The Discovery of Product Equity Value©

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Â The Discovery of Product Equity ValueÂ©Prof. Paul KatchingsAll Rights Reserved 2011Â Product Equity ValueÂ© was discovered after applying the Scientific Method and certain principles of Physics to the Public Company.Â The intent was to trace the origin and directions of the energy flow â€" also known as â€œrevenueâ€• â€" when 100% of the public companyâ€ are returned to the public companyâ€™s shareholders as annual dividends.Â Two values for the customer, the connection between these two values, and the interrelationship between these two values and the public company were discovered. From the inception of any business idea, these two values are predestined when a company becomes publicly traded. Â The first value is called the â€œutility valueâ€• â€" familiar to all professional economists â€" from using a product or service.Â The second value is called the Product Equity ValueÂ©, an inherent value of all products and services.Â For example when one purchases a Car or an Internet Connection the obvious values are the use of the vehicle and the use of the internet connection. This is called the â€œutility valueâ€• because the Car and Internet Connection is useful to the customers.Â Now whe the automobile manufacturer and the internet provider become public companies and sell their shares to the public, the Product Equity ValueÂ© for their customers is intact even though the customers are not the owners of the shares.Â Why does the Product Equity ValueÂ© remain intact? The reason is the origin of all the energy revenue for the public company begins and ends with the customers.Â The formula that determines the market value of the shares of a public company is (A*B/Y)/C = X where A is Revenue, B is Earnings Rate (expressed as a percent of revenue), Y is Shares Outstanding, C is Dividend Yield, and X is Stock Price.Â If the price [Revenue] of a product or service is $1 and the Earnings Rate is 63% with 1 Share Outstanding and the Dividend Yield is 3%, then the market value of the outstanding share of stock is calculated as ($1*0.63/1)/0.03 to get $21.Â When we subtract the $1 purchase price from the $21 market value, what remains is the Product Equity ValueÂ© which in this example is $20.Â Once these financial facts are understood, Product Equity ValueÂ© (PEVÂ©) can be applied to drive consumption as a function of PEVÂ©, to drive savings by eliminating the consumerâ€™s reliance on credit-interest-debt, and to drive tax revenues by eliminating the reliance of governments on credit-interest-debt.Â Optimal StructureÂ The structure that permits the maximum amount of value to be produced by the public company must be carefully considered. It is determined that the Limited Liability Company (LLC) structure is the best structure to maximize the value for the public company using Product Equity ValueÂ©.Â Why? By U.S. Tax Law 100% of the profits are returned to the owners as dividends without first being taxed. LLC members, having an ownership interest in the LLC, pay their portions of the tax. The double taxation inherent in the C-corporation type of public company is eliminated.Â Letâ€™s look at the example of a public C-corporation whose tax rate is 35%. The price of its product or service is $1. Its earnings or profit is $0.63, which is 63% of revenue (or the Earnings Rate multiplied by Revenue). Since its profit is subject to the 35% tax rate, the amount of dividends is reduced by 35% of the profit. Instead of $0.63 available for dividends, only $0.4095 is the profit for dividends.Â Since earnings are subjected to the current dividend yield of 3% (as used in the above example) then $13.65 ($0.4095 divided by 0.03) is the amount of equity value that is produced instead of $21. This is a $7.35 loss in equity value.Â Moreover this $13.65 in equity value is now subjected to the Capital Gains Tax in the U.S. to the shareholders. If the Capital Gains Tax is again 35%, then $4.78 is now added to the $7.35 for a total of $12.13 in lost equity value. Clearly, market value for shareholders is suppressed by using the C-corporation structure for a public company.Â This is an example of â€œDouble-Taxation.â€•Â What Product Equity ValueÂ© reveals is that r market equity value is realized by the public company to benefit shareholders when the Limited Liability Company structure is used by new public companies.Â Use of Product Equity ValueÂ The maximized use of Product Equity ValueÂ© is as a â€œmonetized social mediaâ€• consisting of 13,983,816 members purchasing from 364 new LLC Public Companies where 46% of each of the new public companies is given in a â€œquid pro quoâ€• for the guaranteed membersâ€™ cash purchases.Â example the current per capita income of the U.S. is about $46,000. When average purchases of $33 per year are made at 364 new LLC public companies this is $12,012, or 26% of the current per capita incomes for Americans.Â When the average earnings per customer of 364 new LLC public companies is 63% of revenues (and no 35% tax is applied to the earnings) and the dividend yield is 3% then we calculate the Product Equity ValueÂ© to each customer by subtracting the customerâ€™s cash purchases from the market values of the customerâ€™s ownership interests in the 364 new LLC public companies. A customerâ€™s total market value is ($12,012 * 0.63) / 0.03 multiplied by the 46% ownership to get $116,036. Subtracting $12,012 from $116,036 brings to the customer $104,024 in individual Product Equity ValueÂ©.Â Now the 13,983,816 consumers have exactly two values: a) the utility value from the products and services purchased from 364 new public companies for a cash total of $12,012, and b) their Product Equity ValueÂ© of $104,024 given in exchange for their 364 cash purchases on the first trading day of the new LLC public companies.Â Paul KatchingsDrpaul1139@hotmail.comÂ Â Â