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Drawing Capital

Masquerading Business Models

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About Drawing Capital

Investment Focus

Primarily invest in high-growth software, e-commerce, and healthcare technology companies

Investment Emphasis

Emphasis on innovative technologies, distributions channels, and enduring business models

Investment Approach

Rigorous bottom-up fundamental analysis in the “innovation economy” with a technical overlay

Key Differentiator

Use of insights from startup ecosystem, research, and intermarket analysis for public & private investments



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Introduction to
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Insights on Business Strategy

- “0 to 1, Then 1 to N” Roadmap
- Growth Factors
- Circles of Excellence & Expansion
- 10 Themes in 10X Investment Opportunities
- The High Growth Triangle
- Identifying Exponential Opportunities



Business Strategy: “0 to 1, Then 1 to N” Roadmap

1. Initial Attraction & Product Hook

- 10X Improvement over Legacy Product
- Capture User or Customer Attention
- High Value to Enterprise Customers
- Pull, not Push

2. Innovative Distribution Strategy

- Faster & More Effective Go-To-Market Strategy
- Customer Attraction
- Product-Led Growth
- Positive Network Effects

3. Become Essential

- B2C: Become an Essential Part of Everyday Life
- B2B: Become an Essential Part of Doing Business
- High Measurable Value Delivered to Customers
- High Retention

4. Expansion

- Virtuous Data Cycle
- Capital Allocation
- TAM Expansion
- High ROIC
- Growing Contribution Margin
- Positive Cash Flows
- Finance New Growth Opportunities
- Deepen Relationships with Stakeholders

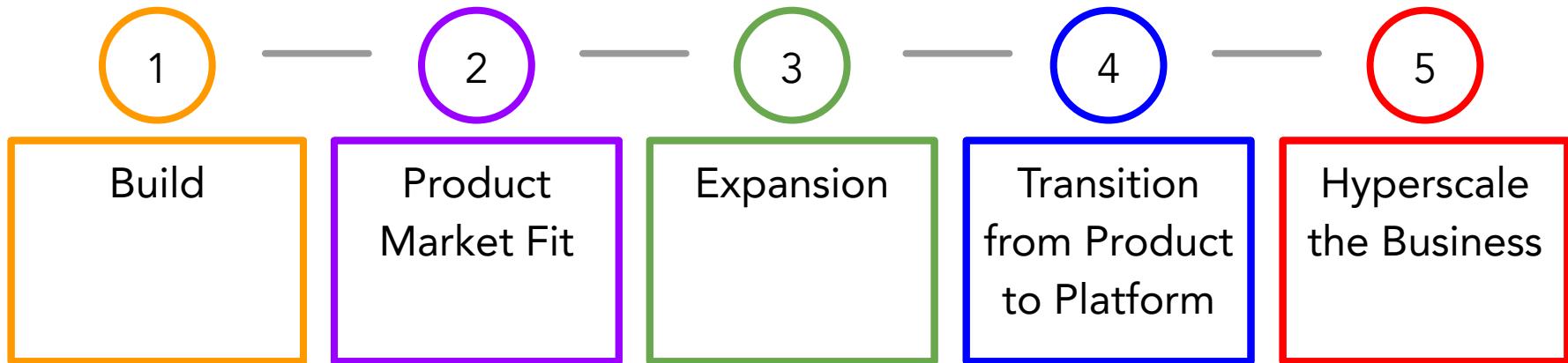


Growth Factors

- 1 **Moats**: Intellectual property can create moats via access to specialized talent, in-house proprietary data, patents, and data network effects. Significant and persistent market share is a valuable trait for many successful companies.
- 2 **Compounding Growth & Learning**: More knowledge and learning can occur with more data, greater understanding in pricing strategies and nuances in product qualities, and understanding customer patterns and behaviors. Happier customers create long-term value and reduce customer acquisition costs due to customer loyalty. Compounding growth in learning can drive higher revenues, customer satisfaction, and more.
- 3 **Virtuous Data Cycle**: More high quality data relative to competitors is an input variable for smarter data science models, which leads to better products to serve customers, which widens the quality gap between the company's products and competitor's products.
- 4 **Potential for Upside Surprises**: Companies with high revenue growth rates, high contribution margin, and high returns on incremental invested capital are attractive to investors for performance returns and attractive to companies for generating flywheel effects.



Business Strategy: “Circles of Excellence & Expansion”



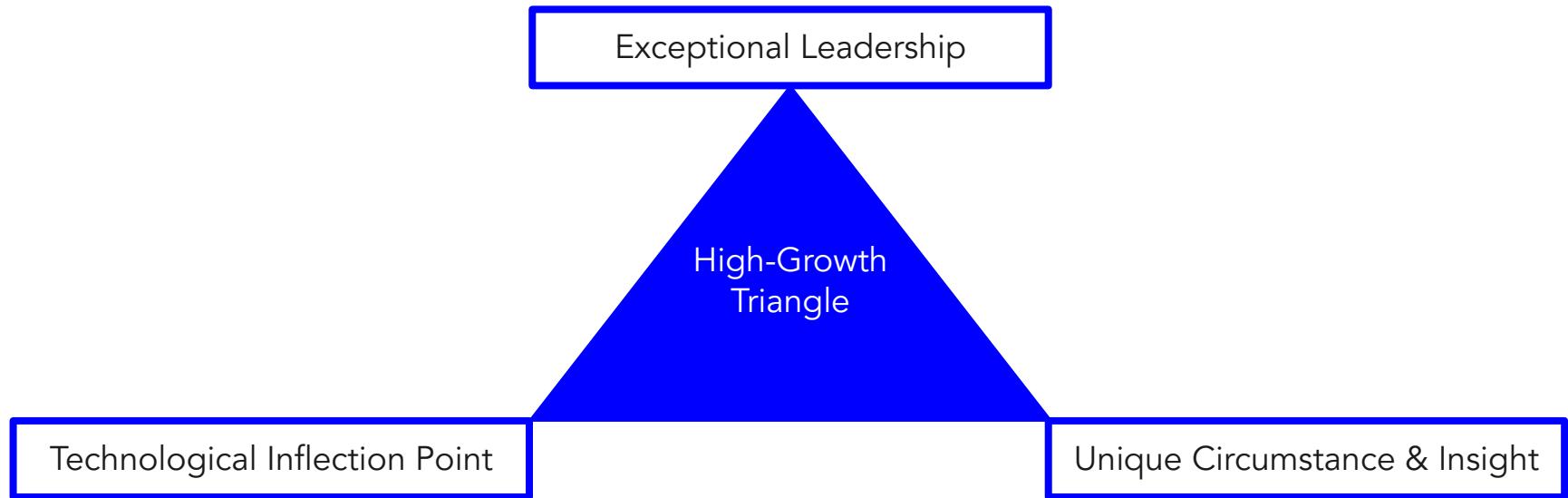


The 5 Steps in “Circles of Excellence & Expansion”

- 1 Build: Build 1 product that becomes a category leader.
- 2 Product Market Fit: Improve the product offering over time to improve sales, create better customer experiences, and reply to customer feedback. Pivot or improve the product approach until strong product market fit is achieved.
- 3 Expansion: Based on positive customer feedback and customer demand, earn the right to expand the product offering and/or form new concentric circles.
- 4 Transition from Product to Platform: Transform ideas into products and then transform a suite of products into a platform. Platforms with positive network effects and a virtuous data cycle can benefit from accumulating business advantages at scale.
- 5 Hyperscale the Business: Pursue growth opportunities. Continue to develop and improve product quality, business sales cycles, talent acquisition & retention, and corporate capital allocation decisions. Make thoughtful decisions about building products in-house vs. acquiring other companies.



Identifying Exponential Opportunities: The High-Growth Triangle





Popular Themes in 10X Corporate Growth & Investment Opportunities

10X Improvement over Incumbents

Idea >> Product >> Platform

Market Share & Total Addressable Market

Network Effects & Virtuous Data Cycle

High Team Quality & High Product Quality

Brand Management

Economies of Scale with High Contribution Margin

Distribution Channels & Hyperscale Capabilities

Financial Metrics, Revenue Growth, and Growth Endurance

Unique Circumstance or Contrarian Insight



Introduction to Masquerading Business Models

- Introduction & Definition
- Consensus vs. Contrarian Perspectives
- Masquerading Business Model versus Direct Pricing Business Model
- Benefits of Masquerading Business Models



Definition of a “Masquerading Business Model”

“A business strategy where the primary revenues or profits from a company may be counterintuitive from popular public perception”.



Benefits of Masquerading Business Models

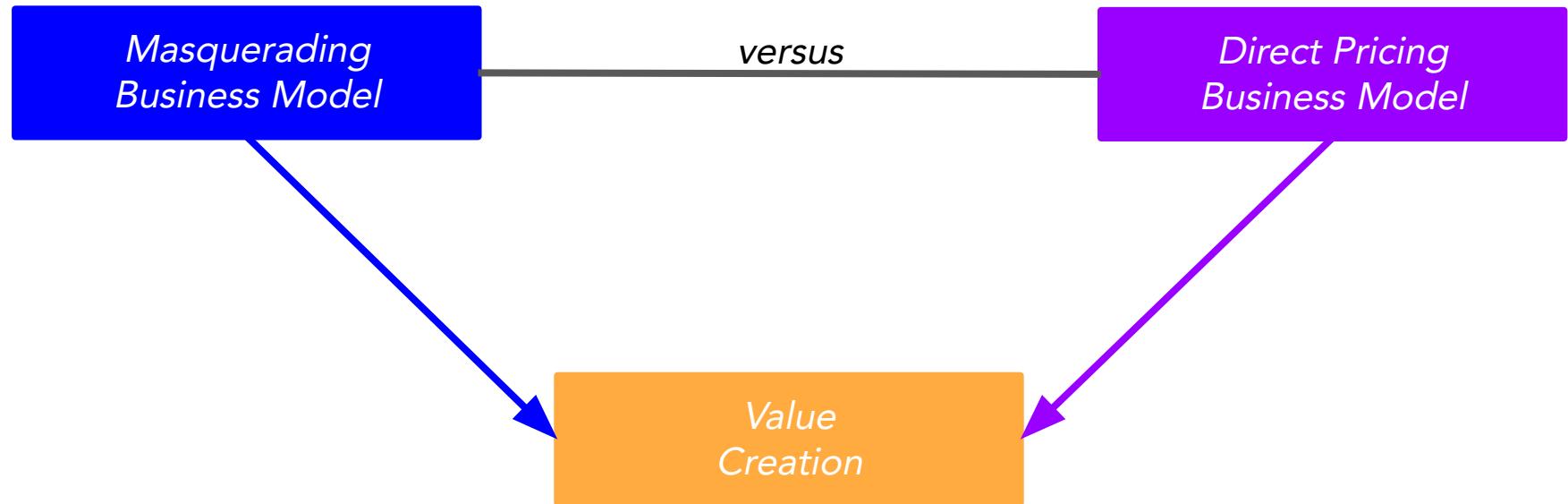
Specific
Competitive Advantages

Difficult to
Imitate or Disrupt

Potential Network Effects

Non-Obvious Growth

"Masquerading Business Model" vs. "Direct Pricing Business Model"





2x2 Matrix for Making Decisions

	Consensus Decision	Contrarian Decision
Positive Outcome	Consensus Decision, Positive Outcome	Significant Growth Potential and Large Potential Returns
Negative Outcome	Popular Decision Input but Unintended Result	High Negative Implications & Effects



Examples & Case Studies

- ❖ 6 Case Studies for
Masquerading Business Models:
 - 1. Costco
 - 2. Starbucks
 - 3. Domino's Pizza
 - 4. Tesla
 - 5. Meta Platforms
 - 6. United Airlines



Example #1: Costco

\$3.9B

In FY 2021, Costco's revenues from membership fees increased 9% to \$3.9 billion.

\$5B

In FY 2021, Costco's net income was \$5 billion. Year-over-year, net sales increased 18% & net income increased by 25%, demonstrating both growth and operating leverage.



Example #2: Starbucks

Creation of Positive Experiences in Stores

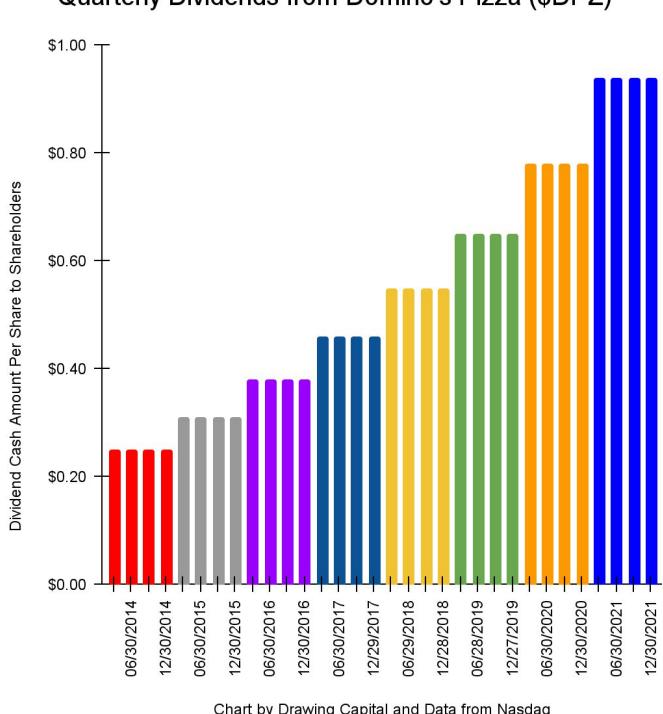
Fintech & Gamification of Rewards

Marketing

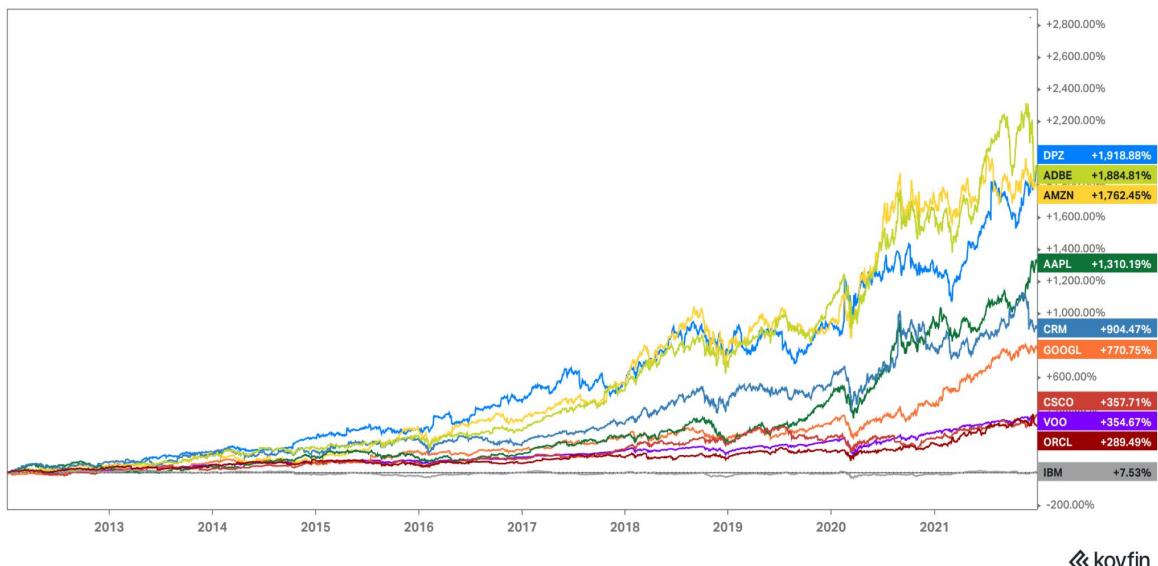
Data Analytics

Example #3: Domino's Pizza

Quarterly Dividends from Domino's Pizza (\$DPZ)



2012-2021: Domino's Pizza (\$DPZ) Performed Better than the S&P 500 Index and the Stock Prices of Several Large Technology Companies



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Koyfin, <https://www.koyfin.com/>

Nasdaq, <https://www.nasdaq.com/market-activity/stocks/dpz/dividend-history>



Example #4: Tesla

Tesla's mission is to electrify transport and "accelerate the world's transition to sustainable energy".

Electric Vehicles

Powerwall,
Powerpack,
and Energy
Solutions

Solar &
Renewable
Energy
Generation

Battery
Technology

Manufacturing

Self-Driving
Technology

Autonomous
Ride Sharing
Initiatives

Network of
Charging
Stations

Logistics &
Supply Chain
Management

Tesla's
"Lifestyle
Products"



Example #5: Meta Platforms (Facebook)

\$118B

Meta's Revenue in FY 2021

3.59B

Number of Monthly Active People across
Meta's Suite of Products on 12/31/2021

\$44.8B

Meta Repurchased \$44.8 Billion of
Class A Common Stock in 2021

40%

Meta's Operating Margin in FY 2021

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Data Source: Meta's Investor Relations: Q4 2021 Earnings Announcement on February 2, 2022

- Meta Q4 2021 Earnings Presentation Deck: https://s21.q4cdn.com/399680738/files/doc_financials/2021/q4/Q4-2021_Earnings-Presentation-Final.pdf
- Meta Q4 2021 Earnings Release: https://s21.q4cdn.com/399680738/files/doc_financials/2021/q4/FB-12.31.2021-Exhibit-99.1-Final.pdf



Example #6: United Airlines

Airlines &
Transportation

VS.

MileagePlus
Rewards Program

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- Koyfin, <https://www.koyfin.com>
- United Airlines Holdings Investor Relations: Form 8-K Filing, <https://ir.united.com/node/23771/html>



Summary

- 1 **Competitive Advantage:** Companies with sustainable differentiation with masquerading business models often have significant competitive advantages that are difficult to imitate or disrupt.
- 2 **Value of Contrarian Thinking:** Correct contrarian thinking that diverges from conventional narratives is a source of considerable advantages in rigorous nuanced thinking and in investing.
- 3 **Performance Potential:** Investors that understand the business models of specific companies can potentially earn significant returns from knowledgeable research associated with understanding the key drivers of revenues, margins, and cash flows for a company.
- 4 **Business Strategy:** The presence of a high-quality business strategy with strong implementation capabilities is a common trait among several successful companies. In this presentation, we highlight ten popular themes within 10X investment opportunities, the "High Growth Triangle", the business strategy titled "Circles of Excellence and Expansion", and the "Zero to One, Then One to N" Roadmap.



Resources



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