Business Value Model...

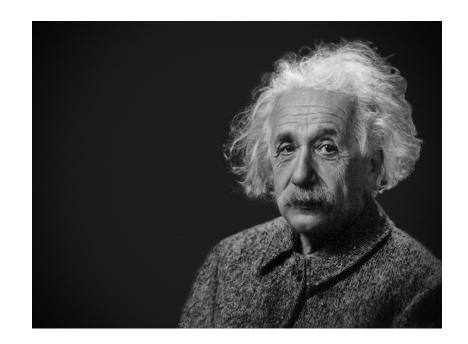
Entrepreneurship in Technology
Week 09
Dylan Hall
March 1st, 2018

What do these have in common...

- Businesses...
- Non-profits...
- Governments...

The good ones create value for people...

"Try not to become a [business] of success, but rather try to become a [business] of value..."



-- Albert Einstein

Business Model \neq Profit

1988 Full list

Current View: 1-100 V

| Rank | Company | Revenues (\$ millions) | Profits (\$ millions) |
|------|-------------------------|---------------------------|--------------------------|
| 1 | General Motors | 101,782.0 | 3,551.0 |
| 2 | Exxon Mobil | 76,416.0 | 4,840.0 |
| 3 | Ford Motor | 71,643.0 | 4,625.0 |
| 4 | Intl. Business Machines | 54,217.0 | 5,258.0 |
| 5 | Mobil | 51,223.0 | 1,258.0 |
| 6 | General Electric | 39,315.0 | 2,915.0 |
| 7 | <u>Texaco</u> | 34,372.0 | -4,407.0 |
| 8 | AT&T | 33,598.0 | 2,044.0 |
| 9 | <u>DuPont</u> | 30,468.0 | 1,786.0 |
| 10 | Chrysler | 26,258.0 | 1,290.0 |
| 11 | ChevronTexaco | 26,015.0 | 1,007.0 |
| 12 | Altria Group | 22,279.0 | 1,842.0 |
| 13 | Shell Oil | 20,852.0 | 1,230.0 |
| 14 | Amoco | 20,174.0 | 1,360.0 |
| 15 | United Technologies | 17,170.0 | 592.0 |
| 16 | Occidental Petroleum | 17,096.0 | 240.0 |
| 17 | Procter & Gamble | 17,000.0 | 327.0 |
| 18 | Atlantic Richfield | 16,281.0 | 1,224.0 |
| 19 | Nabisco Group Holdings | 15,868.0 | 1,209.0 |
| 20 | Boeing | 15,355.0 | 480.0 |

| 1998 Full list | | Current \ | Current View: 1-100 ∨ | |
|----------------|--------------------------------|---------------------------|--------------------------|--|
| Rank | Company | Revenues (\$ millions) | Profits (\$ millions) | |
| 1 | General Motors | 178,174.0 | 6,698.0 | |
| 2 | Ford Motor | 153,627.0 | 6,920.0 | |
| 3 | Exxon Mobil | 122,379.0 | 8,460.0 | |
| 4 | Wal-Mart Stores | 119,299.0 | 3,526.0 | |
| 5 | General Electric | 90,840.0 | 8,203.0 | |
| 6 | Intl. Business Machines | 78,508.0 | 6,093.0 | |
| 7 | Chrysler | 61,147.0 | 2,805.0 | |
| 8 | Mobil | 59,978.0 | 3,272.0 | |
| 9 | Altria Group | 56,114.0 | 6,310.0 | |
| 10 | AT&T | 53,261.0 | 4,638.0 | |
| 11 | Boeing | 45,800.0 | -178.0 | |
| 12 | <u>Texaco</u> | 45,187.0 | 2,664.0 | |
| 13 | State Farm Insurance Cos | 43,957.0 | 3,833.3 | |
| 14 | Hewlett-Packard | 42,895.0 | 3,119.0 | |
| 15 | DuPont | 41,304.0 | 2,405.0 | |
| 16 | Sears Roebuck | 41,296.0 | 1,188.0 | |
| 17 | Citigroup | 37,609.0 | 3,104.0 | |
| 18 | Prudential Ins. Co. of America | 37,073.0 | 610.0 | |
| 19 | ChevronTexaco | 36,376.0 | 3,256.0 | |
| 20 | Procter & Gamble | 35,764.0 | 3,415.0 | |

Fortune 500 2007

▶ Filter

- 1 Wal-Mart Stores, Inc.
- Exxon Mobil Corporation
- 3 General Motors Corporation
- 4 Chevron Corporation
- 5 ConocoPhillips
- 6 General Electric Company
- 7 Ford Motor Company
- 8 Citigroup, Inc.
- 9 Bank of America Corporation
- 10 American International Group, Inc.

THE TOP 10

| THE TOP 10 | REVENUES (\$M) |
|----------------------|----------------|
| 1 Walmart | \$485,873 |
| 2 Berkshire Hathaway | \$223,604 |
| 3 Apple | \$215,639 |
| 4 Exxon Mobil | \$205,004 |
| 5 McKesson | \$192,487 |
| 6 UnitedHealth Group | \$184,840 |
| 7 CVS Health | \$177,526 |
| 8 General Motors | \$166,380 |
| 9 AT&T | \$163,786 |
| 10 Ford Motor | \$151,800 |

Profits only reflect the ability to extract value today, not tomorrow...

In 1988, we see automobiles and oil...

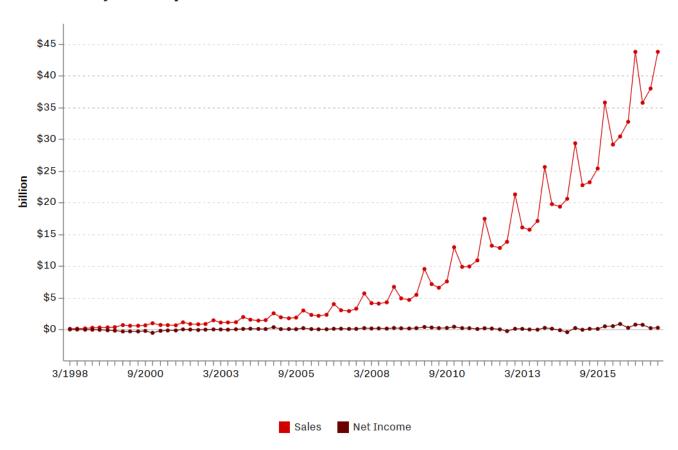
In 1998, we see retail and enterprise technology...

In 2007, we see finance (but then that thing happened)...

In 2017, we see healthcare and consumer technology...

Value is our prophet...

Amazon quarterly revenue versus net income



Amazon looks like a publicly traded not-for-profit...

Companies deliver value through...

Knowledge...

Experience...

Resources...

Companies struggle to create new value due to...

Inertia...

Legacy customers...

This is where you come in...

Startups are free to explore new ways of creating value...

Once you understand and can explain the value you create, you will be able to determine your revenues and expenses...

BUSINESS MODEL

HOW TO DEVELOP NEW PRODUCTS, CREATE MARKET VALUE AND MAKE THE COMPETITION IRRELEVANT



ALEXANDER CHERNEV

How do your activities create value...

```
for your customers?...
for your users?...
for your collaborators?...
for your company?...
```

Target market customers...

The Shared Responsibility Mortgage provides a safe and affordable way to purchase a home for low-down payment borrowers by reducing a borrower's interest rates when local housing market values fall. Low down payment borrowers are typically first-time homebuyers, younger, and are low-to-moderate income.

Collaborators...

PartnerOwn will partner with mortgage originators to provide a new product that differentiates their mortgage offering from the current marketplace, and provide a 2% gain-on-sale.

PartnerOwn will partner with the City of Chicago to attract investment and homeownership in Chicago's 77 community areas.

PartnerOwn will partner with non-profit housing counselors and real estate agents to ensure their clients have access to the new product.

Company Resources...

PartnerOwn will use its existing legal and regulatory relationships to ensure the feasibility of the SRM and ensure compliance with all mortgage market standards.

ParterOwn will support servicers and investors with its proprietary SRM modeling software and use a 3rd party index to price and service SRMs.

PartnerOwn will use its fixed income fund management experience to manage the SRM fund.

Competitors...

Fannie Mae and the FHA provide mortgage products tailored to low down-payment borrowers that are highly liquid, securitized and sold to the secondary mortgage market.

ETFs and Mutual Funds are able to provide investors access to guaranteed mortgage returns through passive, low-cost structures.

Mortgage originators like Quicken Loans are able to sell FHA and Fannie Mae mortgages in cost-effective manner and at high margins.

Market Context...

The mortgage market is investigating ways to increase credit risk exposure in the secondary market and to remove from guarantors like the FHA insurance fund, Fannie Mae and Freddie Mac...

There is and has been little issuance of private mortgage-backed securities since the Great Recession...

Shared equity and no PMI options are becoming more common for higher income, low down payment borrowers through companies like SoFi and Redwood Trust...

Product Features...

In times of stable house prices, the SRM is a fixed rate mortgage that is offered at a lower monthly payment than current mortgages

When house prices fall, the SRM reduces the interest to make monthly mortgage payments more affordable...

The SRM does not require mortgage insurance...

The SRM can be used as little as a 3.5% down payment...

Product Service...

The SRM enables mortgage borrowers to purchase their desired home in their desired neighborhood...

The SRM reduces borrower housing expenses and increases income when local prices are falling...

The SRM reduces the incidence of foreclosures and brings price stability to local communities...

Product Brand...

PartnerOwn creates sustainable real estate finance solutions that increase performance and align the interests of borrowers and investors...

Product Price...

Originating banks pay an upfront \$50,000 fee for access to the origination materials and onboarding...

Investors pay PartnerOwn 5 bps to service the SRMs using a 3rd party index...

Investors pay a 50 bps fee to the SRM fund to manage the fund...

Product Incentives...

With greater adoption, communities will feel stable housing prices, fewer defaults and foreclosures...

Investors will see a greater number and lower costs related to servicing distressed loans and forced modifications...

Borrowers will seamlessly receive lower down payments, decreasing the likelihood that they will refinance...

Product Communication...

Home purchase service providers - real estate agents, housing counselors...

Social media, video and content-based marketing...

Participating originators...

Media outreach and city official outreach...

Product Distribution...

PartnerOwn will partner with bank originators to provide SRM access to mortgage borrowers...

What costs does PartnerOwn incur?

Licensing...

Legal and accounting...

Technology...

Data Licensing...

Borrower marketing...

Originator and investor outreach...

Now it's your turn...

Complete your market value and customer value maps for your companies...

Once you understand the value you creating, outline your costs and ensure your pricing is reasonable...

"If you can't explain it simply, you don't understand it well enough...."

