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James L. Kroeker, Vice Chairman
Gary R. Buesser, Board Member
Financial Accounting Standards Board   VIA EMAIL
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Dear Messrs. Kroeker and Buesser:

We would like to endorse and elaborate on a proposal related to customer data disclosure that was submitted to the Board by Rob Markey of Bain & Company on December 10, 2019.

We believe that corporate valuation techniques have long relied on inadequate data because they are based on accounting practices and standards developed for a different era. Projecting a firm's future cash flows purely on the basis of traditional financial data (e.g., income statement, balance sheet, and statement of cash flow line items) does not arm investors with the insights they need to value companies adequately. What is missing are disclosures related to the quality and quantity of relationships the firm has with its customers. With the advent of the "loyalty economy," better customer-level information tracking, and improvements in predictive modeling, it is now possible to observe, project, and understand the value of customer relationships in a way that executives and investors can seamlessly embed them into their valuation practices.

Theta Equity Partners, the company we founded and run together, has a growing business supplying enhanced corporate valuation estimates to investors. We use a technique we call Customer-Based Corporate Valuation (CBCV) to make more accurate cash flow predictions from the "bottom up" instead of the conventional "top down" approaches. We conceived this framework through award-winning academic work we have done as professors of marketing at, respectively, Emory University's Goizueta School of Business and the Wharton School of the University of Pennsylvania

CBCV exploits a very simple accounting identity: all revenue must come from customers who place orders with an associated spend amount. Acknowledging this, we use best-in-class models from the marketing science literature to predict four critical (but intuitively sensible) quantities: (1) how many customers a firm will acquire in the future (and at what cost), (2) how long current and future customers will stay before churning, (3) how many orders they will place, and (4) how much they will spend on those orders. Bringing these models together, we arrive at more accurate projections of revenue and a more informed view of the company's underlying unit economic health. We make these predictions using a variety of different customer-related disclosures, typically obtained through SEC filings and investor presentations. We regard this as an alternative way to project future cash flows that enhances (but does not fully replace) the predominant valuation modeling practice today.

A more detailed description of our techniques for valuation of subscription-based firms can be found in our paper "Valuing Subscription-Based Businesses Using Publicly Disclosed Customer Data" (Journal of Marketing, 81(1), 17-35), which is available for download at https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2701093. The analogous methodology for non-subscription firms is available in another paper, "Customer-Based Corporate Valuation for Publicly Traded Non-Contractual Firms" (Journal of Marketing Research, 55(5), 617-635), which is available at https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3040422.

Despite their recent publication dates, the impact of these papers in the business research community has been dramatic. The former paper has been downloaded over 16,000 times – making it the most downloaded paper ever in the "marketing science" area of the Social Science Research Network, and one of the 170 most downloaded papers of all time across any discipline. Even more impressively, it has about 60% more downloads than the next most popular paper. Likewise, the latter paper is already #5 on the all-time list for the marketing science area, with over 7,000 downloads. This is remarkable in an absolute sense, but even more so considering that the paper was published barely more than a year ago.

Part of the reason for the enormous impact of these papers is that they have proven to be equally appealing to the practitioner community as well as academic researchers. A particularly illustrative example of how we have applied this to a public company is our analysis of Wayfair, the e-commerce furniture retailer we study in the latter paper. This analysis was featured or referenced six times in the Wall Street Journal, in addition to mentions in Fortune, Boston Magazine, Bloomberg, and Barron's. We have performed many other public company analyses using publicly disclosed customer data as well. Examples include:
- Lyft (https://www.thetaequity.com/lyft-ipo),
- Blue Apron (https://www.linkedin.com/pulse/detailed-look-blue-aprons-challenging-unit-economics-daniel-mccarthy),
- HelloFresh (https://www.linkedin.com/pulse/hellofresh-has-bigger-customer-retention-problem-than-daniel-mccarthy/),
- Slack (https://www.thetaequity.com/slack-ipo),
- Revolve Clothing (https://www.thetaequity.com/revolve-ipo),
- Farfetch (https://www.thetaequity.com/farfetch-ipo, https://www.thetaequity.com/farfetch-q2-2019),

and many other companies whose names we cannot disclose for confidentiality reasons. These analyses have also garnered a significant amount of media coverage, especially our analysis of Blue Apron. While this is a small sample, note the breadth of these applications: covering products and services, business-to-business and business-to consumer firms, domestic and international, and big-ticket purchases and everyday items. This is indeed indicative of the universality of the CBCV approach.

To date, we have performed CBCV analyses on over sixty companies, publicly traded and privately held, primarily on behalf of investor clients. These highly demanding and hard-nosed investors happily pay for our services for two reasons. First, they believe that the analysis adds a unique and vitally important dimension to their modeling of a company's future cash flows and therefore their estimates of company value. Second, they believe it helps them better understand a company's unit economics (e.g., how much the company is spending to acquire customers versus how much they are getting back after acquisition, and how these figures vary over time and across acquisition channels). Without some sort of view into a company's unit economics, these investors are increasingly uncomfortable – while they have a good understanding of company performance as measured by their traditional financial yardsticks, they do not want to be surprised by poor future financial performance stemming from customer-related issues (e.g.,

rising acquisition costs and/or weak customer retention). High-visibility scrutiny associated with companies such as WeWork and Uber are particularly salient examples, but similar questions and concerns are arising for many other companies every day. It is very common to see companies going public with high sales growth but large losses, for example. A sound understanding of customer lifetime value (CLV) provides important insight into whether or not there is a path to profitability for these companies.

We can only form these more accurate cash flow projections and unit economic assessments when we have adequate customer-related disclosures. Complete transactional and CRM data – the sort of data that a private equity firm will often ask from a prospective investment – is more than adequate to run our models. For this reason, many of our CBCV studies have been performed on behalf of private equity firms. For publicly traded companies, we don't have the luxury of observing a transaction log. Instead, we must rely on a collection of aggregated summaries of the transaction log.

Much of our academic research has been to help researchers and investors understand which collection of these summaries is "best," in the sense of allowing them to conjure up nearly the same predictions that we could make with the full transaction log, and how long they need to observe those summaries for before having enough confidence that their predictions will be accurate. The aforementioned papers (among other CBCV-related research we have done) lay out the mathematical, statistical, and computational "recipe" to enable these kinds of accurate projections and inferences from relatively limited data.

What is heartening is that our research suggests we do not need much in the way of customer-related disclosures (or computational complexity) to make highly accurate projections for the aforementioned interlocking customer acquisition, retention, ordering and spend models, as long as the right disclosures are available and the models are specified and calibrated in the right manner.

In this regard, we strongly endorse the disclosure requirements and standards that Mr. Markey has recommended in his letter. We had the good fortune of discussing what those disclosures should be with Mr. Markey and his team, and our academic work supports his suggestions. In each of the CBCV analyses that we mentioned above, we had data of the form recommended by Mr. Markey in his letter. As mentioned earlier, demand for this work, in addition to the work we have performed on behalf of private equity firms with even more detailed data, is what has driven the success of our company, Theta Equity Partners. The mere fact that there are so many publicly traded companies – we would estimate at least 80 – that already provide requisite data for customer-based analyses such as ours is a testament to both the ease with which companies can report and disclose these figures, and the value to investors of disclosing them. Moreover, a substantial proportion of recent initial public offerings have been for companies that disclosed very material amounts of customer data in their S-1 filings. Thus we are not advocating for measures that no company has disclosed; we simply would like to ensure that the best of these measures be disclosed by more companies, more regularly, and more consistently.

We lament the fact that today's disclosure regime fails to produce consistent, complete customer information for the vast majority of public companies. As a result, investors are often guessing about crucial drivers of corporate value, such as the number of new customers acquired during a particular reporting period, the cost of new customer acquisition, or even the number of active customers a company has at the end of a given period. Because firms are not required to disclose any of this data, investors are provided with cherry-picked disclosures, with cherry-picked definitions, that are sometimes changed or removed in future periods. A complete lack of disclosure rules (or even guidance), coupled with companies' incentives to disclose measures that paint them in the best possible light, make it hard to expect anything less than the "wild west" for company-related disclosures. Practically speaking, we

cannot run our models at all on companies that do not disclose adequate data, and thus their investors are missing out on important insights that they should have every right to know.

We believe that the benefits arising from enhanced disclosure requirements for customer data would not only serve investors. They would also serve the management teams themselves, because enhanced disclosure requirements would enable investors to better support management decisions to make investments in growing customer value. Today, one of the strongest forces fighting against innovation and enhancement of value for customers is the pressure that leaders face to deliver quarterly earnings. Without the countervailing force of investors demanding growth in customer value (because they have no reliable way to gauge it today), business leaders are forced to meet these short-term earnings demands, often at the expense of creating long-term value for shareholders or owners.

Similar cases can be made for litigation purposes, consulting services, regulatory issues, and broader public policy matters. In short, the customer (whether it is a consumer or a business) is the primary "atomic unit" to understand the current and future health of an enterprise, and clarity about them is invaluable for key decision makers inside and outside the firm.

We find the specific elements Mr. Markey proposes to be very reasonable because they don't impose a large burden on reporting companies from either a competitive or a disclosure standpoint, while still providing enough information to materially enhance investor valuation models. We therefore echo Mr. Markey's offer to discuss these issues with you at your convenience if it would help you to do so, and we thank you for your consideration.

Best,

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