



*Third Quarter 2024 (October 1, 2024)*

The **Suncoast Dividend Growth** portfolio slightly outperformed the S&P 500 in the third quarter, +6.5% after fees compared to +5.9%, respectively. This helped narrow the gap year to date, +16.0% compared to the index +22.1%. We initiated a position in **Rollins** and once again increased **Marsh & McLennan** after a solid earnings report. **Merck** and **UnitedHealth Group** were trimmed and we sold our small position in **Nike** to reinvest with better business momentum. We also highlight our portfolio companies that have made meaningful increases in their dividend payments.

#### Portfolio Activity

After following **Rollins Inc. (ROL)** and its consistently growing business we had the opportunity to purchase it in our Dividend Growth strategy this quarter. ROL is one of the world's largest pest and termite control service providers and is on track to post \$3.4 billion in annual revenues this year. Its brands include Orkin, HomeTeam Pest Defense, Waltham Pest Services, Northwest Exterminating and Critter Control among others. Gross margins hit a record 54% in its most recent report and adjusted operating margins were 30% year to date, well ahead of the trailing 3 year average of 27% due to higher pricing, productivity initiatives and expense control.

Management's "growth algorithm" is to generate above market organic growth of +7-8% and an additional +2-3% growth from mergers and acquisitions, for a target of +9-11% annual sales growth. That combined with higher margins should allow earnings per share and dividends to continue to grow double digits in the coming years. We will be watching for the opportunity to increase our 2.5% position as ROL executes.

We added to **Marsh & McLennan (MMC)** once again this quarter to achieve a core position of 5.5% after it reported higher operating margins and +10% adjusted earnings growth. MMC is a global leader in insurance brokerage as well as retirement and business consulting. Management believes the company is well positioned to continue to gain market share across its business lines and sees helping clients mitigate climate and cyber risk as long term growth drivers. As we've discussed many times, these decisions are relative for us, and we slightly reduced **Merck (MRK)** and **UnitedHealth Group (UNH)** to purchase ROL and increase MMC.



Although MRK’s top selling cancer therapy Keytruda continues to do well and it has a healthy pipeline of new candidates, the company saw a slowdown in its second best-selling product Gardasil in China, a vaccine for the prevention of HPV which can lead to certain cancers. We first purchased UNH in Dividend Growth in 2019 and it has more than doubled since then to an above core weighting. We reduced the position to be more in line with our 4% **Select Growth** weighting as it manages through reduced government funding for Medicare Advantage patients and higher utilization by seniors.

Our small 2% position in **Nike (NKE)** was sold shortly after it announced revenues would be down mid- single digits for the fiscal year ending May 31, 2025, as it struggles with competitive threats, traffic declines in its stores and a very promotional market. Although we knew NKE was operating in a reduced demand environment, the fourth quarter earnings release was worse than expected and our preference is to own companies with business momentum like ROL.

Even Better Dividends

Last quarter we highlighted many of our companies that are using their financial strength to buy back significant amounts of their shares, which benefits us as owners since our earnings per share increase naturally due to the lower share count. Of course, a more direct way to benefit owners is by steadily increasing dividends. While each of our companies pay a dividend, and on average dividend growth for the portfolio has been +9-10% a year since inception, we’ve had several announcements of even greater increases in the last year.

<u>Company</u>	<u>% Increase</u>
Accenture	14.7%
Hershey	14.9%
Eli Lilly	15.0%
Marsh McLennan	14.8%
Rollins	15.4%
Sherwin Williams	18.2%

Increases like these are only sustainable if the business is growing revenues and profits at a healthy clip, generating excess free cash flow and has little or no debt to service, all the characteristics we look for in our **SEM - Disciplined Investment System (SEM-DIS)**.



Outlook

Volatility will likely continue in the fourth quarter. But we are hopeful our clients will sleep well at night knowing that they (and we) own a collection of companies with the financial flexibility to consistently grow the business as well as their dividends. Wishing you and your loved ones peace during the upcoming holiday season.

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&amp;P 500 % Return</u>	<u>SEM - Growth of \$1,000,000</u>	<u>S&amp;P 500 - Growth of \$1,000,000</u>
First Nine Months 2024	+16.0%	+22.1%	\$ 1,160,300	\$ 1,220,800
One-Year	+26.7%	+36.4%	\$ 1,266,900	\$ 1,363,500
Three-Year	+13.2%	+11.9%	\$ 1,451,700	\$ 1,401,700
Five-Year	+15.4%	+16.0%	\$ 2,047,300	\$ 2,098,300
<i>Inception (7 3/4 Years)</i>	<i>+16.0%</i>	<i>+15.0%</i>	<i>\$ 3,164,700</i>	<i>\$ 2,946,700</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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