



DOWNSTREAM
C A P I T A L

Public Icons Case Study

Downstream Capital, LLC

This presentation (including any attachments) is confidential in nature and is not to be shared, copied or reproduced without express written consent from Downstream Capital, LLC. The information contained in this presentation is proprietary, privileged, private information, and/or intellectual property belonging to Downstream Capital, LLC, its affiliates, including but not limited to Thomas Randall Slimp, Jr. and Nicholas Kirchner. Any disclosure, reproduction, distribution or other use of this presentation or any attachments without the sender's consent will constitute a breach of confidentiality or infringement of intellectual property rights, and as such is prohibited.

Downstream Capital's

3 Principles For Investing

We believe the work you do today should matter 100 years from now.

That's why we only invest in companies that meet – or show remarkable promise in meeting – **all three of our principles.**

Table Of Contents

- 06 Principle #1: A Clearly Defined Reason for Being
 - 13 Why Starbucks fell from stardom
 - 26 How Toyota leads with a clear vision
 - 37 How Chipotle grew despite hostile leadership
 - 49 Why Southwest Airlines expanded during a pandemic
 - 61 How Tesla went from zero to world's most valuable car company
- 73 Principle #2: A Timeless Product
 - 74 Why TOMS went bankrupt
 - 78 Why Warby Parker remains a segment leader
- 85 Principle #3: A Raving Fanbase
 - 86 How Raving Fans save you on ad spend
 - 90 Why Raving Fans pay more and buy earlier
 - 94 Why Raving Fans stick around when you blow it
 - 97 Why two out of three *is* bad
 - 100 Get in touch

Downstream Principle #1

A Clearly Defined Reason for Being

How did **Toyota's** valuation eclipse **Ford's** by 5x?

And why is the average **Chipotle** door worth \$14 million, while the average **Q'Doba** location worth just \$740k?

How could **Southwest Airlines** gobble up market share when a pandemic shut down its industry?

And what gave **Tesla** the torque to go from zero to the world's most valuable car company in 15 years?

Principle #1 is the phenomenon behind the most successful companies across every industry.

It enables companies to grow and impact culture for decades.

Once you see it, you won't be able to unsee it.

It will help you understand **why** truly great companies make the decisions they do.

You'll see **why** Toyota's been telling the same old reliability story since the 1960s.

Why Chipotle went against its investors to switch pork suppliers and jack up the price of carnitas – winning the affections of customers in the process.

Why Tesla's takeover of Solar City was such a *"blindingly obvious"* move.

And **why** Southwest Airlines can forfeit billions of dollars on free checked bags, and still remain the only major airline to avoid bankruptcy.

We call it **“The Clearly Defined Reason for Being.”**

This is the founder’s most closely held belief. It is her vision for the future, a desire that is also deeply held by the customer.

This shared ideal forms the bond between company and customer. Used correctly, it serves as the backstop for every decision the business makes, and the resulting actions define, deepen, and energize the customer relationship.

We're going to explore **four publicly traded companies** that currently use their Clearly Defined Reasons for Being to make big money and big impacts on culture.

But first, let's look at one that used to.

Howard Schultz, Starbucks' CEO, really got it. He was a master of customer loyalty and market change.

He said:

“Whatever your culture, your values, your guiding principles, you have to take steps to inculcate them in the organization early in its life so that they guide every decision, every hire, every strategic objective you set.”

Howard had very specific **beliefs** about how coffee should be experienced, and how people should be treated.

He had a very specific **vision** about the way the world should be.

His customers could feel it.

He showed his **beliefs through business decisions**, product executions, and customer experiences. He went big. He bought the equipment and trained the baristas to introduce Italian espresso to the American market. In so doing, he kicked off what researchers now call the *Second Wave of Coffee Culture*.

His beliefs resonated deeply with customers. Many wanted the world to change in the exact same ways he did. Lines formed wherever Howard could snap up real estate.

Then, in 2000, **Howard left.**

The beliefs that once drove the company left with him. Employees were left without a clear standard for measuring decisions.

Each department chased different opportunities with different ideals, and the company began to fragment into **part coffee house, part fast food chain.**

Customers grew confused and lost interest. Independent and regional competitors took market share. And when the *Third Wave of Coffee Culture* began, **Starbucks wasn't leading.** Its products weren't even part of it.

Between 2006 and 2008, the stock dropped 75%.

Howard returned to lead a company in shambles. He spearheaded a mass firing of executives, shuttered hundreds of locations, temporarily closed all remaining stores to retrain the baristas (the core of the business,) and made **rapid acquisitions** to establish new lines of revenue.

Starbucks got its center back, and in the years that followed, it recovered well financially. But it **never recaptured its lead** of US coffee culture.

Howard retired in 2018.

With Howard at the helm, Starbucks performed remarkably. When he was absent, the company nearly lost it all. This is common.

As Jim Collins famously wrote:

“If your organization cannot be great without you, it is not yet a great organization.”

How could Howard have made Starbucks great **without** him?

For starters, he could have taken his own advice:

“Whatever your culture, your values, your guiding principles, you have to take steps to inculcate them in the organization early in its life so that they guide every decision, every hire, every strategic objective you set.”

What he's talking about is the **Clearly Defined Reason for Being**.

On the surface, a **CDRFB** seems simple. It's a short statement saying exactly the kind of change a company wants to effect in the world.

But think about it: Could you put your most passionate, closely-held beliefs about the way the world should be into a single sentence?

It is **unfathomably difficult** to pack such a big idea into a memorable sentence.

Yet when a founder does this one thing well, it's like **encoding DNA**.

The founder's beliefs can then replicate and grow with every new hire, every business decision, every customer interaction – whether the founder is at the helm or on the beach.

Howard likely thinks he gave Starbucks a Clearly Defined Reason for Being when he signed off on this statement:

“Our Mission: to inspire and nurture the human spirit – one person, one cup, and one neighborhood at a time.”

The words do sound nice. **But imagine you’re a barista**, or the head of procurement, or a marketing manager. How would you use this statement to guide your daily decisions?

It would be silly to pick on Howard Schultz. **The man is a luminary** – brilliant, successful, articulate, and sincere. His writings are filled with a heartfelt desire to inculcate his most closely held beliefs into the company he built. He knew exactly what to do.

But history shows he was unable to execute it in a way that could survive his absence.

Which means creating and implementing a CDRFB is **outrageously difficult and radically uncommon.**

But it's not impossible.

Let's see how a few exceptional companies have encoded their founders' **Clearly Defined Reason for Being**, and what the results have been thus far.

Kiichiro Toyota's first vehicles were **embarrassingly unreliable**.

But **he believed** deep down that cars and trucks should absolutely be reliable. Otherwise, what was the point?

Rather than leave his first customers hanging with useless products, he offered **free replacement vehicles and free repairs**. He then applied new design and manufacturing principles that, over time, made Toyota the global leader in reliability.

70 years after Kiichiro's death, **Toyota's focus is still reliability.**

There's a statement that guides the company toward that end. It's not pretty or romantic like Starbucks'. It will never win any copywriting awards. **But it is genius,** and the proof is in how wonderfully well it works.



***“We build cars and trucks
that help you and your family
go places reliably and safely.”***

That **simple statement** keeps everyone in the company going in the same direction – always toward greater reliability.

- Factory workers know the goal and how they'll be measured
- Suppliers know the priority for the parts they provide
- Leaders know what their strategies must accomplish

Those words are at work in every decision.


When the board set up the organizational structure, they devoted one of three C-level positions to quality control, making Toyota one of the only car companies with a Chief Quality Officer.

When Tundra Product Managers designed the Sport models, they added hood scoops for visual differentiation. But they're only for show. Functional scoops would have added airflow and boosted engine performance, but the wider variance in operating temperature could hurt reliability.

Reliability won out over performance.

Reliability has been the focus across 70 years of ads.

TOYOTA CAMRY




SPACE TRAVEL
Deep velour comfort for five adults. An easy loading 65.1 cu. ft. flat cargo area with split rear seatbacks folded down. New dimensions in space, comfort, and styling.

THE TROUBLE-FREE LEGEND GROWS: CAMRY WAGON.

The Camry Sedan achieved legendary status as the most trouble-free new car sold in America in 1985.* And great legends have a way of growing. This version is the all-new Camry Wagon, and it's added some things that bring a new dimension to the trouble-free legacy.

Little things like child-protector rear door locks—small, but so essential to security and peace of mind. Powerful things like an advanced, efficient engine for rapid acceleration, effortless highway cruising. Dollar-stretching gas mileage.**

Camry Wagon. The Camry legend takes on new dimensions.



FUTURE SHAPE
Stylishly dramatic, aerodynamically efficient lines that are as smooth as the ride. Both Camry Wagon and

We'll know how long it lasts when the first one wears out.



And that'll probably be a good while. Because the first Land Cruiser sold in this country back in 1958 is still going strong. It's owned by Frank Conn of Cle Elum, Washington.

He uses it mainly off-the-road. For fishing and hunting. He doesn't give it any special attention because it's 12 years old. And it doesn't demand any.

Now we can't say that a Land Cruiser you buy will last as long as Frank Conn's. But we can say that we wouldn't be surprised if it does.

That confidence is based on the way a Land Cruiser is designed and the way it's built.

It's made of steel, heavily reinforced. There are no large, vulnerable panels. It's held together by nuts and bolts and rivets and welds. On the front end there's a heavy steel bumper that can absorb a real blow. It sticks out about a foot so an 8,000-pound-rated winch can easily be added. Underneath the vehicle are skid plates. Pieces of steel that protect each vital part. Even the gas cap and oil cap are secured by chains.

There's also a heavy-duty suspension system. Heavy-duty front and rear axle. Steering stabilizer. And a tough, straight-six engine. All standard.

In addition, you get a few things that'll help keep your Land Cruiser running right. A handy tool kit. A service light with an extension cord. And over 850 Toyota dealer service facilities from coast-to-coast.

The Toyota Land Cruiser is definitely put together with the idea of staying that way. For a long, long time.

Just how long?
We'll have to wait and see.

Toyota Land Cruiser.

For your nearest Toyota dealer, call 800-243-0000 ext. 001. In Connecticut, 1-800-662-6301.

62

And customers worldwide have proven that they believe what Kiichiro believed. The fanatical adherence to reliability has given Toyota:

- The highest same customer repurchase rate among major automakers
- The highest average resale value among major automakers
- Per model sales figures that often outstrip the closest competitors by 2-to-1

Compare Toyota's CDRFB with Ford's mission statement.



"We build cars and trucks that help you and your family go places reliably and safely."

- Customers believe it
- Clear, concrete, easy to measure
- How would a factory worker or manager "help you and your family go places reliably and safely?"
- What would it mean for a product designer to "help you and your family go places [more] reliably and safely" than competitors?



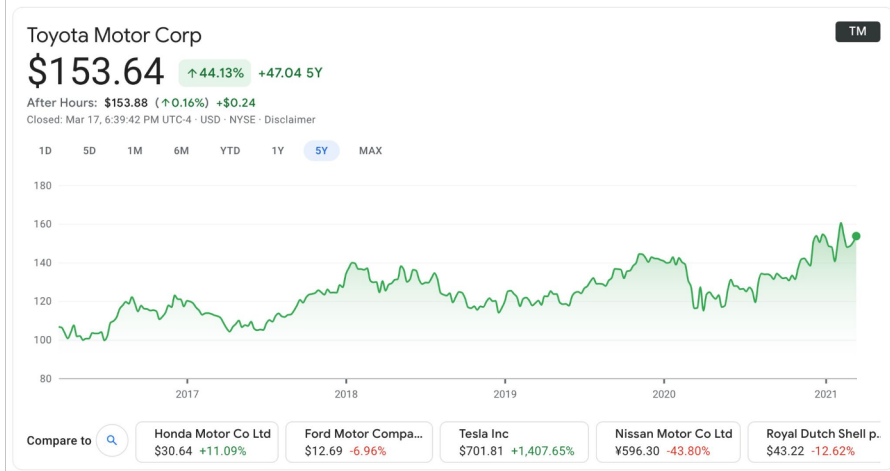
"Our mission is to drive human progress through the freedom of movement."

- Do customers really believe Ford drives human progress?
- Abstract, intangible, hard to measure
- How would a factory worker or manager "drive human progress through the freedom of movement?"
- What would it mean for a product designer to "drive [more] human progress" or offer more "freedom of movement" than competitors?

Ford is excellent executionally. But the lack of a clear purpose appears in the company's strategic decisions, product design, manufacturing, supply chain, distribution, marketing, customer relations...

And ultimately, the stock price.

The difference is clear: 1 Toyota = 5 Fords



 **TOYOTA** **\$249.77B Market Cap**



 **Ford** **\$49.59B Market Cap**

When a company and its customers are **connected by a common belief** about how the world should be, **the bond is strong**.

Such connective beliefs can be about literally anything, from cars to carnitas.

Steve Ells had a belief about carnitas, and food systems in general.

He believed that all people should have access to food that's good for their bodies and the planet. But as a classically trained chef, he knew the sins of Big Agriculture and Big Fast Food.

The way things were really bothered him. And in 1993, he opened a burrito joint called Chipotle.

There are two statements of Steve's beliefs that **guide everything Chipotle does.**

Neither are as concrete as Toyota's, yet they operate quite effectively on employees, suppliers, and customers.



“Food with integrity.”

“Cultivating a better world through food.”

These words are more than just a flashy ad agency paint job.

They are **backed by crisp definitions** and a robust set of actions, which the company reports to stakeholders quarterly.

CULTIVATE A BETTER WORLD

2019



CHAPTER

1



CHAPTER

2



CHAPTER

3

CULTIVATE A BETTER WORLD

Our second report update, based on 2019 data, gives a look into our journey to Cultivate a Better World. Through transparent data and aggressive time bound goals in three key areas of our business (Food & Animals, People, and the Environment), this report shows how sustainability is at the core of our business. Sustainability is a part of everyone's role at Chipotle. Our commitment to responsible business starts at the top and permeates all levels of our operations.

Please click the links below to learn more about our efforts:

1. FOOD & ANIMALS

It has always been a top priority to make sure the food we serve is safe and delicious to eat, and is made from ingredients that we have sourced responsibly and sustainably.

2. PEOPLE

Everything at Chipotle begins with people. From the farmers who cultivate our food to our employees who create a place to which customers want to return.

3. ENVIRONMENT

As we have grown, our responsibility to be conscientious about sustainability is compounded and we embrace our role as advocates. We continue to advocate for environmentally and socially responsible food policy.

Chipotle's purpose is bigger than just burritos. The company's building a coalition of customers, employees, and suppliers to shift agricultural practices and food supply chains worldwide.

Steve stuck to this purpose in difficult times, even when McDonald's (which doesn't share Steve's beliefs) owned 90% of the company.

In 1999 Steve decided to shift pork sources to only open-range suppliers. This necessitated a full dollar increase in the price of a carnitas burrito. McDonald's execs assumed higher prices would hurt sales and were against the move.

The more expensive carnitas hit the menu anyway, alongside printer-paper explanations about sourcing.

Chipotle customers believed what Steve believed. They wanted food with integrity.

Sales of the more expensive carnitas went through the roof.

But that's not all Chipotle does to practice what it preaches.

- In 2001, the company committed to using naturally-raised meats, organic produce, and dairy without added hormones.
- When supply chain issues cause ingredients to be unavailable or substituted with “not naturally raised” alternatives, clear in-store notices appear. Customers are never tricked into eating food without integrity.
- Chipotle works with newly established organic farms and offers three-year commitments that help operations get off the ground.

These behaviors on their own are remarkable. But they become even more amazing when you **compare them to the path of a seemingly-identical competitor, Q'doba.**

Both companies were founded in the mid 90s in Denver.

Both sell build-your-own-San-Francisco-style-burritos.

Both price menu items in the same way.

Both riff on Aztec art and industrial architecture for their hip, fast-casual atmospheres.

But compare Chipotle's CDRFB with Q'doba's mission.



**Food with integrity.
Cultivating a better world through food.**

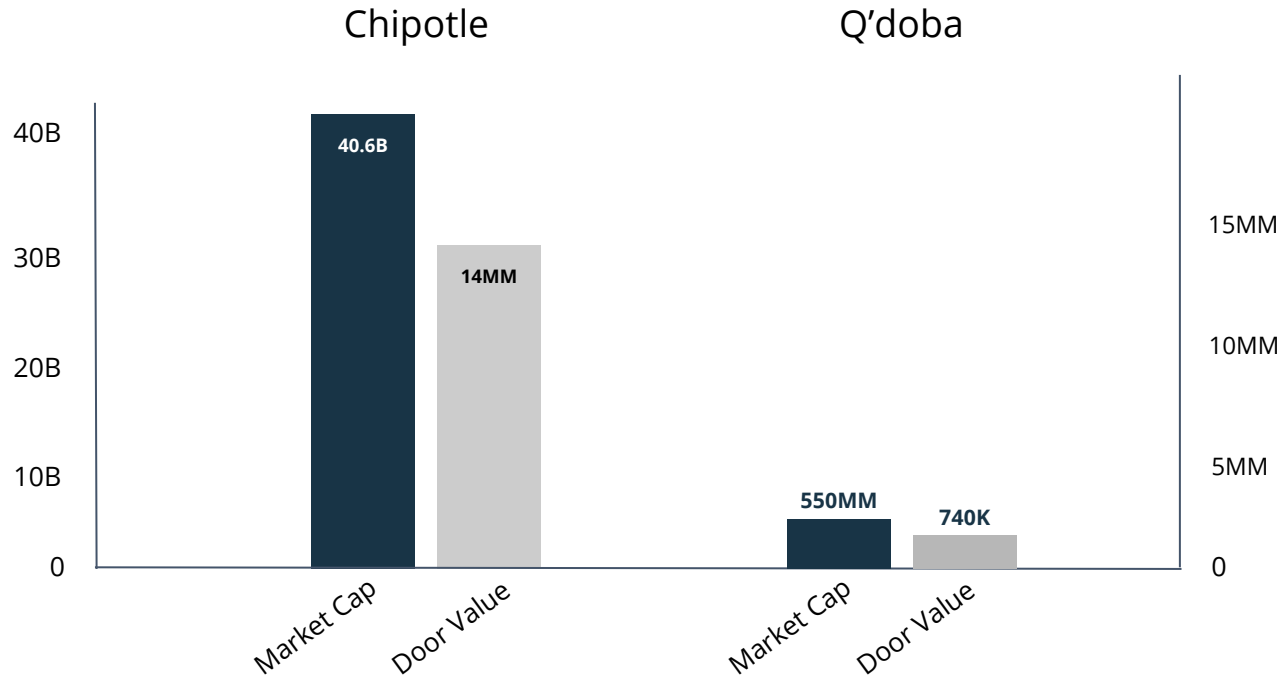
- Customers believe integrity is lacking in the world, and that it's ***important***
- Clear, concrete, easy to measure
- Transcendent, moral, ethical, philosophical
- What would it mean for a shift manager to “serve food with integrity?”



Our mission is to bring flavor to people's lives through our communities, our people, our restaurants, and our food.

- Do customers believe flavor is lacking in the world, or that it's ***important?***
- Abstract, intangible, hard to measure
- Trite, irrelevant
- What would it mean for a shift manager to “bring flavor to people's lives?”

Each Chipotle door is worth 18x a Q'Doba door.



<https://www.mashed.com/162854/the-untold-truth-of-qdoba/>
<https://www.fool.com/investing/2019/12/03/iack-in-the-box-looks-for-growth-after-qdoba.aspx>
<https://www.bloomberg.com/news/articles/2019-11-18/apollo-global-management-exploring-sale-of-qdoba-restaurants>

Of course, if you really **want to learn about business**, study the airlines.

Every day, these sprawling, complex companies face thin margins, variable costs, government regulations, gate count caps, unionized workforces, price-obsessed customers, and fierce competition.

Given all those battle fronts, would a **Clearly Defined Reason for Being** make any difference?

Herb Kelleher believed flying shouldn't be a production, but a casual, lighthearted affair.

He believed **kindness was more valuable than being impressive**, and that kindness costs a lot less to execute.

On June 18, 1971, his first low-fare commuter took flight.

Today, **Southwest is the only airline** with anything remotely like a **CDRFB**:



“The Mission of Southwest Airlines is dedication to the highest quality of customer service delivered with a sense of warmth, friendliness, individual pride, and Company Spirit.”

As a result:

“Southwest has been **the most profitable airline** over the last half century.”

“It's the only major airline that **hasn't filed for bankruptcy.**”

“Southwest achieved this remarkable feat in a cutthroat industry **by doing things differently** than its peers.”

-(Barrons) 2020

Perhaps more effective than the stated Reason for Being is the one implied by Southwest's simple 2-part filter for decisions:

1. Will this make the customer feel more cared for?
2. Will this save money in the long run?

When the answer to both questions is yes, they proceed.

The formula is especially **evident in times of crisis.**

In the third quarter of 2020, with the pandemic raging, Southwest Airlines Lost \$1.2 billion.

An easy fix would have been to start charging customers for checked bags. American Airlines made \$1.2 billion in bag fees alone in 2018.

CEO Gary Kelly could have been eaten up with the decision. But instead, **he understands the foundation for Southwest's relationship with its customers.** When he asked the two questions, the answer was clear.

As he told Forbes:

“We have no plans to charge for bags. We have extensive data and analysis that shows, with our brand, we would lose more passengers and more revenue than we would gain from charging for bags.”

The pandemic brought on another tough decision. Many airlines were loading planes as much as possible to stem losses.

Southwest could have followed suit. But instead, they announce they'd be keeping middle seats open through the end of November 2020.

Yes, it cost them a third of their potential short-term revenue. **But it made customers feel cared for and safe.** And Southwest knows moves like that will result in many more full planes in the future.

Deep customer loyalty is an enormous competitive edge.

Southwest can spend less on marketing and third-party ticket sellers, and can focus more on operating efficiencies, resulting in more free cash than its competitors.

And when competitors get pinched, Southwest expands.

During the financial crisis of 2009, big airlines reduced gate counts at Logan and LaGuardia. Southwest gobbled up gates, and the new cities made up 20% of the airline's 2010 revenue growth.

In the year following the Covid-19 pandemic, Southwest has announced the addition of 10 new cities to its network.

Purpose Companies VS Imposter Companies

Market Summary > Southwest Airlines Co
NYSE: LUV

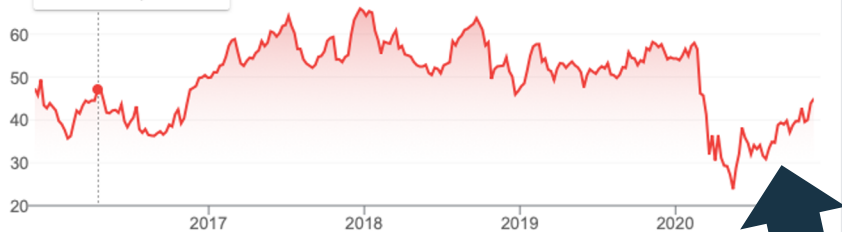
+ Follow

44.93 USD +1.04 (2.37%) ↑

Nov 16, 2:09 PM EST · Disclaimer

1 day 5 days 1 month 6 months YTD 1 year **5 years** Max

47.04 USD Apr 15, 2016



Open	46.06	Div yield	1.60%
High	46.20	Prev close	43.89
Low	44.54	52-wk high	58.83
Mkt cap	26.48B	52-wk low	22.46
P/E ratio	-		

28.48B Market Cap

Market Summary > Spirit Airlines Incorporated
NYSE: SAVE

+ Follow

20.11 USD +0.38 (1.93%) ↑

Nov 16, 2:11 PM EST · Disclaimer

1 day 5 days 1 month 6 months YTD 1 year **5 years** Max

35.78 USD Aug 25, 2017



Open	21.36	Div yield	-
High	21.36	Prev close	19.73
Low	19.96	52-wk high	47.50
Mkt cap	1.96B	52-wk low	7.01
P/E ratio	-		

1.96B Market Cap

Notice the upward growth trend in Southwest's Stock VS Sprit's flat growth trend.
In times of economic hardship consumers flock to the companies they know and trust.

When a company shows it shares the same deeply-held beliefs as its customers, the company grows.

Sustainable growth allows the company to develop ideas, products, and behaviors that shape culture. Those cultural shifts lead to more company growth, which in turn accelerates broader cultural shifts.

This powerful cycle doesn't start with a product innovation, a disruptive technology, or a sophisticated marketing plan...

It starts with a Clearly Defined Reason for Being.

Kind of like the one that took the sensible notion of “sustainable energy” and strapped it to a scud missile.

That’s right, we’re talking about Tesla.



TESLA

“The very purpose of Tesla’s existence is to accelerate the world’s transition to sustainable energy.”

Why Does the Tesla CDRFB Work?

- **It's tangible:** managers and employees can easily make decisions based on the RFB.
- **It's durable:** the company can stay focused on the mission for decades to come.
- **It's applicable:** to every level of the business: People, Products, Messaging, Management, Operations, Financials, Future Planning.
- **It's transcendent:** customers across the globe are likely to remain loyal, because they are the heroes in the story, using their Tesla products to make a better future for those around them.
- **It's emboldening:** the company is encouraged to move fast to develop new sustainable energy technology and integrations.

Both **Tesla and its customers believe** that the future will be better than the present – faster, more exciting, and with fewer problems.

This belief gives Tesla and its customers a common goal: **build the future faster, together.**

Tesla applies its CDRFB to everything: questions of who to hire, how to treat employees, and even how to handle legal reporting.

We're on a mission to accelerate the world's transition to sustainable energy. Along the way, we're building a culture that is safe, fair, and inclusive for all of our employees. It is incredibly important to Tesla that everyone looks forward to coming to work every day. We are proud to have built a company filled with employees of all backgrounds who possess the energy and drive to accelerate our vision forward.

Tesla's mission is to accelerate the world's transition to sustainable energy. Being the world's first vertically integrated sustainable energy company and a leader in innovation requires a diversity of thought and backgrounds that can be achieved only by maintaining a diverse and inclusive workforce. Moreover, implicit in our mission is a mandate to not only follow the law, but to do the right thing. Contrary to the proponent's vague claims, we believe that employment compliance issues are not an issue at Tesla and, as we have pledged in our public annual Impact Report, that Tesla has designed our workplace and policies to provide all employees with a respectful and safe working environment by not tolerating any discrimination, harassment, retaliation, or any other mistreatment at work, whether based on a legally protected status or otherwise. We believe that rather than devote attention and resources to reporting on an issue as to which the proponent has inaccurately characterized the fundamental premise, Tesla, its employees, and its stockholders would be better served by continuing to execute on tangible workplace goals and our mission.

THE BOARD RECOMMENDS A VOTE *AGAINST* THE STOCKHOLDER PROPOSAL REGARDING REPORTING ON EMPLOYEE ARBITRATION.

The CDRFB guides what Tesla builds, and for whom.

Primary Driver

Making our products available to as many people as possible is key to our ability to achieve our mission. Since its founding, Tesla has been focused on increasing the utility of products - making them better and more useful to our customers - while at the same time making them increasingly more affordable. Tesla fundamentally believes that you shouldn't have to choose between price, quality, usability, and sustainability.

Price Equivalency

The foundation of Tesla's mission rests first and foremost on our products. We are not just trying to build the best electric cars, we are striving to build the best cars, period. Our focus from the beginning has been to develop products that are not only sustainable, but also superior to fossil-fuel alternatives in every way. Many incorrectly believe that choosing sustainable products requires consumers to compromise on price or performance, but Tesla vehicles combine performance, safety, efficiency, and competitive prices. Similarly, Tesla's energy generation and storage products power both urban and remote communities with reliable, affordable energy.

The CDRFB guides hiring decisions and supplier selections

Opposing Statement of the Board

The Board has considered this proposal and has determined that it would not serve the best interests of Tesla or our stockholders. Inherent in Tesla's mission to accelerate the world's transition to sustainable energy is ensuring a better present and future for humanity, which includes a strong commitment to human rights that is demonstrated in part by our existing framework of fulsome public disclosures.

With respect to Tesla's supply chain, our Supplier Code of Conduct and Human Rights and Conflicts Minerals Policy on our website already address human rights. These policies state: (i) specific standards for human rights and labor practices with which Tesla's suppliers must comply, (ii) that Tesla will audit and investigate such compliance, (iii) that Tesla will take actions against non-compliant suppliers and Tesla personnel, and (iv) a mechanism to express any related concerns to the Board. Tesla also files annually with the SEC a Conflict Minerals Report that specifies in detail our processes for identifying and addressing risks relating to conflict minerals and performing related due diligence in our supply chain.

The CDRFB guides strategic risk tolerances

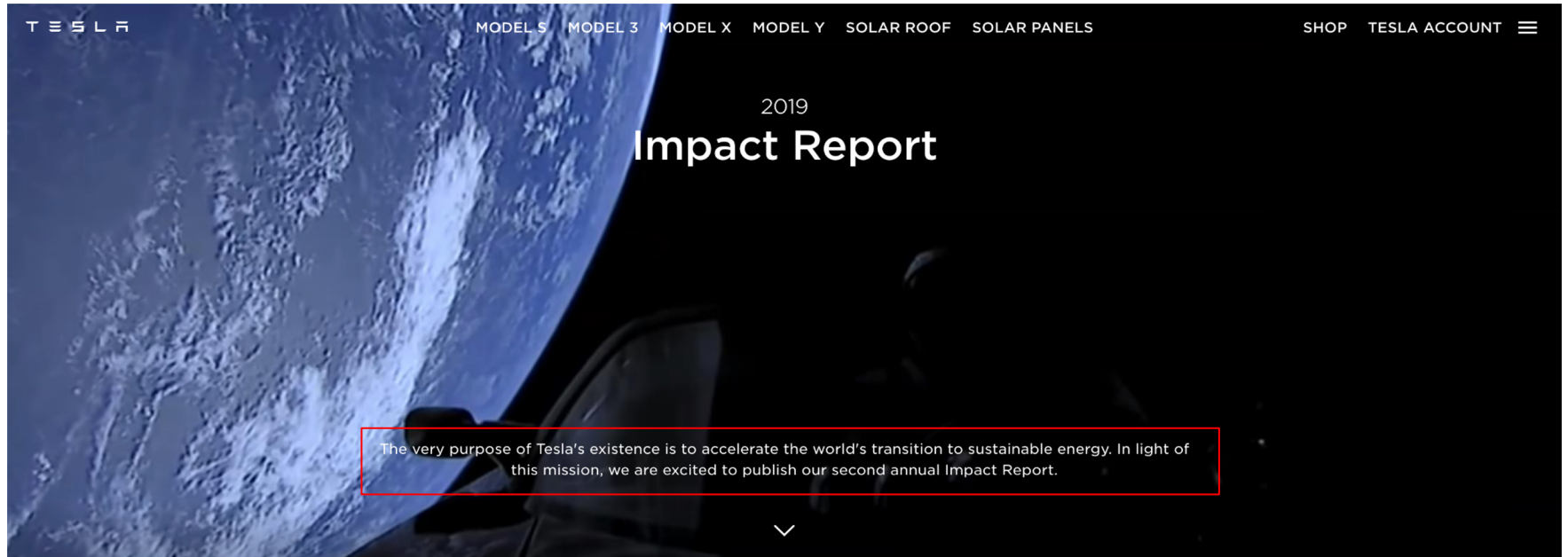
Will “X” help us accelerate the world’s transition to sustainable energy?

Back in 2016, Tesla acquired solar panel manufacturer SolarCity, billing the \$2.6 billion deal as an opportunity to create “the world’s only vertically integrated sustainable energy company.” From a SolarCity solar panel to a Tesla battery, the company promised, the in-house supply chain would scale up clean energy for all and provide cost synergies to the businesses and shareholders.

Investors were skeptical of the deal from the beginning, and Tesla stock plummeted by more than 10% upon the June announcement. Going into 2016, SolarCity stock was already plunging and the company was going through layoffs.

Musk has said the deal is “blindingly obvious” because, in his mind, the desires of Tesla customers overlap with those of SolarCity. But the acquisition could be incredibly dangerous for Tesla, and Musk himself. It’s a long-term investment with no real short-term payoff, and both Tesla and SolarCity will need a lot of cash to stay operational until this deal starts to bear fruit.

Tesla reports regularly and publicly on its progress toward the **Clearly Defined Reason for Being.**



The very purpose of Tesla's existence is to accelerate the world's transition to sustainable energy. In light of this mission, we are excited to publish our second annual Impact Report.

But isn't the Tesla situation similar to Starbucks?

Isn't Elon still involved? And if he leaves, won't Tesla fall apart?

Maybe. But Musk has a history of standing up businesses, giving them clear direction, and slowly stepping away. He doesn't even remotely dedicate his full time to Tesla today, as he's currently also building:

- SpaceX
- Neuralink
- StarLink
- The Boring Company
- Whatever else he's thought of between the time we wrote this and the time you're reading it

Musk can build many ambitious businesses at once, acquire top talent to run them, and develop uniquely strong relationships with his customers because...

He knows how to wield the power of a CDRFB.

Of course, a **Clearly Defined Reason for Being** does not, on its own, create a company that will matter 100 years from now.

Downstream Principle #2

A Timeless Product

Blake Mykoski started one of the world's purest cause-driven companies. TOMS.

He had a very effective Reason for Being:

“For every pair of TOMS shoes purchased online or at retail, the company will provide a pair to a child in need. One-for-One.”

The “One-for-One” model was a remarkable notion. Memorable, clear, and inspiring, it captured consumers’ imaginations.

And it was easy for employees to see the good of their work, which helped TOMS draw remarkable talent.

The company quickly ballooned to a \$625 million valuation.

The problem was that **TOMS' Reason for Being had nothing to do with shoes.**

The company didn't offer a unique value or customer experience around shoes specifically, and the One-for-One model could be applied to literally any consumer good.

This left TOMS open to attacks from two fronts:

1. Other shoemakers copied TOMS signature "Alpargata" model and sold it for much cheaper. This cut off customers who'd been purchasing for fashion reasons.
2. Dozens of other One-for-One companies sold eyeglasses (Warby Parker), soccer balls, socks, toothbrushes, you name it. Would-be TOMS customers could then participate in the feel-good model without TOMS' involvement.

Sketchers found a way to attack both fronts simultaneously.

Sketchers' BOBS model of shoe not only ripped off the Alpargata look, it came with a promise that **TWO** pairs would go to people in need for each pair sold at retail, doing double the good TOMS was doing.

TOMS was beaten handily at its own game, and sales tanked.

Two years after the \$625 million valuation, TOMS was taken over by creditors.

TOMS proves that a Reason for Being, even a clear and effective one, does not make for a culture-shaping, profitable company that lasts.

The product must also be a direct and necessary manifestation of the Reason for Being.

Which is exactly what Warby Parker, a One-for-One peer of TOMS', achieved.

To be fair, Warby Parker's CDRFB is more specific than TOMS':

"We believe that buying glasses should be easy and fun. It should leave you happy and good-looking, with money in your pocket. **We also believe that everyone has the right to see.**"

Like TOMS, for each pair of Warby Parkers purchased, the company gives a pair of prescription glasses to a person in need.

But unlike TOMS, Warby Parker has innovated in its industry by:

- offering quality designer eyeglasses for a fraction of the price of traditional retailers
- pioneering online glass-fittings with at-home frame try-ons and camera-phone pupil distance measurements to deliver in-person glass-fitting results remotely

TOMS products are just like any other in the category, and they happen to come with a feel-good social benefit.

Warby Parker is different. The belief that “everyone has a right to see” has led them to produce high quality glasses that are cheaper, more accessible, and more convenient to buy.

Warby Parker makes a Timeless Product that happens to come with a feel-good social benefit.

A Timeless Product? When a product is an authentic creation derived from the founder's core beliefs, it will have a timeless quality:

- It won't chase, or even fit within, a current fad.
- It will solve a problem in a unique way that will still be relevant in 10 years.

When a Timeless Product is created in direct response to a company's CDRFB, the effect is profound.

TOMS is currently on life support.

Warby Parker was recently valued at \$3 Billion.

But a Reason for Being only has power if it **resonates deeply with many.**

And a Timeless Product is only valuable if it's **radically useful to many.**

Which brings us to our final principle for investing.

Downstream Principle #3

A Raving Fan Base

Raving Fans do your marketing and sales for you,
which frees up cash and talent.

In 2019, Ford and Toyota each sold 2.4 million vehicles in the US. **But Ford had to spend \$1 billion more on advertising to do it.**

(Toyota spent \$1.51 billion to Ford's \$2.58 billion)

In 2017, McDonald's was 9x the size of Chipotle by market cap. You'd think with its well-known brand, geographic presence, and minimal growth, the arches wouldn't have had to go big on ads. **But it spent 20x more than Chipotle on paid media.**

Tesla reportedly spent zero dollars on paid media in 2019, and still sold through all 367k vehicles its factories were able to produce.

These gaps in ad spend are incredible.

And they exist because **Raving Fans do your marketing for you.**

Marketing through Raving Fans **doesn't just save money**, it's more effective than paid media.

Take for example Greg, who is broadcasting this story to strangers on the internet. Just think how many times his friends and family have heard it.



greg says:

04/08/2018 at 4:08 am

Love it. First Toyota Truck I had was a 79 SR5 brown truck with stripes....just like the one in the ad.

Drove it to160k and my G.F. got hit in it in 85 an it was Totaled out....Bought a 86 model and drove it to 245k....and bought another Toyota truckin 97...

Raving Fans also pay more, gladly buying without discounts or incentives.

On average, **Rolex raises prices 5%** on the same watches every year, with no loss in sales.

Apple offers a mere 10% off for those in education. **All other consumers buy at full retail.**

Toyota updates its vehicles infrequently, **yet charges more each year for the same model.** Plus, used Toyotas hold their value, so the new models face very little price pressure from the used market.

Southwest Airlines controls its sales channel, and it doesn't have to use or pay third-party ticket sellers.

Raving Fans buy new products early, even in advance,
which helps with forecasting and cash flow.

The Rolex GMT Master II relaunched in 2018 to a massive response in pre-orders. **When the wait time reached ten years, the company simply suspended orders.** Customers waiting ten years to receive their watch weren't mad. They expressed excitement and gratitude at making the cut-off.

Raving Fans stick around, even when you screw up.

Hundreds of Chipotle customers suffered infections of Norovirus and food poisoning in 2015 and 2017.

The company took the opportunity return to its Reason for Being: Food with Integrity. Chipotle made big apologies with ads in newspapers where customers had been sickened. It also investigated each instance, found that insufficient training was the issue, and announced changes in staff training.

Customers believed Chipotle's Reason for Being was sincere. **Sales recovered and eventually boomed.**

In the mid 1990s, a large percentage of Patagonia button-up shirts were sewn improperly, and the buttons would fall off.

Rather than sending good clothes to the landfill, Patagonia built a repair center and took out ads offering free repairs. **Customers cheered that the company was practicing what it preached**, and this incident set the stage for subsequent highly successful Worn Wear campaigns.

Raving Fans will stick around as long as you stick to your Reason for Being and keep delivering Timeless Products.

TOMS stuck to its CDRFB, but fell short without a Timeless Product.

Starbucks had a Timeless Product, but fell short without a CDRFB.

Which is why we only invest in companies that meet – or show remarkable promise in meeting – all three of our principles.

At Downstream Capital, we believe the work you do today should matter 100 years from now.

And the only way a company will matter in 100 years is if it has:

1. A Clearly Defined Reason for Being
2. A Timeless Product
3. A Raving Fanbase

Of course, companies that perfectly meet our principles likely don't need our help.

That's why we work closely with companies that show remarkable promise in these three key areas. We help founders clarify their purpose, then assess the strength of the relationship between the company and the customer via live market testing.

If the company demonstrates a unique ability to grow sustainably for the long term, we make an investment offer.

Got questions?

Get in touch...

Randall Slimp, *Co-founder / Partner*
randall@downstreamcap.com
505.946.7421

Nicholas Kirchner, *Co-founder / Partner*
nicholas@downstreamcap.com
262.902.0138

Legal Disclaimers

● **INVESTMENT IN Downstream Capital, LLC (DSC) INVOLVES HIGH RISK** Investments in DSC will be offered exclusively to financially sophisticated, accredited investors, high net worth individuals, family offices and institutional investors capable of evaluating the merits and risks of an investment in DSC. Interests in DSC are highly speculative and illiquid investments that involve substantial risk. No active secondary market in the interests exists, DSC does not anticipate that any such market will develop. Interests in DSC are suitable investments (if at all) only for a limited portion of the risk segment of an investor's portfolio. Investors could lose all or substantially all of their investment in DSC. This presentation does not constitute an offer to sell securities, but instead is being provided as an informational summary.

● **NO OFFERING OF INVESTMENT OPPORTUNITY** The information contained in this presentation has been prepared solely for informational purposes and is not an offer to buy or sell or a solicitation of an offer to buy or sell any securities or to participate in any investment strategy and may not be used or relied upon in connection with any offer or sale of securities. Securities will be offered only to designated potential investors by means of a definitive confidential private placement memorandum and related materials, which will contain important information regarding DSC and any such offering, including a description of important risk factors which every prospective investor should consider. All information herein is subject in its entirety to that in the definitive confidential private placement memorandum of DSC. Any description of DSC's business and finances is for illustrative purposes only. DSC's actual business model may vary from the parameters described herein.

● **FORWARD-LOOKING STATEMENTS** This presentation contains forward-looking statements. These forward-looking statements include, in particular, statements about the plans, strategies and prospects of DSC. These statements are based on our current expectations and projections about future events. The words "may," "will," "should," "expect," "plan," "seek," "intend," "anticipate," "believe," "estimate," "aim," "potential" or "continue" or the negative of those terms or other similar expressions are intended to identify forward-looking statements and information. You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of their respective dates. These forward-looking statements are based on assumptions and estimates by management of DSC that, although believed to be reasonable, are inherently uncertain and subject to risks and uncertainties that could cause actual results to differ from historical results or those anticipated or predicted by such forward-looking statements. In light of these risks and uncertainties, the matters referred to in the forward-looking statements contained in this presentation may not, in fact, occur. We undertake no obligation to update or revise any forward-looking statement after the date of this presentation as a result of new information, future events or otherwise, except as required by law. We qualify all of our forward-looking statements by these cautionary statements.

● **COMPANY-SOURCED INFORMATION** The information contained in this presentation was obtained from DSC and other sources. Any statements, data, estimates, or projections contained herein have been prepared by management of DSC and may involve elements of subjective judgment and analysis that may or may not prove to be accurate. While the information contained herein is believed to be reliable, none of DSC's or its respective representatives, by delivery hereof, makes any representations or warranties, expressed or implied, as to the accuracy or completeness of such information. This presentation does not intend to contain all of the information that may be required to evaluate a financial commitment to DSC or any other transaction, and any recipient hereof should conduct its own analysis of DSC and the information contained or referred to herein.

● The information contained herein is not intended to be, nor should it be construed or used as investment, tax or legal advice. Before making any commitment to DSC, you should consult with your professional advisor(s) to determine whether conducting business with DSC is suitable for you in light of your objectives and financial situation. The definitive confidential private placement memorandum and related materials contain important information concerning risk factors, including a more comprehensive description of the risks and other material aspects of a commitment to DSC, and should be read carefully before any financial commitment is made.