

*“There is only one boss; the customer.” -Sam Walton*

13th of April 2022

Dear Clients & Friends,

As long-term stock market investors, we are optimists at heart. We believe that great companies run by talented people will produce better products and services in the future, leading to higher earnings and eventually higher stock prices. The companies that we own possess so much ingenuity, creativity, and talent that we cannot help but be optimistic about the future.

Our optimism is grounded in history. In the 20th century, the United States endured two world wars, the Great Depression, a pandemic, and numerous financial and market panics. Still the Dow rose from 66 to 11,497, increasing 174x, over 16,000%. The century that brought great challenges also produced the automobile, the airplane, the personal computer, and the internet. In our economy, innovation is irreplaceable.

The path to long-term progress is perennially lined with near-term obstacles. Today, these obstacles take the form of inflation, a tragic war in the Ukraine, and global supply chain bottlenecks. It can be challenging to resist the temptation to react emotionally to current events by altering our strategy. But we believe that buying and holding great companies over the long-term is a sensible approach to investing that will continue to work well in the future. We remain focused on executing this strategy.

## CUSTOMER EXPERIENCE

A cornerstone of our philosophy is to invest in companies that deliver wonderful customer experiences. Such customer experiences take different forms: it could be delighting a customer with speedy delivery (Amazon), quickly answering a pressing question related to a beloved family pet (Chewy), or the warmth emanating from an instructor congratulating a customer for reaching a new fitness milestone (Peloton). No gesture is too small to earn customer affection: a smile, a handwritten note, a fast resolution to correct a mistake. Every interaction is an opportunity to exceed expectations, building customer affection and loyalty.

Delivering wonderful customer experiences is hard. It requires buy-in from the leadership, an incentive structure that rewards the right behavior among employees, and a commitment to training and continuous improvement. It also requires a business model that aligns the delivery of wonderful customer experiences with strong business economics. We believe that the companies that check each of these boxes can build special companies that can deliver strong returns to shareholders.

Consider a few examples of companies that deliver wonderful customer experiences in our portfolio:

**Spotify** - By investing in industry leading engineering talent and data analytics, Spotify has become the leader at personalizing music playlists. Spotify's playlists constantly refresh with music that customers love, translating into customer engagement that is estimated to be 2x as high as any competing music service. Spotify is extending its lead in personalized playlists into podcasts, which could meaningfully increase Spotify's share of overall audio listening.

**Netflix** - Netflix on-demand technology revolutionized entertainment by giving customers total control over when, how, and where they watch television. As a result, Netflix now earns 6% of total television screen time in the United States, the highest share of viewing among all paid streaming peers. Netflix is poised to grow its on-demand entertainment platform with the introduction of videogames, opening a whole new category of entertainment for customers that love gaming.

**Starbucks** - Starbucks best-in-class mobile app has made it faster and easier for customers to order coffee. Starbucks' rewards points, which can be stored and tracked seamlessly in the app, drive brand loyalty. Starbucks now boasts 26.4mm active loyalty members in the U.S., and mobile orders now make up more than 25% of all Starbucks orders. By putting convenience at the core of the customer experience, Starbucks has widened its competitive moat.

What is particularly exciting to us are the ways in which new technologies are enabling businesses to elevate customer experiences. The companies referenced above, and others that we own, have built software-based technology platforms that anticipate consumer needs, drive discovery of new products and services, and deliver growing levels of convenience by automating previously manual tasks. Improving technology allows these companies to gain an intimate understanding of their customers' unique needs and preferences, allowing them to meet, and exceed, those expectations. In turn, we believe that these businesses can enjoy more brand loyalty, improving economics and eventually higher profits.

Analyzing customer experience is a blend of art and science. We believe that our ability to marry the quantitative and qualitative analysis provides us with an advantage. Quantitatively, we rigorously assess key performance metrics that demonstrate that a business is delighting its customers. These include, but are not limited to, net promoter score, customer retention, churn and a demonstrated history of pricing power. Often, these key performance metrics can be a leading indicator of sustainable revenue and profit growth.

Qualitatively, we try to gain an insight into how customers use a product or service in order to understand if, and why, they love it. This involves talking to customers, reading customer reviews, visiting stores, talking to salespeople, and often becoming customers ourselves. This analysis provides a depth of understanding that cannot be gleaned from financial statements.

We believe that our focus on investing in companies that deliver a wonderful customer experience can help us identify great investments over time. Delighting customers does not happen by accident. It takes a well-managed business with high-quality products and services to deliver on this promise. Often these companies are durable, highly profitable and deliver strong returns to shareholders.

If you have any questions, please don't hesitate to contact us.

Sincerely,



**Ben Weiss, JD**  
Chief Investment Officer



**Tom Eidelman, CFA**  
President

## DISCLOSURES

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