mine alone. Of the many mistakes I made in 2023, we should have moved to the Megaphone hosting platform sooner. As a long-time investor in Spotify, I know its advantages well. Switching earlier could have mitigated TIP's drop in downloads.



Another mistake was not focusing sooner on non-advertising opportunities. For too long, I have been overly focused on advertising and less on how to provide value for our listeners beyond our free resources. Luckily, Clay and later Kyle have had more foresight than me and have successfully set up the TIP Mastermind Community. As you'll see below, this new business unit's earnings power is understated (for accounting consistency purposes.) You can expect non-advertising categories to gradually become a bigger share of our revenue.

Below is a revenue breakdown measured as cash received in the fiscal year 2023.

CASH ACCOUNTING - 2023		
Percentage	**Category**	**Amount**
90.7%	Advertising	$2,099,603.00
2.9%	TIP Mastermind Community	$68,115.00
2.3%	YouTube AdSense	$53,916.00
1.6%	TIP Finance	$37,357.00
1.1%	Book Royalties	$24,705.03
1.1%	Courses	$23,201.00
0.3%	Others	$7,320.00
100.0%	-	**$2,314,216.67**

You Can Fool Some of The People All of The Time

President Abraham Lincoln has many profound quotes. One of my favorites is: "You can fool some of the people all of the time and all of the people some of the time, but you can not fool all of the people all of the time."

It seems timely to look through that lens when considering the podcast industry. We started podcast advertising with a $24,000 campaign over 12 weeks at the beginning of 2017. With that, we held a call with the advertiser and our listeners. You can imagine my surprise and embarrassment when I noticed that one listener joined the call.

This wasn't a question of being dishonest with the advertisers. Instead, it had more to do with how downloads were measured and that the technology didn't exist for better attribution. I later realized you could get multiple downloads from the same listener listening to the same episode for different technical reasons.

Slowly and steadily, more and more technology is entering the podcast space, aiming to provide better attribution to advertisers. The overall goal is to ensure that one listener listens to the full ad when an advertiser pays for an ad impression. In lockstep, that also meant fewer and fewer downloads, and we haven't crossed the finish line. If you put me on the spot on a scale of 1-10, where 1 was the inflated download numbers in 2017, and 10 is full and true attribution, we're at an 8.

We saw the biggest download drawdown when Apple released iOS17 on September 18, 2023. Podcasts that mainly have listeners on Apple Podcast, have a big catalog, and publish multiple episodes every week were impacted the most. We Study Billionaires and Millennial Investing checks all the boxes. iOS17 effectively stopped auto-downloads in yet another effort to show advertisers that once they get billed for an ad, an actual person has listened to the full ad. This is not an unreasonable request. Looking back, it was destined to happen eventually.

Many publishers understandably complain about iOS17, but Lincoln is right when saying you can't fool all the people all the time. However, there is a silver lining. Better attribution implies we can attract more advertising dollars, though from a lower download base. Inflated download numbers and poor attribution were never sustainable, and it should not serve any publisher to have fictitious listeners.

Consider that publishers generally have two ways to make money. Selling advertisers', or the publisher's, own products and services. If there are no listeners, you don't make any money, regardless of whether your dashboard says you have 100 or 100,000 downloads. As painful as it is to see our download numbers drop, we're experiencing a healthy market reaction in an increasingly well-functioning podcast ecosystem.

Competition is for Losers

Peter Thiel is known for many things. Co-founder of PayPal, Palantir Technologies, and Founders Fund, to name just a few. To me, his biggest contribution to the business world is his provocative framework of "competition is for losers."

This statement might seem off. After all, we're taught competition is good and the reason for success in a capitalist society. It depends on which lens you're looking from. If you are a consumer, you love competition. On the other hand, if you are a company, you don't like competition. Competition in podcasting drives down margins and shrinks our download numbers.

When we started working with advertisers in 2017, we would typically get paid $25 for a thousand delivered ads. Today, we're lucky to get $25, and most often, sell our ads at a lower rate. This is a natural consequence of supply entering the market faster than listeners and, in turn, advertising dollars. In just five years, the number of podcast listeners has grown 100%, but the number of podcasts has grown 1,000%.

Podcasting is inherently a difficult business. There are no barriers to entry, and everyone can set up a podcast. Looking at the numbers above, it looks like they already have! Competition is truly for losers, and for 99%+ of businesses that do not have monopolies, escaping competition is as easy as escaping gravity. It's an iron law of business that when there is money to be made in an industry, it will attract competition, driving down the profitability of the incumbent companies.

The question is what will happen next. After all, podcasting is such a new industry that we can't look back at many cycles. Let history be our guide.

William's Wisdom

I recently spoke with William and discussed the challenges that we were currently facing. William suggested looking at The Economist's playbook and steering away from the example of Fortune Magazine.

In a challenging time, Fortune Magazine decided to start diluting the product. The magazine slowly but steadily got shorter, the paper thinner, and the publication deteriorated. The Economist faced similar challenges but went in the other direction and refused to compromise quality. As a result, The Economist came out stronger, whereas, after 89 years, Fortune Magazine was sold in 2018 for a pittance of its past value.

TIP was founded in 2014. It is merely a footnote measured in time and global impact in comparison to The Economist and Fortune Magazine, but nonetheless an eternity in the business of podcasting. We have chosen to invest more than ever into our flagship show, We Study Billionaires and never published as much content and quality as we do today.

Looking at the financials at a glance, it is a foolish strategy. We used to make $0.09 per download and 250,000+ lifetime downloads for a podcast episode in the We Study Billionaires feed. At the time of writing, we're closer to 80,000 lifetime downloads and $0.06. $22,500 vs. $4,800 is enough to make any business think twice about their strategy. For TIP, it's no different, and you might be wondering why we're going the route of The Economist.

The market is telling me that the golden days of podcasting are over. There was a lot of money to be made, and competition poured in, lowering our profitability. Having podcasted since 2014, I know how difficult consistency is. Above, you saw the explosion in podcasts. You didn't see that only 56% of podcasts publish more than three episodes. I don't know how many podcasts have published weekly content for over ten years, but I'm confident it's a fraction of a percent.

Many publishers will not have TIP's staying power, and eventually, the current cycle of relatively more competition will revert. A new relative counter cycle will slowly emerge, as is the case for most industries, including podcasting. That being said, make no mistake that we're seeing a secular trend of lower download numbers due to more competition and how downloads are measured.

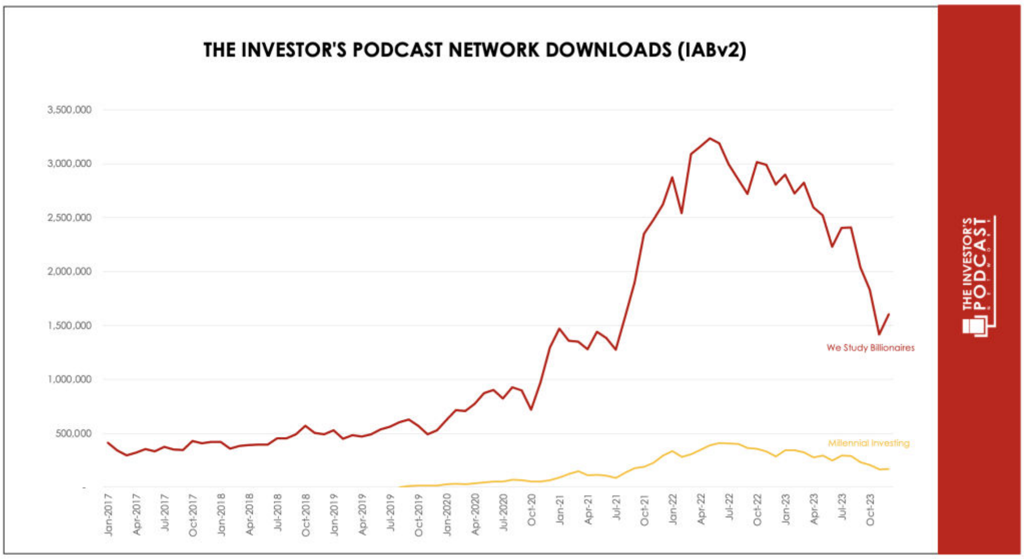
We Study Billionaires and Millennial Investing

A family friend is a very talented badminton player. He is currently ranked as #74 in the world. Being #74 is financially a terrible position to be in. Just like being #1, you have expenses for a personal trainer, equipment, hotel, flights, etc., but you do not make millions of dollars as if you're among the ten best players in the world. Paradoxically, you effectively pay to be ranked #74; financially, it's also worse than being #1,000. If you're #1,000, you don't get paid to play, but you will also not have any expenses.

Using the metaphor from badminton, We Study Billionaires is still a highly profitable business unit despite declining download numbers.

Millennial Investing, on the other hand, is only slightly profitable in 2023 and could, in 2024, if the trend continues, be the equivalent of being ranked #74 in badminton. For all intents and purposes, publishing an episode of Millennial Investing is as costly as an episode of We Study Billionaires. Still, we typically generate eight times more revenue from the latter episode.

The plan is still to publish episodes on Millennial Investing throughout 2024. The show is a crucial training ground for hosts to eventually advance to We Study Billionaires and gives us a valuable optionality if/when the podcast market turns.



Starting January 1, 2024, Kyle has joined Clay, William, Preston, and me as hosts in the We Study Billionaires feed. It's unprecedented in TIP's history to advance as quickly as Kyle has, and it's a testament to Kyle's talent and hard work. As a result, we will have three weekly episodes in the WSB feed and two in the MI feed.

TIP Mastermind Community

We have long wanted to engage more deeply with our audience. For that reason, Clay started the TIP Mastermind Community in April 2023. The easiest way to think of the Mastermind Community is as a membership of TIP.

As a member, you can engage with Clay, Kyle, podcast guests, and fellow members through our in-person events, group calls, and forum. The main discussion point is investing, but the membership includes and is not limited to book clubs, social activities, and entrepreneurship.

Our Mastermind Community gives our most passionate listeners the opportunity for more access to our hosts and like-minded investors a chance to connect with each other. Our annual recurring revenue from our mastermind community at the end of 2023 is $123,692. It's important to note that the earnings power of the business unit is significantly higher than at first glance. As we hit the ceiling of 150 members in our community, we plan to add so much value for members that we, in turn, can increase the current price of $197 per month.

We plan to reward existing members by not raising the prices they joined at. Early members joined at only $97 monthly, and as we see natural churn from lower-priced members, they will be replaced by higher-paid members organically.

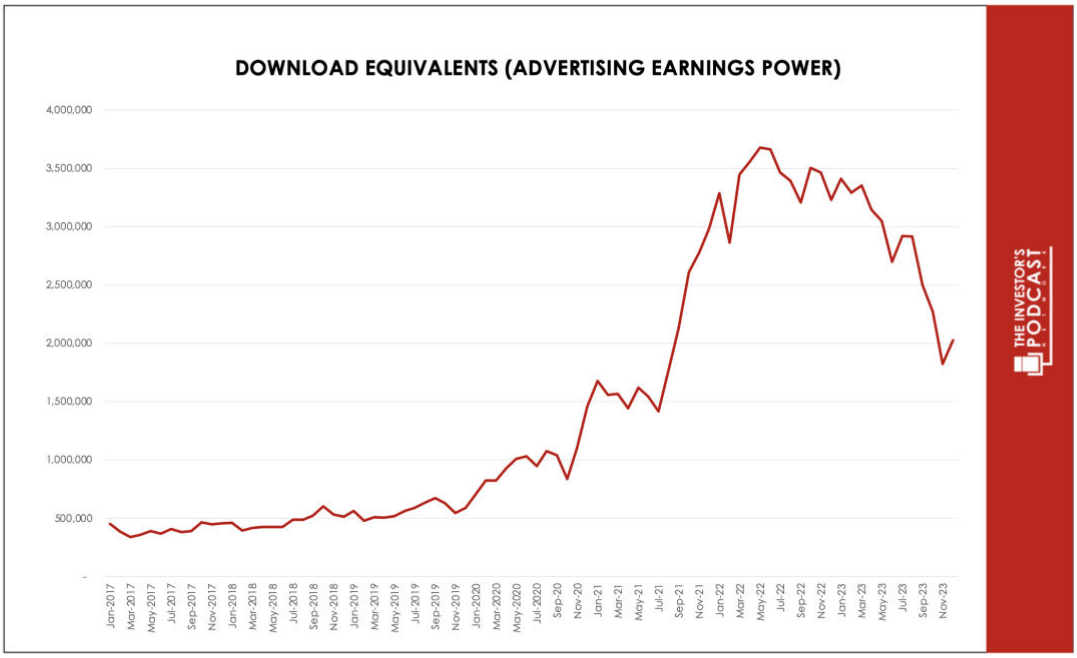
The intention is to keep the community smaller than 150 members. At the time of writing, we’re at 92, and through the guidance of Clay and Kyle, we could reach 150 members later this year. When we do, we will take a page from Rolls Royce’s playbook, which publicly stated that they never wanted to manufacture more than 3,630 cars annually but only focused on adding more value for each car owner.

Also, we’re already looking into more exclusive experiences as add-ons to the membership. One example is our Berkshire Summit, which includes a more exclusive meeting experience and, more importantly, in-person interaction with podcast guests and our show hosts. In time, I would not be surprised to see our Mastermind Community become our second most valuable asset, only eclipsed by We Study Billionaires’ advertising revenue.

Advertising Earnings Power

Today, the problem is not having too little information but having too much and not knowing what to do with it. If I had only two graphs, it would be the first graph in this letter showing our business’s free cash flows. The other is below, showing the total advertising earnings power. In one chart, I have summarized our downloads from We Study Billionaires, Millennial Investing, We Study Markets opens, and views across our four YouTube channels.

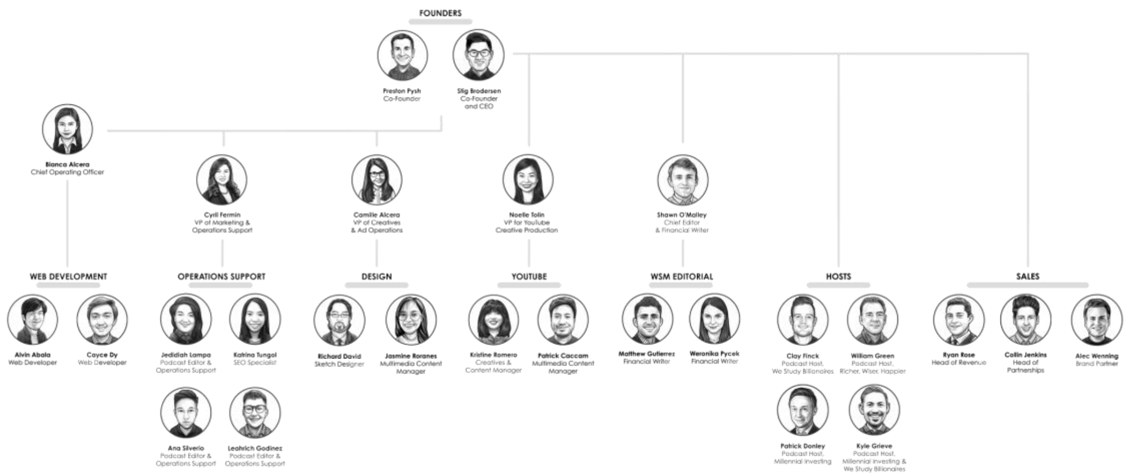
A newsletter open has conservatively been set to ⅓ the value of a podcast download and one YouTube view to 1/6. I elaborate more on the earnings power in the **2022 letter**. It is worth noticing that in 2022, we would get $0.09 per “download equivalent,” whereas 2023 is closer to $0.06. Looking into 2024, I see no reason why the (inflation-adjusted) rates would revert to 2022 levels.



Similar to when Google and Facebook democratized advertising on social media, search, and content, I see a similar trend in the podcast, video, and newsletter space. Advertisers are spoiled for choice, and they can target potential customers better than ever before today. This pressures publishers like us when advertisers no longer target our entire audience but rather "sliced and diced" into smaller segments. As a result, the rates per download equivalent could linger for some time.

As time passes, I will increasingly look at the annual recurring revenue for our Mastermind Community that, by definition, is not included in the advertising earnings power.

Organizational Chart



TIP Charity Program

We allocate 1% of the preceding year's free cash flows to charity annually. Our program allows every team member with at least 12 months of seniority to donate to one or more charities they are passionate about. The amount allocated to each team number is not calculated by rank or compensation but solely by how long the team members have worked with TIP. One month of part-time and full-time employment equals 1 and 3 points, respectively.

This year, our funds will be distributed in the following way:

CHARITY ALLOCATION - 2024		
Member	**Points**	**Allocation**
Bianca	222	$1,060.53
Camille	207	$988.87
Alvin	160	$764.35
Cyril	150	$716.58
Kristine	132	$630.59
Noelle	123	$587.59
Jedidiah	105	$501.60
Katrina	84	$401.28
Clay	81	$386.95
Collin	76	$363.06
Shawn	66	$315.29
Weronika	63	$300.96
Learich	60	$286.63
Ana	56	$267.52
Patrick	54	$257.97
Cayce	51	$243.64
Matthew	39	$186.31
Kyle	39	$186.31
Jasmine	37	$176.76
Ryan	36	$171.98
William	12	$57.33

Final Remarks

2023 was a challenging year, to say the least. Our downloads and profitability consistently went in only one (wrong) direction. What will 2024 look like? The future is always uncertain, and 2024 is no different.

In 1943, Thomas Watson, chairman of IBM, famously said, "I think there's a world market for maybe five computers." It's easy to make fun of earlier predictions but miss the point that we must change our opinion when the facts change. Such is business - and such is life. What won't change is our relentless focus on optimizing for team happiness rather than shareholder value.

Thank you for trusting TIP with your employment. Being your employer is the noblest of causes I ever had and will likely ever have in my professional life. Thank you for allowing me this privilege.

Warmly,

Stig Brodersen

Stig Brodersen | January 26, 2024