



First Quarter 2024 (April 1, 2024)

The **Suncoast Dividend Growth** strategy posted first quarter results slightly below the S&P 500, +8.9% after fees compared to +10.6%. We discuss the increases of **Automatic Data Processing** and **Merck**, the sale of **Cisco** and highlight our long-term ownership stake in **Sherwin Williams**.

Portfolio Activity

After reporting solid results, we increased two of our smaller holdings to 5%, which we consider to be a core position. Best known for its Employer Services segment, **Automatic Data Processing (ADP)** pays 1 in 6 US workers and has more than 1 million clients across 140 countries. That equates to \$3.1 trillion in payroll and taxes processed annually and is the main driver of ADP's revenues and profits. ADP is a beneficiary of the strong job market, complex employer regulations and higher interest rates since it invests "the float" overnight in AAA rated securities (payroll companies typically pull funds from employers 1-2 days before payroll is deposited in the employees' accounts and taxes are paid to the government). Revenue should grow high single digits and margins should expand again this year as they've done consistently for years. In fact, operating margins have risen from 25.5% to 27.5% since our purchase in 2022. With higher profitability and strong free cash flow, the Board of Directors increased the dividend +12% to 2.3%.

We also increased **Merck (MRK)**, a global healthcare company with \$60 billion in annual sales that develops and markets prescription medications, vaccines, biologic therapies and animal health products. MRK's top selling products include Keytruda, an immunotherapy for 16 different types of cancer, and Gardasil, a vaccine which helps prevent cancer. These products represent 57% of revenues and grew +21% and +33% respectively in 2023. Gross margin expanded from 70.6% to 73.2% and helped MRK invest a whopping \$30 billion in R&D last year, including the acquisition of Prometheus Biosciences, which has a late-stage candidate for ulcerative colitis, Crohn's disease and other autoimmune conditions. In late March (after we increased it) the company received FDA approval for Winrevair, an injection that treats PAH (Pulmonary Arterial Hypertension), which is a rare lung disease with a five-year mortality rate of 43%. Winrevair has the potential to meaningfully add to revenues over time and help MRK diversify its oncology portfolio to include more cardiovascular treatments. With expanding gross and operating margins, we expect mid-teens earnings growth this year.



We sold our small position in **Cisco (CSCO)** after management lowered its targets for the second quarter in a row. Products, which is 74% of total revenues, fell 9% on declines across switching, wireless and routed optical networking. Large enterprise customers are “digesting” their previous inventories and orders fell 12% this quarter. While management expects to see improvement in the second half of its fiscal year ending July, sales and earnings estimates are for a year over year decline. An early look into their next fiscal year ending July 2025 shows estimates are still below 2023 levels. Since our preference is to own growing companies, we reinvested the proceeds into ADP and MRK which have better business momentum at this time.

Portfolio Highlight

Sherwin Williams (SHW) is one of our original holdings in the Dividend Growth portfolio. During the last seven years of our ownership, SHW has almost doubled sales, while cash flow, earnings and dividends have all more than doubled. A global brand in 120 countries, SHW is North America’s largest producer of paints, varnishes, application equipment and automotive coatings. In addition to its namesake, other industry leading brands include Dutch Boy, Minwax, Krylon, HGTV Home and Valspar (many of our Suncoast colleagues attended the PGA Valspar tournament last week in Palm Harbor and we thank them for supporting SHW’s brands!). SHW continues to gain market share with innovative products and services, strong customer relationships especially with professional painters, unmatched selection and digital offerings. The Paint Store Group which operates over 5000 stores and generates the majority of SHW’s sales and profits, grew segment margins to 22% from 20% the prior year, and in turn adjusted earnings rose +19%. Management expects earnings to grow 8-10% this year and this growing profitability allowed SHW to increase its quarterly dividend 18%. While a dividend yield of less than 1% appears below average, it is due to SHW appreciating from \$90 a share at original purchase to \$347 now. Stock price appreciation is the reason several of our long-term holdings have seemingly low yields, but our yield based on our original cost is actually 3.3%.



Outlook

Our **SEM-Disciplined Investment System (SEM-DIS)** requires that we own growing businesses generating high returns on capital and free cash flow. This strategy adds another requirement; companies must be consistently increasing their dividends. Since inception our businesses have grown dividends +9-10% a year and we expect the same for 2024. As always, we will keep working hard to preserve and grow our clients' capital and are here to answer any questions you may have.

Sincerely,

Amy

Amy A. Lord, CFA

Senior Vice President/ Co-Portfolio Manager

Don

Donald R. Jowdy

CIO



Suncoast Equity Management, LLC

Performance results versus the Standard & Poor's 500 Index

<u>Time Period</u>	<u>SEM % Return*</u>	<u>S&P 500 % Return</u>	<u>SEM - Growth of \$1,000,000</u>	<u>S&P 500 - Growth of \$1,000,000</u>
1 st Qtr 2024	+ 8.9%	+10.6%	\$ 1,089,100	\$ 1,105,600
One-Year	+26.0%	+29.9%	\$ 1,260,100	\$ 1,298,800
Three-Year	+14.5%	+11.5%	\$ 1,501,800	\$ 1,385,900
Five-Year	+16.3%	+15.0%	\$ 2,127,800	\$ 2,015,700
<i>Inception (7 1/4 Years)</i>	<i>+16.2%</i>	<i>+14.5%</i>	<i>\$ 2,970,600</i>	<i>\$ 2,668,600</i>

* Composite results of all SEM Dividend 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 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. As of December 2016, SEM also offers a Dividend Growth Composite. The Dividend Growth Composite includes all discretionary, fee-paying portfolios managed within this strategy. The creation and inception date of the Dividend Growth composite is 12/31/2016.

The Dividend Growth composite is an equity composite employing the principles of Benjamin Graham & Warren Buffett. The discipline is a bottom-up fundamental approach and blends value and growth parameters. The portfolio consists of between 15-25 stocks and its benchmark is S&P 500 Total Return Index. This strategy is built to provide additional dividend income on par with the S&P 500 but improved dividend growth prospects.

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 investments, calculating performance, and preparing GIPS Reports, 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 indices used for comparison are as follows: The Standard and Poor's 500 Total Return Index 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.

Suncoast Equity Management adheres to the GIPS valuation hierarchy principles.

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. GIPS® is a registered trademark of CFA Institute. CFA Institute does not endorse or promote this organization, nor does it warrant the accuracy or quality of the content contained herein. Suncoast Equity Management has been independently verified for the periods 12/31/97 – 12/31/22. A firm that claims compliance with the GIPS standards must establish policies and procedures for complying with all the applicable requirements of the GIPS standards. Verification provides assurance on whether the firm's policies and procedures related to composite and pooled fund maintenance, as well as the calculation, presentation, and distribution of performance, have been designed in compliance with the GIPS standards and have been implemented on a firm-wide basis. The Dividend Growth composite has had a performance examination for the periods 12/31/16 – 12/31/22. The verification and performance examination reports are available upon request. For any additional information, please contact the Chief Compliance Officer at (813) 963-0502.

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