



*Second Quarter 2022 (July 1, 2022)*

**The Suncoast-SMID Portfolio** (SEM-SMID) is celebrating its 5-year anniversary as of the close of this quarter. It has been a tough year so far in 2022 as **SEM-SMID** and the S&P 400 Growth deepened their decline that began at the beginning of the year, posting a drawdown of -29.3% versus the comparable benchmark -25.0%.

In spite of the overall stock price decline our businesses continue to grow; for now, the outlook remains for earnings growth to be in the +10%-15% range. No portfolio changes were made during the second quarter, as our companies continue to navigate through the economic volatility caused by the pandemic. As we always have, our **SEM- Disciplined Investment System (SEM-DIS)** prefers recurring revenue product and service companies whose businesses are less capital intensive, tollbooth-like collection companies, if we can find them. Two of them we highlight below, one which provides RFID tags for tollbooths and parking and another which provides maintenance supplies from its own vending machines.

### Portfolio Highlights

**FleetCor (FLT)** joined **SEM – SMID** shortly after we started; we purchased it in November of 2017. FLT is a leading provider of niche payment solutions to help businesses enable and control their expenses and payments. Generally speaking, it is a beneficiary of the resurgence in travel activity. The portfolio of solutions automates, secures, digitizes and manages payment transactions and other services for businesses in more than 100 countries globally. The company started as a fuel card company for corporate fleets to control fuel and maintenance spending, serving clients like government entities that maintain commercial fleets. Fuel card services were 40% of revenues in the first quarter and up 22%, driven by higher fuel prices. While fuel price swings can affect revenues at FLT, this should not be confused with the economics of capital intensive energy producing companies, which our investment process generally avoids. The company's payment solutions include not just fuel but also lodging, travel and entertainment, tolls and parking, which utilize RFID tags attached to vehicles' windshields for electronic payment.



FLT consistently generates a lot of excess cash and is expected to reach over \$1.4 billion in 2022, a high rate relative to its annual sales that may reach \$3.4 billion this year. Besides returning money to shareholders through stock repurchases, FLT is growing through both internal investments to boost organic growth and through select acquisitions. Two recent acquisitions FLT announced are worth highlighting. On June 9th FleetCor signed an agreement to acquire UK based cross-border payment provider, Global Reach Group. This acquisition will increase FleetCor's cross-border payments scale, as Global Reach helps clients manage foreign exchange and payments between corporations and institutions as well as between individuals. The deal is expected to close by the end of the year. Another interesting acquisition in this difficult time of travel, was the purchase of Levarti, which is an airline software platform company that provides a suite of solutions that reserve hotel rooms for global airlines' crews and passengers who experience travel disruptions. FLT's existing airline lodging unit books millions of hotel room nights already and Levarti will expand their market share in this area.

After observing the business for many years, we purchased **Fastenal (FAST)** in 2019. We were drawn to its unique business model that developed technologies like Fastenal Managed Inventory, which allows it to put physical products closer to customers, increase the visibility of a customer's supply chain, and improve the ability to monitor/control usage. Fastenal has industrial vending machines (FASTVend<sup>SM</sup>) that actually place products onsite for their construction and manufacturing customers. At the end of first quarter Fastenal had 24 different types of vending devices with 94,000 total devices at 1440 onsite locations. Customers benefit from the convenience of having FAST's well-trained professionals nearby to offer maintenance and repair solutions from small fasteners like nuts and bolts to safety products and large tools. In return, FAST benefits from a consistently growing, high margin business that generates high returns on capital. The company is expected to grow sales and earnings in the mid- teens this year and as always, we will watch to see how management executes in the coming quarters.

Last quarter we discussed **EPAM Systems (EPAM)**, a digital transformation services and software engineering company, which was hard hit after the war began due to its operations in Ukraine. The stock has almost doubled from its emotional low of \$159 to its current price of \$295 after reporting 50% revenue growth in the first quarter, despite the invasion.



Management offered a full year revenue growth target of +29%, but earnings will fall as the company incurs expenses to relocate its employees affected by the war. We will monitor their results closely, but we believe the company is well-positioned to manage through this extremely difficult situation with \$1.2 billion in net cash on its balance sheet.

Outlook

Despite the recent stock price volatility, our SMID portfolio companies appear to be on track to produce double-digit sales and earnings growth in 2022. We are grateful for your support and are always available to answer your questions.

Sincerely,

*Don*

Donald R. Jowdy

CIO

*Cheeroke*

Cheeroke Townsend

Co-Portfolio Manager, Analyst



*Suncoast Equity Management, LLC*

Performance results versus the Standard & Poor's 400 Growth Index

<u>Time Period</u>	<u>SEM % Return*</u>	<u>S&amp;P 400 % Return</u>	<u>SEM - Growth of \$1,000,000</u>	<u>S&amp;P 400 -Growth of \$1,000,000</u>
Year to Date 2022 (June 30 <sup>th</sup> )	-29.3%	-25.0%	\$ 707,300	\$ 750,700
One-Year	-20.9%	-20.5%	\$ 791,400	\$ 795,000
Three-Year	+7.6%	+5.2%	\$ 1,243,900	\$ 1,162,600
<b><i>Inception (5 years)</i></b>	<b><i>+10.9%</i></b>	<b><i>+6.5%</i></b>	<b><i>\$ 1,679,200</i></b>	<b><i>\$ 1,371,100</i></b>

\* Composite results of all SEM Small-Mid Capitalization Growth managed accounts, net of all fees.  
 Note: Performance for the three and since inception year periods represent the annual average rates of return.



**Performance Disclosure**

Suncoast Equity Management, LLC (SEM) is an independent investment management firm established in 1997. Suncoast Equity Management is primarily an equity investment manager that invests in U.S.-based securities. SEM also invests in high-grade fixed income. The Suncoast Equity Management Composite includes all discretionary, fee-paying portfolios managed within this strategy. The equity composite was created on 12/31/1997.

Bundled fees include management consultant fees, custodial, trading, and advisor fees. Performance is calculated gross of all foreign withholding taxes. Additional information regarding policies for valuing portfolios, calculating performance, and preparing compliant presentations, as well as a complete list and description of composites, is available upon request.

For the non-bundle fee accounts, the performance results presented are net of actual investment advisory fee and net of all transaction costs. For the bundle fee accounts, the performance results presented are net of actual investment advisory fee and net of all transaction costs and expenses. Investment advisory fees are described in Part II of Suncoast Equity Management, LLC's Form ADV. The management fee schedule is as follows: 1.00% fee on assets managed. The Firm does not assess performance-based fees.

It is impossible to invest directly in an index. The performance of an index does not reflect any transaction costs, management fees, or taxes. The index used for comparison is the Standard and Poor's 500 Total Return. It is an unmanaged index with no expenses, which covers 500 industrial, utility, transportation, and financial companies in the U.S. markets. It is a capitalization-weighted index calculated on a total return basis with dividends reinvested.

Valuations and returns are computed and stated in U.S. Dollars. The Firm does not use leverage or derivatives to implement the intended strategies.

Beginning in June 2002, accounts that experience cash flows in excess of 10% of the account's market value are temporarily removed from the composite. These accounts are added back to the composite when they are considered fully invested. The minimum account value for inclusion in the composite is \$100,000. Additional information regarding the treatment of significant cash flows is available upon request.

Past performance does not guarantee future results. Investment returns and principal value will fluctuate. Investments may be worth more or less than their original cost when sold. It should not be assumed that investment decisions we make in the future will be profitable. Current performance may be lower or higher than the performance data shown. Returns include the reinvestment of all income.

Suncoast Equity Management claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. Suncoast Equity Management has been independently verified for the periods 12/31/97-12/31/19. Verification assesses whether: (1) the Firm has complied with all the composite construction requirements of the GIPS standards on a firm-wide basis and (2) the Firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS standards. The SEM Equity composite has been examined for the period of 12/31/97 to 12/31/19. The verification and performance examination reports are available upon request. Suncoast Equity Management adheres to the GIPS valuation hierarchy Principles. For any additional information, please contact the Chief Compliance Officer at (813) 963-0502.

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